

February 3, 2007

Terminate This Plan

The shortcomings of Schwarzenegger's health care reform.

By John Goodman

Forcing people to do what they are not otherwise disposed to doing can be quite difficult. All but three states make car insurance mandatory. Yet, nationwide, about 14.6 percent of drivers are uninsured, a figure similar to the fraction of Americans who lack health insurance 15.7 percent.

Hawaii was the first state to pursue universal health insurance by mandating that employers provide health policies to their workers. That was about three decades ago. Currently 9.2 percent of Hawaiians are uninsured—more than in some states that have no such mandate.

In 1988, Massachusetts governor Michael Dukakis ran for president on a promise to take his Massachusetts health plan nationwide. I've insured everybody in my state, Dukakis declared. But, at last count, one in ten Massachusetts citizens lacked health insurance.

The fashion of the moment is to declare that health insurance

is like car insurance, something everyone should be required to have. So say former governor Mitt Romney, with a new health plan for Massachusetts, and Governor Arnold Schwarzenegger, with his plan for California. These efforts are unlikely to succeed. In some ways, as can be seen from the example of California, such plans are likely to make matters no better and in some ways worse.

Government should be encouraging people to privately insure. Public dollars should follow people, not the other way around. If people of modest means buy private insurance, then they should get a subsidy. If they stay uninsured, the money should stay in the safety net system. This way, no new spending is required and no mandate is needed. The goal here should be to eliminate perverse incentives and offer low-income families access to the same system everybody else participates in.

To its credit, the California

plan would redirect public dollars to private insurance. But the plan errs in several other respects. It would require people to buy insurance; it would be costly to individuals, businesses, and the state; it would generate more perverse incentives than it would eliminate; and it would create new burdens for low income families.

What kind of insurance will people be forced to have? Uninsured children and adults with incomes below the federal poverty line will be enrolled in California's Medicaid program, Medi-Cal. Uninsured Californians with incomes higher than that but less than two-and-a-half to three times the poverty level (about \$60,000 for a family of four) must participate in either California's state-run health care program for children, Healthy Families, or be enrolled in a state-run purchasing pool. This means a huge increase in the number of people covered by government insurance. Everyone else who is uninsured will be required to

buy private insurance (although the minimum coverage is a plan with a \$5,000 deductible, the kind of insurance that costs most people only a few hundred dollars a month).

How will people get their insurance? Employers with 10 or more workers will be given a pay-or-play option provide insurance or pay a 4 percent payroll tax to the state. Individuals without employer coverage will be required to buy insurance in the marketplace. Insurers will be required to take all comers, with no discrimination against those who are sick and likely to have higher costs. If a family's income is low enough, the state will subsidize premiums.

So what happens to people who refuse to get insured? In ten single spaced pages describing the plan, I could find only one sentence that addressed the question-with vague references to garnishing wages and withholding tax refunds. In fact, so little apparent thought has been given to enforcement that it's hard to escape the conclusion that enforcement is not very important to the governor and his staff. But if insuring the uninsured is not the goal, what could it be?

From top to bottom, the plan is

designed to maximize federal matching funds. For every new dollar of state spending there will be an additional dollar of federal spending. Good for California perhaps, but bad for the rest of us federal taxpayers. Out of \$12 billion in new spending, less than one in ten dollars will consist of diverting government charity-care dollars to subsidize private insurance premiums (the plan's one good idea). All the rest consists of matching money from the feds and new taxes imposed on employers and providers.

In addition to the 4 percent wage tax paid by employers who don't insure their workers, doctors will face a new 2 percent tax on their revenues and hospitals will pay 4 percent. But providers shouldn't complain, according to the governor. The reason The state is increasing the rate at which it reimburses Medicaid.

Think of all this in the context of the new pay-as-you-go budget rules Democrats in Congress are expected to adopt. Republicans will not be able to propose a tax cut without equivalent cuts in entitlement benefits-not a popular move. The governor of California, however, is proceeding as if he enjoys a great deal more freedom.

Schwarzenegger is about to increase federal spending by \$50 billion over ten years, and no member of Congress will even have the opportunity to vote on it! (Parenthetically, this is a good argument for scrapping Medicaid's matching formulas and replacing them with block grants.) It's great for states to experiment. But why should federal taxpayers pay 50¢ on the dollar to foot the bill?

So what could go wrong? Like the Massachusetts plan (but much worse), the California plan encourages people with unsubsidized insurance to get subsidized insurance instead. That is, a lot of employers of low-income workers will drop their coverage and pay a 4 percent fine once they realize their employees will be eligible for free coverage under an expanded Medicaid program or will qualify for income-based premium subsidies. As employers drop their coverage, system costs will rise. And because of the new insurance regulations, health insurance will cost more for everyone. This will encourage healthy people to exit the system, leaving the sickest and most costly people behind, again driving up costs. The plan also opens the door for future legislatures to convert the employee mandate into an employer mandate,

thereby increasing employer costs and encouraging businesses to leave the state.

Perhaps the worst feature of the plan is the new burdens it creates for the people it claims to help low- and moderate-income, uninsured families. Remember, these people are currently receiving health care as a form of government charity, often through emergency room visits; and according to the RAND Corporation, once they access the system, their care is just as good as everyone else's care. Under the new plan, workers will get hit by the 4 percent

wage tax (a tax nominally imposed on their employers). If the workers do not buy insurance, they will have wages garnished and tax refunds withheld. If they do buy insurance, they will have a \$5,000 deductible catastrophic policy, which is of great benefit to California hospitals (and perhaps even to the family if they have assets), but of no benefit for the purchase of primary care.

When they do seek care, they will face a new tax on their medical bills (nominally imposed on the providers). The poor will not become

empowered consumers in a medical marketplace; instead they will likely continue to get care exactly where they get care today, for example, hospital emergency rooms. In sum Californians will pay more for their health care; low-income families will pay a lot more for their care; federal taxpayers will get taken to the cleaners; and the quality of care-especially the care delivered to low-income Californians-will probably not change one iota.

John C. Goodman is president of the National Center for Policy Analysis.