



ELECTION 2008

## Primum Non Nocere — The McCain Plan for Health Insecurity

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The most important questions raised by the health care proposals of the presidential candidates concern their values and judgment. These will guide a new president through the tortuous,

unpredictable process of leading health care change. The specifics of candidates' proposals matter. But more important is what health plans communicate about a prospective president's fundamental beliefs and character.

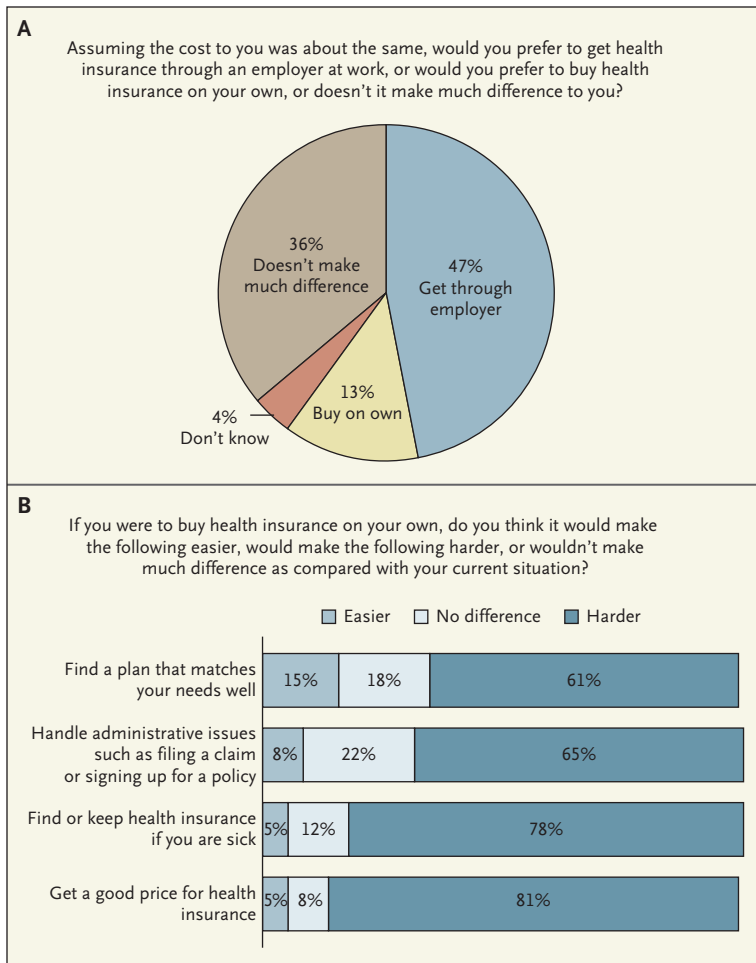
By this standard, John McCain emerges not as a maverick or centrist but as a radical social conservative firmly in the grip of the ideology that animates the domestic policies of President George W. Bush. The central purpose of President Bush's health policy, and John McCain's, is to reduce the role of insurance and make Americans pay a larger part of their health care bills out of pocket. Their embrace of market forces, fierce

antagonism toward government, and determination to force individuals to have more "skin in the game" are overriding — all other goals are subsidiary. Indeed, the Republican commitment to market-oriented reforms is so strong that, to attain their vision, Bush and McCain seem willing to take huge risks with the efficiency, equity, and stability of our health care system. Specifically, the McCain plan would profoundly threaten the current system of employer-sponsored insurance on which more than three fifths of Americans depend, increase reliance on unregulated individual insurance markets (which are notoriously inefficient), and leave the

number of uninsured Americans virtually unchanged. A side effect of the McCain plan would be to threaten access to adequate insurance for millions of America's sickest citizens.

In 1954, President Dwight D. Eisenhower (a Republican) signed Internal Revenue Service regulations exempting from personal income taxation employers' contributions to the cost of their employees' health insurance.<sup>1</sup> The purpose was to encourage the growth of private insurance. Eisenhower's decision proved spectacularly effective: 160 million Americans now obtain private health insurance in the workplace.

Senator McCain would end the exemption from federal income tax for employer-sponsored insurance. One result is predictable: a reduction in the number of companies providing and subsidizing health insurance for their employees. Over the years, mul-



**Voters' Views on Moving to an Individual Insurance Market.**

Data are from "Key Findings: Kaiser Health Tracking Poll: Election 2008 — August 2008," from the Henry J. Kaiser Family Foundation. Percentages are of registered U.S. voters who are insured through an employer. The percentages do not total 100 because some respondents chose the option "Don't know/Refuse."

multiple studies have shown that as the tax benefit to employees of receiving employer-sponsored insurance declines, employers are less likely to offer it. On the basis of these studies, economists project that 10 million to 28 million of the 160 million Americans with employer-sponsored insurance will lose it as a result.<sup>2-4</sup> These newly uninsured Americans will enter the tumultuous individual insurance market. Many employers that continue to subsidize insurance will probably reduce their contribu-

tions, forcing employees to bear a larger portion of the costs. Senator McCain denies that this is a likely effect of his policy, but his denials defy the economic logic of the marketplace, which he otherwise embraces.

If your goal is to make Americans bear more of the costs of illness, forcing them into individual markets and making them pay more for any remaining employer-sponsored insurance policies is certainly appealing. Conservatives theorize that tough, motivated, wily consumers will battle the in-

surance companies into submission, compelling them to offer cheaper, better plans.

The reality, however, is very different. In the individual market, administrative costs consume 30 to 50% of premiums, as compared with 12 to 15% in the large-group, employer-sponsored insurance market. The McCain plan, therefore, could cause administrative waste to skyrocket. Because of these high administrative expenses, and because insurers want to avoid sick people, individual health insurance tends to be less generous than employer-sponsored plans, requiring higher deductibles and copayments and offering less coverage of preventive and catastrophic care. Perhaps most worrisome is that many chronically ill patients who lose employer-sponsored coverage will have trouble finding any insurance at all in the individual market. The McCain plan calls for deregulating private insurance markets — eliminating, for example, state requirements that insurers offer plans to persons with preexisting conditions.

To counter these side effects, McCain will offer a \$2,500 tax credit for individuals and a \$5,000 tax credit for families to help them purchase health insurance. But consider the math. The average family policy in the United States now costs about \$12,000, of which the average employer contributes about 75% (\$9,000). Thus, if they could find comparable insurance in the individual market, that coverage would cost families losing employer-sponsored insurance \$4,000 more than they previously paid (\$9,000 minus \$5,000). Many of these families will enter the ranks of the uninsured.

The McCain proposal will also

encourage so-called association health plans (AHPs) — voluntary groups of consumers that can operate across state lines and purchase insurance on behalf of their members. By joining such plans, individuals will presumably enjoy the protections that large groups, including employer pools, offer their members. However, the required AHPs don't exist now. If they did, they would be tempted to cherry-pick healthy members just as insurance companies do. Voluntary associations of the sick and healthy do not naturally occur, and there is a good reason why.

A plan that increases the numbers of uninsured workers will have a hard time reducing the total number of uninsured people in the United States. McCain argues that his tax credit will cut the ranks of the uninsured by 30 million, but there is no empirical basis for this contention. The Congressional Budget Office (CBO) estimated in 2007 that President Bush's very similar proposal would reduce the uninsured by 6.8 million in 2010.<sup>5</sup> However, the CBO used a very conservative estimate of the number of workers who would lose employer-sponsored insurance: about 6.3 million. The actual number could easily be double or triple this figure.

The McCain plan may not decrease the number of uninsured at all, and in fact, McCain, unlike Obama, has never made a commitment to insuring all Americans. Expanding coverage is not a primary purpose of McCain's health policy.

A particularly worrisome feature of the McCain plan would be to undermine care for the chronically ill. Insurance companies avoid chronically ill patients:

they are expensive, reduce profits, and drive up premiums, thus making it harder to attract more profitable, healthy customers. The result is that chronically ill Americans are too often health care's homeless: uninsured, underinsured, and impoverished by medical expenses.

The McCain plan would worsen their plight in several ways. First, by deregulating private insurance markets, it would lift requirements in many states that insurance companies sell coverage (at a price, to be sure) to all comers. Second, as noted, it would reduce employer-sponsored insurance, which covers many chronically ill Americans. Third, by encouraging consumers to purchase less generous insurance plans, the McCain reforms would reduce the use of vital health maintenance services among the chronically ill, thus potentially jeopardizing their health and raising the costs of their care.

Recognizing these risks, McCain proposes a solution: greater reliance on state high-risk pools. Thirty-five states currently maintain such pools, but they enroll only about 190,000 people. The reason is that states are unwilling or unable to subsidize adequately the extremely high premiums that pools charge the chronically ill. McCain has talked vaguely of providing additional federal funds (in the range of \$7 billion to \$10 billion) to help states out, but he has not detailed this part of his plan. In any case, it raises a more fundamental question: What are the long-range consequences of segregating the sickest Americans into a predominantly state-run high-risk insurance system, especially in regions that have been notoriously ungenerous toward vulnerable

populations? States vary enormously in their willingness to pay for health care costs of populations that depend on them: witness the differences in Medicaid programs across the country. It seems likely that the same regional variation would occur in the generosity of a state-based system for insuring chronically ill Americans.

The choice facing health care professionals, like all Americans, is basic: Who deserves to be trusted with the stewardship of America's health care system? The McCain proposal violates the bedrock principle that major health policy reforms should first do no harm. It would risk the viability of employer-sponsored insurance and the welfare of chronically ill Americans in pell-mell pursuit of a radical vision of consumer-driven health care. Senator McCain's plan does not demonstrate the kind of judgment needed in a potential commander in chief of our health care system.

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