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The Consumer Connection

... linking consumers with health care news and information

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The Consumer Connection is a publication of the Michigan Consumer Health Care Coalition with the Michigan League for Human Services

The Partisan Divide: The McCain and Obama Health Care Plans

In a time of escalating costs, uneven quality of care, and growth of the uninsured population, there is broad agreement that the U.S. health care system requires reform. The sharp divisions between Democrats and Republicans about ***how*** *to reform health care can be seen in the plan offered by each presidential candidate.*

Sen. John McCain (R-AZ) and Sen. Barack Obama (D-IL) agree that runaway health care costs need to be controlled. They both endorse electronic record keeping, providing more information to consumers about the cost and quality of care, paying providers more for better outcomes, and making sure physicians and hospitals know and use "best practices." Both candidates want to make health insurance available to more Americans. They differ, however, in how to achieve these goals.

THE MCCAIN PLAN: *A Call to Action*

Senator John McCain's plan, *A Call to Action*, embraces market forces and promotes individually purchased insurance. While expansion of access to coverage is proposed, coverage for all Americans is not a stated goal.

Key Elements in McCain's *A Call to Action*

- Taxing as personal income the value of employer-provided health care benefits.
- Using revenues generated from the new taxes to:
  - provide refundable tax credits ($2,500 for individuals, $5,000 for families) for all persons obtaining private non-group health insurance, to be paid directly to the new insurers; if the new insurance costs less than the value of the credit, remaining funds can be deposited into health savings accounts; or
  - offset the increased tax from inclusion of health benefits in taxable income
- Creation of a guaranteed access plan (high risk pool) through insurance pools for persons who are medically uninsurable in the private, nongroup, individual market
- Promotion of individually purchased insurance and less comprehensive insurance policies
- Deregulation of insurance markets
- Reform of Medicare to make bundled payments for episodes of care and to pay on the basis of outcomes
- Other proposed measures to control costs and improve quality:
  - Enhanced competition
  - Faster introduction of generic drugs
  - Emphasis on prevention and better management of chronic conditions
  - Greater use of health information technology
  - Medical malpractice reform

The centerpiece of McCain's plan is a change in the tax treatment of employer-provided health care benefits. Currently, workers do not pay taxes on the value of health care benefits provided by their employers. McCain's plan would eliminate this tax exclusion, add employer contributions to taxable income, and use the generated revenue to pay for refundable tax credits for Americans obtaining private nongroup insurance ($2,500/individuals, $5,000/families), or to offset the higher taxes for those with employer paid benefits. The catch is that the average cost of employer-provided family health insurance is $12,000/year. A $5,000 tax credit will not be adequate to cover a family premium.

Oct. 2008
vol. 8 no. 6

High deductible plans and Health Savings Accounts will help, but families ''forced'' out of a group employer's plan and without employer contributions should be prepared to pay at least a few thousand extra dollars. Families who have an employer paying a large part of their health insurance costs may actually come out ahead in the early years of the plan, before inflation erodes some of the tax credit's impact. Those without coverage could use their credits to help buy insurance coverage on the individual market.

McCain emphasizes key advantages of this approach:

- Providing an equal credit to all Americans is a fairer allocation of federal revenues, and since the credit is refundable, even those who do not pay taxes would qualify for federal payments.
- The current tax exclusion for the value of group health care coverage benefits only persons with employer-sponsored insurance. Under the McCain plan, the unemployed and workers whose employers do not offer coverage would receive a credit to purchase insurance regardless of where they obtained it.

Cost Control

The *Call to Action* plan would deregulate what is currently a state-based system of regulation of insurance markets to allow insurers to sell policies across state lines. Buyers would be able to shop nationwide for less comprehensive, less costly health insurance policies than those available in their home states.

Medicare

McCain's plan would move from the current fee-for-service reimbursement toward bundled payments for episodes of care and payments based on outcomes. The assumption is that Medicare payment reform would drive broader changes in the health care system.

"Guaranteed Access Plan"

The McCain campaign has proposed a ''guaranteed access plan,'' whereby the federal government would work with states to create insurance alternatives for those unable to afford coverage on the individual market. The plan builds on the experiences of the 34 states that operate high-risk pools for residents who are medically uninsurable, commonly due to pre-existing health conditions.

Expectations

- Replacing the ''invisible,'' unlimited tax exclusion for group coverage with a visible, limited tax credit could slow health care spending
- Treating the value of employer-sponsored health care benefits as taxable income would make insurance costs more transparent to workers, many of whom are unaware of how much their employers are paying for health care coverage
- A fixed credit would encourage Americans to seek out lower-cost, less comprehensive insurance plans, fostering competition among insurers
- Other cost control activities include:
  - Speed up generic drug development
  - Encourage prevention
  - Improve care for chronic diseases
  - Adopt medical malpractice reforms that limit frivolous lawsuits and excessive damages and provide safe harbors for practice within clinical guidelines and safety protocols

Estimated Cost for the McCain Plan

The estimated cost of the McCain plan is $7 billion—$10 billion a year. Costs will be offset by potential savings such as the reduced government payments in the Medicare and Medicaid programs due to reduced emergency room use by the uninsured, and increased use of health information technology.

Source: http://www.johnmccain.com/palin.htm.

HEALTH CARE BY THE NUMBERS

2 million	Reduction in uninsured Americans over the coming decade under McCain's proposed health care plan
$1.3 trillion	Cost of McCain's plan to the federal budget over the next decade
34 million	Reduction in uninsured Americans in Obama's proposed plan over the next ten years
$1.6 trillion	Cost of Obama's plan over next decade

Source: Commonwealth Fund, *The Presidential Candidates' Health Reform Proposals: Choices for Change*

THE OBAMA PLAN: *Plan for a Healthy America*

Senator Barack Obama's *Plan for a Healthy America* relies on an employer mandate, new public and private insurance options, and regulation of the insurance market.

Key Elements of Barack Obama's Plan for Health Care Reform

- "Play or pay" employer mandate requiring businesses either to offer workers health benefits or to pay a tax (very small businesses would be exempt)
- Establishment of a new national health insurance exchange that would offer a choice of private insurance options or the new national health plan (similar to the plan offered to federal employees) for the uninsured and small businesses
- Mandate that all children must have coverage
- Subsidies for lower-income Americans to help them afford coverage
- Expand income eligibility for Medicaid and State Children's Health Insurance Program (SCHIP)
- Expanded coverage financed through the payroll tax, expiration of current tax cuts for families making over $250,000, savings from use of electronic medical records, disease management, and other system reforms
- Regulation of all private insurance plans to end coverage unavailability, or risk rating, based on health status
- Establishment of federal reinsurance program to insure businesses against the costs of workers' very high cost medical episodes
- Other proposed measures to control costs and improve quality:
  - Reduction in the administrative costs of private insurance
  - Accelerated adoption of electronic medical records
  - Promotion of disease management
  - Emphasis on prevention and public health services
  - Payment to providers on the basis of performance and outcomes
  - Reduction in excessive payments to private plans contracting with Medicare
  - Allow Medicare to negotiate prices for Part D enrollees with drug companies
  - Establishment of a comparative-effectiveness research institute

The basis of the Obama plan is a requirement that employers either offer their workers insurance or pay a tax to help finance coverage for the uninsured (some small businesses would be exempt, and others would be subsidized). The plan would also create two new options for obtaining health insurance:

1. A new government health plan (similar to the plan offered to federal employees)
2. A national health insurance exchange (a purchasing pool similar to the Massachusetts Connector) that would offer a choice of private insurance options.

These two options would be open to persons without access to group health insurance or other public insurance, and to small businesses that want to purchase coverage for their workers. Income-related subsidies would be provided to help lower-income persons afford coverage. Private insurers could not deny coverage because of pre-existing conditions or charge substantially higher premiums to sick enrollees. The plan would end medical underwriting according to health status.

Obama emphasizes key advantages of this approach:

- Offers a choice of insurance options, allowing people to choose among them
- The new national health plan and insurance exchange would provide insurance pooling and purchasing power, along with insurance market regulation, that would address the problems that Americans without group coverage encounter when trying to purchase affordable insurance in the individual market

Employer Contribution "Play or pay"

Employers that do not offer or make a meaningful contribution to the cost of quality health coverage for their employees will be required to contribute toward the costs of the coverage for their employees. Small businesses will be exempt from this requirement.

Support for Small Businesses

The Small Business Health Tax Credit would provide small businesses with a refundable tax credit of up to 50 percent on premiums paid by small businesses on behalf of their employees. The credit will provide an incentive to small businesses to offer high-quality health care to their workers and help improve the competitiveness of America's small businesses.

National Health Insurance Exchange

The Obama plan will create a National Health Insurance Exchange to help individuals who wish to purchase a private insurance plan. The exchange will act as a watchdog group and help reform the private insurance market by creating rules and standards for participating insurance plans to ensure fairness and to make individual coverage more affordable and accessible. The insurance exchange can reduce administrative expenses in private insurance and promote competition by providing broader pooling and cutting marketing expenses. Insurers would have to issue every applicant a policy, and charge fair and stable premiums that will not depend upon health status. The exchange will require that all the plans offered are at least as comprehensive as the new public plan and have the same standards for quality and efficiency. The exchange would evaluate plans and make the differences among the plans, including cost of services, transparent.

Obama's plan also calls for a new system of reinsurance, whereby the federal government would reimburse employers for a portion of the costs they incur for employees with high-cost, catastrophic medical expenses. This will enable businesses to reduce coverage costs, particularly benefiting smaller businesses whose risk pools are too small to spread the costs of expensive cases.

We want to hear from you—
suggestions for improvements and
topics, questions, even encouragement!

Please contact us in care of Carol Barish, Consultant for Health Policy, Public Sector Consultants, 600 West St. Joseph Street, Suite 10, Lansing, MI 48933
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Expansion of Medicaid and SCHIP

Besides mandatory coverage of children, Obama will expand income eligibility for the Medicaid and SCHIP programs and ensure that these programs continue to serve as a safety net.

Estimated Cost for the Obama Plan

The Obama campaign says it would finance the $50 billion to $65 billion in new federal spending for its heath plan by allowing tax cuts adopted in 2001 and 2003 for families making over $250,000 to expire. However, the Congressional Budget Office (CBO) already assumes in its projections that these tax cuts will end after 2010, so their expiration will not generate new revenues to satisfy congressional budget rules (The Budget and Economic Outlook: fiscal years 2008 to 2018. Washington, D.C.: Congressional Budget Office, January 2008). If savings from increased administrative efficiency, prevention, disease

KEY DIFFERENCES BETWEEN THE PRESIDENTIAL CANDIDATES' HEALTH REFORM PLANS

	McCAIN	OBAMA
Aims to cover everyone	Not a goal	Goal
Employer role in providing health benefits	Minimum state rules	Uniform national rules
Medicaid/SCHIP	Reduce	Expand
Families' exposure to health care costs	More	Less
Requirements to have coverage	None	Children only
Leverage to stimulate improvement in quality and efficiency	No change from current system	More
Uninsured covered after 10 years*	2 million	34 million

*Estimates of uninsured covered from *An Updated Analysis of the 2008 Presidential Candidates' Tax Plans*. Urban Institute - Brookings Institution Tax Policy Center, Updated September 12, 2008.

Source: Commonwealth Fund, The Presidential Candidates' Health Reform Proposals: Choices for Change, October 2, 2008.

management, and electronic medical records are not realized, or the CBO does not validate them as an acceptable financing source, the Obama plan would need substantial additional revenues to fund expanded coverage.

Sources: http://www.barackobama.com/issues/healthcare, http://www.health08.org/candidates/obama.cfm

In the End...

Neither of these plans is finished; many important details need to be worked out. The 2008 presidential election clearly offers voters drastically different alternatives. Obama has argued that McCain's plan, which shifts insurance tax breaks for employers and adds a tax burden to group-covered individuals, would lead to a decline in employer-sponsored coverage. McCain has argued that Obama's plan, which allows people to choose between employer-sponsored coverage and government-backed coverage, would lead to government-sponsored health care. The debate continues on how to reform U.S. health care. Now it is he voters' turn to decide.

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From the consumers' perspective...

In the health care safety arena for Michigan consumers, there is good news and bad news.

The good news is that the federal Agency for Health Care Reform and Quality (AHRQ) just released its compendium of 115 original research papers: *Advances in Patient Safety: New Directions and Alternative Approaches*, which included a paper on the work of the State Commission on Patient Safety, the commission's final report, its recommendations, and how we got from here to there. The paper, From Public Testimony to Vehicle for Statewide Action: Experience of the Michigan Commission on Patient Safety, is available online at: http://www.ahrq.gov/downloads/pub/advances2/vol2/Advances-Valade_46.pdf.

The bad news is that two self-interested stakeholders on the commission succeeded in preventing the process from moving forward to reach its first objective: the passage of legislation to establish an independent Michigan Center for Safe Health Care.

The really bad news is that the Michigan House of Representatives passed a bill (HB 6456) in late September which—if passed by the Senate in its current form—would effectively put the fox in charge of the henhouse.

Rather than the independent patient safety center in Michigan recommended by the state commission, this bill supports a "Qualified Hospital Patient Safety Organization" bought and paid for by the hospital providers trade association, the Michigan Health and Hospital Association, "with a membership of at least 75 percent of all hospitals in this state." These hospitals would report their own adverse events to their trade association. Unspecified "public reporting" would also be undertaken as part of the bill.

It appears there was one hearing in the House committee, which none of the state's other stakeholders were informed of, and the bill swept through the full House a few days later by an overwhelming margin.

Didn't we learn anything from the meltdown of the self-monitored financial markets?

Will Michigan become the only state to pass a law institutionalizing self-monitoring of patient safety in our hospitals, particularly in the face of a state commission that specifically voted against establishing safety reporting inside trade associations?

Stay tuned for the craziness that happens off the radar screen in the "lame duck" session of the state legislature in December. Health care consumers may be done in before they know what hit them

Beverley McDonald, Chair
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The Health Care Happenings...

In Lansing…

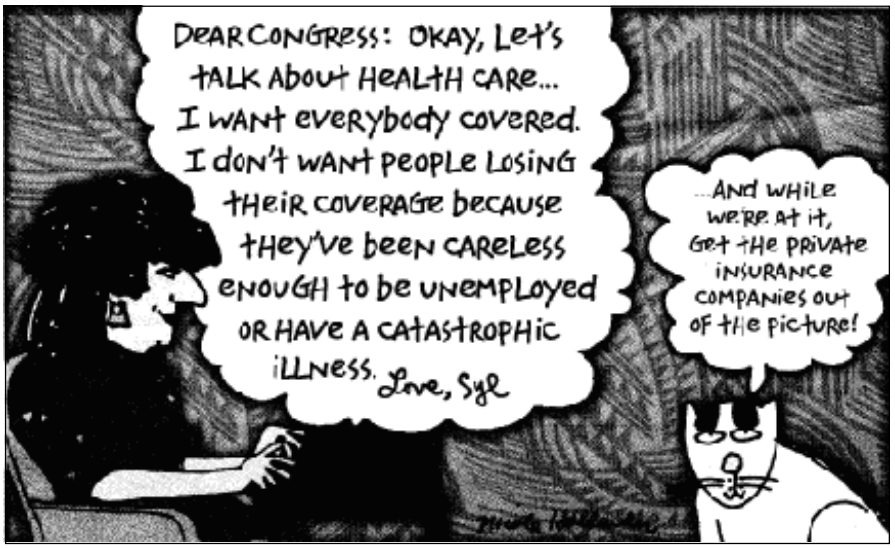
Grants Begin Electronic Health Information Planning in All Counties

Planning grants totaling $1.2 million were approved in August. All of Michigan's 83 counties are now either planning for or implementing electronic health records systems.

The Departments of Community Health and Information Technology approved $674,474 for Altarum Institute to begin developing the system for Hillsdale, Jackson, Lenawee, Livingston, and Washtenaw counties and $580,000 for ChangeScape Incorporated for Berrien, Branch, Calhoun, Cass, Kalamazoo, St. Joseph, and Van Buren counties.

The regional networks will allow hospitals and physicians in each region to electronically share patient records. The Michigan Health Information Network will coordinate the grants and oversee a central repository that will allow information to be shared between the regional networks

A THIRD WAY...



Reprinted from *The New Yorker* Oct 13, 2008

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Physicians to the candidates: Enact single-payer health reform

PHYSICIANS FOR A NATIONAL HEALTH PROGRAM

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