

BRIEF ANALYSIS

No. 233

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One Last Chance For KidCare

As part of the recent budget agreement, President Clinton and Congressional leaders agreed to spend \$16 billion over the next five years on health insurance for children. Now the question facing Congress is: What's the best way to spend the money?

In the House of Representatives, Republicans have mainly opted for block grants to the states. Many states would use the funds to expand Medicaid coverage. Others would expand existing state-created programs or demonstration projects granted under a waiver from the federal government. A Senate Finance Committee proposal would give states the option of accepting expanded Medicaid coverage or receiving a block grant with many strings attached.

Both the House and Senate approaches are out of step with the Information Age. Both would either give money and power to failed bureaucracies or create new ones. What is really needed is to allow individual families to meet their own needs by making choices in the health insurance marketplace.

Medicaid Inefficiency. By almost anyone's reckoning, Medicaid is one of the most wasteful health care programs in the country. A *Chicago Tribune* investigation used undercover reporters to discover that in a 12-month period a con man managed to get Medicaid to pay for 65,505 pills, 20,400 syringes and 343 bronchial inhalers. These items, in turn, could be sold on the street. For example, drug addicts will pay as much as \$1 for a syringe; alcoholics will pay 37 cents for the anti-ulcer pill Zantac and people who smoke cocaine will pay \$2 to \$3 for a bronchial inhaler.

Unfortunately, this example was not unique. For instance, the *Tribune* also found that:

- Four Medicaid patients made more than 300 separate doctors' office visits each over a 12-month period — an average of more than five visits each per week.
- One patient — who made 243 doctor visits a year — saw five doctors on the same day on seven different occasions, and twice saw six doctors on the same day.
- Another patient collected 3,540 condoms, 234 asthma inhalers and enough pills to swallow at a rate of 46 per day.

How To Spend Kid Care Money

- **Instead of expanding Medicaid or giving the money to state governments, first offer tax credits to families to buy their own insurance for their children.**
- **If not tax credits at the federal level, the next best option is unrestricted block grants to the states.**
- **State governments should be able to use the money to offer tax credits to families within their state before expanding Medicaid or other government programs.**

Medicaid Rationing. In addition to wasting money, Medicaid all too often engages in health care rationing. The abuses described above mainly occurred at "Medicaid mills." Yet in most cities around the country it is becoming increasingly difficult to find regular fee-for-service doctors who will even see Medicaid patients. In almost all the examples people can point to of Medicaid programs that work,

Medicaid has contracted with a private managed care company. And managed care itself is under increasing attack for skimping on care under the guise of controlling costs.

The Tax Credit Alternative. Fortunately, there's a better way. Instead of giving money to state governments that will expand Medicaid or give it to an HMO, why not let families use the money to enroll in a health plan of their choice? This approach, developed by health economists at the Progressive Policy Institute (PPI) and the National Center for Policy Analysis (NCPA), would give families the chance to buy private insurance before giving the money to state governments.

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Low-income families would be offered a dollar-for-dollar refundable tax credit that could be used toward the purchase of their children's health coverage. The amount of the credit would cover most or all of the cost of health insurance. Parents would be required to pay the difference. The credit would be refundable, which means that families would receive the full benefit of the credit, regardless of how small their income tax obligation was. If parents did not buy health insurance, the unclaimed credit money would be sent to the states in the form of an unrestricted block grant. States would then be free to enroll the children in Medicaid or consider other options.

How People Would Receive Their Credit. In February and March of every year, millions of people with little or no tax liability file tax returns and get a "refund" from government. To get around the complexity of the tax law, many turn to tax preparers such as H&R Block, who not only fill out the paper work, but also negotiate a loan from a bank so that the "taxpayer" gets cash on the spot. H&R Block then files the return, gets the refund, repays the bank and takes its commission.

If banks can get involved, why not insurance companies? Low-income families could purchase the next 12 months of insurance for their children with their KidCare tax refund right in H&R Block offices, with little more effort than they expend today. Moreover, there is no reason why several competing health plans could not be available — giving families the benefits of competition and choice.

Greater Savings Through Efficiency. This procedure also would answer an important objection: Doesn't individually purchased insurance cost a lot more than enrolling a large number of people in a group plan? That depends. Currently, fee-for-service insurance for a child (\$500 deductible, 20 percent copay up to \$1,000) costs

between \$700 and \$800 in most cities around the country if purchased from insurance agents. But using the H&R Block approach, the administrative expense could be squeezed down to a bare minimum, reducing the premium to probably a little over \$500.

Why the Previous Credit Did Not Work. Skeptics may ask: haven't we tried this approach before? From 1991 to 1993 there was a refundable tax credit for health insurance in the tax code. It was little used, however, because families had to pay premiums during a tax year and get their "refund" the following April 15. This was an impossible cash flow obstacle for families who lived paycheck to paycheck.

Tax Credits at the State Level. In the absence of a federal tax credit, those states with an income tax could institute their own tax credit using an approach similar to the one described above. Unclaimed tax credits could be diverted to local hospitals or health agencies that would ultimately be responsible for delivering the care should someone in the family get sick. However this approach requires that states be given the freedom to implement a tax credit approach. A block grant provision with strings attached, including a long list of defined health insurance benefits, would undermine the value of tax credits by restricting rather than enhancing choice.

Conclusion. The tax credit approach would empower people, rather than bureaucracies, by giving low-income families the opportunity to choose among some of the private-sector alternatives routinely available to the middle class. Expanding Medicaid expands government. Expanding tax credits for health insurance expands the market and freedom. The choice for Congress should be obvious.

This Brief Analysis was prepared by NCPA President John C. Goodman and Vice President for Domestic Policy Merrill Matthews Jr.