POLICY BRIEF

Analysis of the Republican Congressional Health Care Plan

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August 2016

Key Findings

1. *Republicans in Congress recently published a white paper called "A Better Way" that addresses reform of the entire U.S. health care system.*
2. *The Congressional authors of "A Better Way" state that the paper is a starting point for discussion and should not be interpreted as a specific bill.*
3. *The paper outlines six reform principles:*
   - *Repeal Obamacare*
   - *Provide all Americans with more choices, lower costs and greater flexibility*
   - *Protecting and strengthening coverage options for all Americans*
   - *Medicaid reform*
   - *Spur innovation in health care*
   - *Protect and preserve Medicare*
4. *The white paper preserves the employer-paid model for employee health insurance.*
5. *The authors retain several of the most popular items in Obamacare, including pre-existing condition protection and allowing children to remain on their parents' health insurance until age 26.*
6. *For people without employer-paid health insurance, the Congressional authors offer a universal, refundable tax credit.*
7. *Medicare and Medicaid reforms are necessary to preserve the programs and the paper outlines reasonable starting points for reform.*
8. *The paper does very little to address the fact that the majority of health care in the U.S. is now paid for by a third party, either employers or the government. Meaningful reform must allow patients to control their own health care dollars and, with the advice of their providers, make their own health care decisions.*

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Analysis of the Republican Congressional Health Care Plan

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Introduction

In 2009, Democrats controlled both the United States Senate and the House of Representatives. During the health care reform debate that year Democrats excluded Republican ideas and did not allow those proposals out of committee. Consequently, no Republicans voted for the Affordable Care Act (ACA), or as it is now called, Obamacare.[1]

Over the past six years, Republicans have put forth many alternative health care reform plans, but none have been comprehensive. Republican leaders recently published a white paper called "A Better Way" that addresses reform of the entire U.S. health care system.[2]

The Congressional authors of "A Better Way" state that the paper is a starting point for discussion and should not be interpreted as a specific bill. The paper outlines six reform principles.

- Repeal Obamacare
- Provide all Americans with more choices, lower costs and greater flexibility
- Protecting and strengthening coverage options for all Americans
- Medicaid reform
- Spur innovation in health care
- Protect and preserve Medicare

Data points in the paper are thoroughly referenced.

This Policy Brief discusses each of these Republican principles in turn and offers a policy analysis for each category of reform.

1 "The Impact of the Affordable Care Act in Washington State," by Roger Stark, MD, Policy Brief, Washington Policy Center, January 21, 2014 at http://www.washingtonpolicy.org/publications/detail/the-impact-of-the-affordable-care-act-in-washington-state.

2 "A Better Way; Our Vision for a Confident America," June 22, 2016 at http://abetterway.speaker.gov/_assets/pdf/ABetterWay-HealthCare-PolicyPaper.pdf.

Repeal Obamacare

The paper focuses on the three most harmful consequences of Obamacare – increasing cost, decreasing access to health care and the impact on employers and employees.

The authors point out that instead of health insurance premiums decreasing by $2,500 per year as promised by President Obama, premiums for the average family have actually increased by $3,775. Insurance premiums for families enrolled in employer-paid insurance have increased 27 percent since 2010.

These increases are largely attributable to the costly insurance regulations enacted by the ACA – community rating, the benefit mandates in insurance plans and minimum actuarial value requirements.

In addition, the paper lists more than two dozen new or expanded taxes required to pay for the ACA.

To hold down premium costs, 70 percent of the insurance plans sold on the Obamacare exchanges have narrow or reduced provider networks, with 34 percent fewer doctors compared to plans sold outside the exchanges. The paper cites a recent Deloitte survey that found only 30 percent of exchange enrollees were satisfied with their health coverage plans.

The authors note the pressure the Medicaid expansion has placed on the financially-troubled entitlement and the worsening access for enrollees. It also refers to the Independent Payment Advisory Board and its real potential to start rationing health care for seniors in the Medicare program.

The impact of the ACA on employers and workers has been dramatic. Employers are reluctant to hire their 50th employee, the employee level at which the ACA mandate kicks in, and are now forced to define a full-time employee as someone who works only 30 hours per week.

Policy analysis

The Affordable Care Act, as passed by Congress in 2010 along partisan lines, contains a number of flaws. Even its strongest supporters admit that. When the ACA passed, the United States was still recovering from the Great Recession of 2008-2009. Americans were much more concerned with jobs and the economy, not with health care reform.

The ACA began as a complex, 2,700 page law. Government officials felt obligated to add over 20,000 pages of new regulations in an effort to make the legislation workable. The Obama Administration, Congress and the U.S. Supreme Court have made over 70 major changes in the law. A majority of Americans has opposed the entire law or significant parts of it since it passed.[3]

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3 "Constant Changes Highlight Flaws in Affordable Care Act," by Roger Stark, MD, Policy Note, Washington Policy Center, May 17, 2016 at http://www.washingtonpolicy.org/publications/detail/constant-changes-highlight-flaws-in-affordable-care-act.

Unquestionably, the ACA has helped some people, but it has not come close to reaching the two goals supporters of "Health Care for All" promised; coverage for everyone and decreasing health care costs. The law is too complex, too expensive and clearly imposes too large a regulatory burden on Americans.

Given the hard lessons of the last six years, Americans deserve better health care reform. They deserve patient-centered solutions that would allow them to make their own health care decisions and spend their own health care dollars. The ACA opted instead for more government central-planning.

Provide all Americans with more choices, lower costs and greater flexibility

This section addresses the fundamental differences between patient-controlled health care and the top-down approach of government central-planners. The authors lay out nine recommendations that would give patients more choices and personal control over their health care decisions.

- Expanding consumer-directed health care options. This proposal focuses on expanding the contribution limits of health savings accounts, expanding the use of personal HSAs and allowing more people access to HSAs.

- Making support for coverage portable. This is a complex principle. It refers to insurance reform by limiting costly benefit mandates and giving states the majority of control over the health insurance industry. The basis of portability would be a universal, refundable tax credit, adjusted for age. The authors anticipate this would be used by people without employer-paid insurance and would circumvent the "job lock," created by employer-based coverage. This section also deals with illegal immigration and abortion issues.

- Preserving employer-sponsored insurance. This section recognizes and continues the employer-paid model, but places a cap on the tax-deductibility of high-cost insurance plans.

- Purchasing across state lines. To increase consumer choices and competition, this proposal would allow states to form compacts that would pool insurance plans, so people could shop for coverage across state lines.

- Expanding opportunities for pooling. This specifically refers to preserving and expanding association health plans for employers and individuals.

- Preserving employee wellness programs. This encourages employers to use wellness programs and would allow them to offer employees financial rewards. It would clarify the use of financial incentives related to other existing laws such as the Americans with Disability Act of 1990.

- Protecting employer's flexibility to self insure. This would guarantee that both large and small employers could establish their own insurance pools through vehicles like association health plans and could utilize stop-loss coverage.

- Medical liability reform. This would reform the medical malpractice system through federal law, using successful state laws in California and Texas as models.

- Addressing competition in insurance markets. This section proposes a study to examine existing federal anti-trust insurance laws and their impact on competition.

Policy Analysis

The most important proposal in this section is the tax credit to purchase health insurance. It would be age adjusted, but there is no mention of income stratification. Using the tax credit also assumes the insurance industry would be deregulated and could offer mandate-free or mandate-light plans at lower, pre-Obamacare prices.

Even without income considerations, the tax credit would function very much like the exchange subsidies in Obamacare and potentially would provide taxpayer money for any individual seeking health insurance. Refundable tax credits or premium support of some type make sense as a safety net, but not as a government give-away to anyone at any income level who applies to receive the tax credit.

This section also preserves the employer-paid model for insurance coverage. This is a legacy program from World War II and has resulted in a third party, employers, paying for the health insurance of half the American population. Whether it is employers or the government paying for insurance, the third-party model creates a dis-connect between health care costs and utilization. The third-party payer concept is the largest driver of ever-increasing health care costs in the U.S. and any meaningful reform plan should address this issue.

The preservation of association health plans and the expansion of health savings accounts are excellent methods of providing more consumerism in the health care system. Purchasing health insurance across state lines would increase choice and competition, just as auto and home-owners' insurance can be purchased on a national basis, resulting in better products and lower prices.

Medical malpractice reform has long been a states-rights issue, yet only a few states have been politically able to pass meaningful reform. Many states would welcome direction on this issue from the federal government.

Protecting and strengthening coverage options for all Americans

The Republican white paper addresses eight specific issues. The first four correspond to the basics in Obamacare and the Republican plan would continue to keep them in place.

- Pre-existing condition protection. This is one of the most popular ideas in Obamacare and essentially means insurance companies must sell plans to people regardless of any medical condition that the person already had.

- Practical reforms. The paper cites two specifics from Obamacare – no lifetime limit on insurance coverage and allowing children up to age 26 years to stay on their parents' health insurance plans.

- Coverage protection. Current policy holders can not be denied coverage because of an intervening illness prior to plan renewal.

- Continuous coverage protection. If a person develops a major medical illness, yet maintains continuous health insurance coverage, they can not be charged a higher premium rate when they renew their policy.

- Fair premiums. Before Obamacare, insurance companies were allowed to charge older individuals up to five times the premium as younger people. Obamacare changed this ratio to three to one. Republicans want to change this back to five to one, with oversight regulation by states.

- High risk pools. The paper proposes $25 billion in federal funding to set up pools for individuals with high cost and high health care utilization. States would have oversight, premiums would be capped and wait lists would be prohibited.

- Open enrollment. The white paper suggests a one-time open enrollment period for anyone. If a person chooses not to obtain insurance, that individual would forfeit their right to continuous coverage and potentially would pay higher premium prices.

- Protecting life and conscience rights. This refers to social issues. It would allow providers to abstain from performing abortions and would insure that no federal taxpayer money is used to pay for abortions

Policy Analysis

The Republican white paper presents a complex array of proposals in this section. The pre-existing condition protection, leaving children on their parents' plans until age 26 and no lifetime limits are straight out of Obamacare. One of the reasons health insurance premiums have increased dramatically under the ACA is the pre-existing condition protection. Insurance companies have no way to predict health care payouts if people can sign up for insurance after they become ill. Likewise, continuous coverage protection is essentially a form of price control and does not allow carriers to charge people based on real underwriting. These problems and contradictions would continue under the Republican plan.

High risk pools have been successful for people with high health care costs and utilizations and are definitely worth expanding. Revising community rating with fair premiums brings premium charges more in line with age and therefore in line with the amount of health care used. These are Republican proposals that would reduce costs and make insurance pricing more fair.

Medicaid reform

Medicaid is the largest entitlement program in the world and functions as a monopoly single-payer, government-controlled health insurance plan.[4] The program initially covered low-income families with children. It subsequently enlarged to also cover disabled individuals, nursing home care and low-income seniors.

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4 "Medicare and Medicaid at Fifty," by Roger Stark, MD, Policy Note, Washington Policy Center, September, 2015 at http://www.washingtonpolicy.org/library/doclib/Stark-Medicare-and-Medicaid-at-50.pdf.

Although the expanded Medicaid program created under the ACA is largely funded by the federal government, approximately half of traditional Medicaid is funded by state taxpayers. Medicaid entitlement expenditures are the fastest growing budget items for virtually all states and the program's cost ranks number two behind funding for K-12 public education in Washington state.

At the present rate of growth, and even without considering the expansion created by the ACA, Medicaid entitlement costs will reach $725 billion a year by 2020.

Medicaid has resulted in a number of harmful social consequences. It discourages work and job improvement for low-paid employees, since with increasing income workers stand to lose their Medicaid benefits. It also encourages low-wage employers not to offer health benefits, leaving it to government to cover these costs instead. It discourages private insurance companies from offering long-term nursing-home policies, and as a result this private market shrinks every year. Lastly, a Harvard University study of the Oregon Medicaid program found that clinical outcomes for patients enrolled in Medicaid were no better than a similar group of people who did not have health insurance.

The Republican white paper addresses these issues and offers a number of reforms. The major recommendation is to use a per enrollee, fixed allotment that would give each state a set amount of money to use for Medicaid. The paper discusses block grants from the federal government to individual states as an alternative to fixed allotments. Either of these proposals would provide the state with a fixed amount of money so state lawmakers could plan and budget efficiently.

Other proposals in the paper include a work requirement with eventual transition of the individual to an employer-paid insurance plan or to the refundable tax credit program, charging enrollees a small premium, and allowing states to lower the threshold for enrollment below an income of 138 percent of the federal poverty level.

Policy Analysis

The most important first step to reforming the federal Medicaid program should be to redesign it so it no longer functions as an open-ended entitlement. Welfare reform in the late 1990s was very successful because it placed limits on how many years people could expect to receive taxpayer support. As suggested in the paper, Medicaid recipients should have a co-pay requirement based on income. Where applicable, enrollees should have a work requirement. Like welfare, Medicaid should be viewed as a transition program to help low-income families achieve self-confidence, economic independence and full self-sufficiency.

It is condescending to believe poor families cannot manage their own health care. Allowing them to control their own health care dollars through subsidized HSAs or a voucher system would financially reward enrollees for leading healthy lifestyles and making smart personal choices.

Local control of the management and financing of entitlement programs works best. States, rather than the federal government, should be placed in charge of Medicaid. Block grants or a fixed per enrollee allotment and waivers from the

federal government would allow states to experiment with program design and to budget for Medicaid more efficiently.

States should have the ability to lower the income requirement below the current 138 percent of the federal poverty level. Medicaid should not be a subsidized "safety-net" for middle-income people.

Spur innovation in health care

The white paper's authors recognize that innovation will lead to healthier and longer lives for Americans. The paper recommends streamlining the drug approval process, less regulatory oversight of innovative drugs and medical devises, a better sharing of medical information through the use of electronic health records and more funding for the National Institute of Health (NIH).

Policy Analysis

The federal Food and Drug Administration (FDA) is a major obstacle to the timely release of new medicines. The paper cites the latest research that shows it takes 14 years and $2 billion to bring a new drug to market. Less regulatory oversight would potentially streamline this process and reduce the retail price of new medicines. Electronic health records have, to date, not been as effective as hoped in providing more efficient health care. On the other hand, technology such a telemedicine, when used voluntarily, is proving effective at increasing patient access to care.

Taking money in taxes from private research companies and giving it to the NIH simply expands government while reducing the capital available for private research and development.

Protect and preserve Medicare

The federal Medicare program began in 1965 as health insurance for anyone age 65 and above. It is one of the largest social welfare programs in the world and functions essentially as a monopoly single-payer system. Workers pay a Medicare tax during their working years and then must enroll in government-provided health care after reaching the age of 65. [5]

Like Social Security, Medicare was intended to work as a pay-as-you-go system, where current benefits are funded by current taxes. With the decreasing number of workers in the U.S. in future generations, compared to the total population, and with the massive number of baby-boomers approaching retirement age, this pay-as-you-go entitlement system is a fiscal catastrophe waiting to happen.

The Republican white paper acknowledges the Medicare fiscal disaster approaching. Obamacare addresses the issue by draconian cuts to the program and then the rationing of care through the use of the bureaucratic Independent Payment Advisory Board. Repealing the ACA is a start to meaningful reform of Medicare.

5 Ibid.

The authors then offer post-ACA reforms that would change the structure of Medicare.

- Limit the financial coverage under Medigap supplemental insurance. Studies show that enrollees who have a larger co-pay actually use the health care system less.

- Offer multiple plans under Medicare Part C. Medicare Part C or Medicare Advantage now functions like a health maintenance organization with a one-size-fits-all plan.

- Combine Medicare Parts A and B. This would combine hospital and provider payments and would streamline care and paperwork.

- Decrease the regulatory burden on providers in Medicare. This would help insure that more providers would participate in Medicare.

- Establish Medicare Compare. This would compare fee-for-service and Medicare Advantage providers based on quality, clinical outcomes and costs.

- Streamline uncompensated care payments. The ACA cut payments to hospitals that provide a disproportionate share of charity or uncompensated care. The white paper authors would re-establish those payments and would ultimately set up a federal fund dedicated to dispersing disproportionate care moneys.

- Match the Social Security retirement age. The authors recommend gradually raising the eligibility age for Medicare enrollees to match that of the Social Security program.

- Preserving Medicare for future generations. The authors realize that Medicare in its current form is not sustainable. Consequently, they would offer traditional Medicare for current enrollees and those people about to retire. For future generations, they propose a premium support system that would allow enrollees to purchase health insurance in the private market utilizing taxpayer financial support.

Policy Analysis

There is virtually complete agreement that the federal Medicare program is not financially sustainable in its present form. The program's costs are rising, the number of workers paying monthly taxes into the program is proportionately decreasing and the number of elderly recipients is about to dramatically increase as the baby boomer generation approaches age 65.

We now have an entire generation of people who has grown up with Medicare, have paid into it and now expect full medical services in return. We also have people in younger generations who understand the bankrupt nature of the program and do not believe Medicare will still exist when they reach age 65. A fair and workable solution to the Medicare problem must account for both of these generations, as well as provide reliable health coverage for future generations. As a country, we have a moral obligation to seniors already enrolled in the program and to those approaching retirement age.

A simple first step to Medicare reform would be to gradually raise the age of eligibility. When the program started in 1965, the average life expectancy in the U.S. was 67 years for men and 74 years for women. Average life expectancy is now up to 76 years for men and 81 years for women, straining an entitlement program that was not designed to provide health services to people for so many years late in life.

As it stands now, there is, understandably, no private insurance market for seniors. Any normal market was crowded out long ago by Medicare. It is virtually impossible to compete with the government, which has monopoly power and an unlimited ability to fix prices and lose money while any potential competitors go out of business.

The private market for the elderly could be resurrected by allowing people to opt out of Medicare voluntarily and allowing these seniors to purchase HSAs and high-deductible health plans. Premium support could be used for lower-income seniors. Physicians should be allowed to seek partial payments from patients or their insurance companies, which by law, they cannot do now unless they leave the Medicare program entirely.

Future generations should be allowed to continue the individual health insurance they want to keep into retirement. Not surprisingly, younger people as a group are healthier than older people, so as the younger generation saves, their health insurance nest egg would build, for example in a tax-free HSA, until they need it in their later years. This is the same strategy that millions of individuals and families use today to prepare for retirement.

Conclusion

The Republican "A Better Way" plan is, as the authors argue, a reasonable starting point for debate on health care reform. Although it is based on repealing Obamacare, several proposals in the white paper would continue significant parts of the ACA, parts that likely would not decrease health care spending.

The paper recommends retaining the employer-paid model for health insurance. From an economic standpoint, it does not matter whether the third party paying for health care is the government or employers. When someone else pays for a service or a good, there is a dis-connect from costs for the recipient of that service or good. Retaining the employer-paid model would not address or fix this issue.

The concept of a refundable tax credit, like premium support in the Obamacare exchanges, is simply another name for taxpayer assistance to purchase health insurance. Republicans, like Democrats, are effectively proposing taxpayer subsidies to help people buy health coverage. However, with the proposed insurance reforms eliminating the forced benefit mandates, health insurance would be more affordable and more patient-specific for the vast majority of Americans.

The proposed reforms to the health insurance industry, to Medicaid and to Medicare are excellent ideas to achieve a patient-directed, rather than a centrally-planned, government-run health care system. These reforms would go a long way in making these two key entitlement programs financially sustainable into the future.

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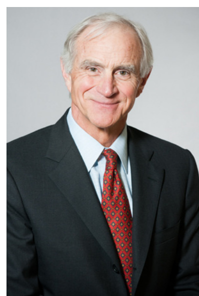

Dr. Roger Stark is a health care policy analyst at WPC and a retired physician. He is the author of two books including The Patient-Centered Solution: Our Health Care Crisis, How It Happened, and How We Can Fix It. He has also authored numerous in-depth studies on health care policy, including *The Impact of the Affordable Care Act in Washington State, A Review of the Medicaid Program: Its Impact in Washington State* and *Efforts at Reform in Other States, What Works and What Doesn't: A Review of Health Care Reform in the States, and Health Care Reform that Works: An Update on Health Savings Accounts.* Over a 12-month period in 2013 and 2014, Dr. Stark testified before three different Congressional committees in Washington DC regarding the Affordable Care Act. Dr. Stark graduated from the University of Nebraska College of Medicine and he completed his general surgery residency in Seattle and his cardiothoracic residency at the University of Utah. After practicing in Tacoma he moved to Bellevue and was one of the co-founders of the open heart surgery program at Overlake Hospital. He has served on the hospital's governing board. He retired from private practice in 2001 and became actively involved in the hospital's Foundation, serving as Board Chair and Executive Director. Dr. Stark has been a member of many local and national professional societies. He currently serves on the Board of the Washington Liability Reform Coalition and is an active member of the Woodinville Rotary. He and his wife live on the Eastside and have children and grandchildren in the area.