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BushCare - The answer to ClintonCare, and a very good one.

by **John C. Goodman**

In his State of the Union address, President Bush devoted only a few sentences to health policy. But, to coincide with the speech, the Bush administration released a five-page document proposing health-policy reforms so sweeping and bold as to merit comparison to the scope -- though certainly not the content -- of Hillary Clinton's plan of a decade ago. If the White House is able to see its proposals through, it will leave a lasting and positive mark on American social policy.

One component of Bush's reforms is Health Savings Accounts (HSAs). The idea behind HSAs is quite simple. Individuals should be allowed to manage some of their own health-care dollars through accounts they own and control. They should be able to use these funds to pay the costs of out-of-network doctors, diagnostic tests, and other procedures not covered by third-party, catastrophic insurance. The accounts should be tax-free, and should eventually be Bush's reforms also address the question of tax fairness. The main reason companies provide their workers with health insurance -- well as state and local income taxes. For a middle-income employee, this tax subsidy means that the government is effectively paying almost half the cost of his insurance -- even as people who buy their own insurance must do so with after-tax dollars.

available for non-medical purposes, letting individuals profit from wise decisions that allow them to reduce their health-care costs.

The logic of such accounts is that they bring health incentives in line with market incentives. Right now, because consumers of health care don't control the dollars with which that care is purchased, they have little incentive to keep expenses down. HSAs provide such an incentive. Some people will respond by seeking information about treatments and health-care providers over the Internet, choosing the options that are most cost-effective. Some may bypass primary-care physicians altogether and directly order their own diagnostic tests or seek online specialist consultations. Others may forgo name-brand drugs in favor of less expensive generic medications, therapeutic substitutes, and over-the-counter drugs. Studies show that, with a rather than higher wages with which they could buy their own insurance -- is that, under current tax law, every dollar an employer The White House proposal corrects this inequity by allowing individuals who buy their own health plans to deduct insurance premiums from their income taxes. In addition, a tax credit would offset the payroll taxes on income that goes toward premiums. These reforms would mean that

modest amount of training, diabetics, asthma patients, and others can manage their own health care and achieve results at least as good as, and at lower cost than, traditional care. The general principle is that people will not choose to spend a dollar on health care unless they get a dollar's worth of benefit -- and this will place downward pressure on both medical costs and insurance premiums.

HSAs were first created along with the prescription-drug entitlement signed into law in 2003. But their scope was much smaller than what many reformers had hoped for. The president's proposal would address this deficiency by increasing the amount people can contribute to their HSAs, making HSAs easier to obtain, and giving people incentives to obtain them (by creating additional benefits that apply only to HSA plans).

pays for employee health-insurance premiums avoids federal income and payroll taxes, as

employers had no reason to compensate their employees in insurance rather than wages, aside from economies-of-scale or other advantages associated with large purchases.

Bush's reforms would also allow employers to buy individually

owned, personal, and portable insurance for their employees. Initially, the employers would pay most of the premiums (as they do today). But, because the insurance would be owned by the employees, it would move with them as they traveled from job to job and home to home. They would get portable insurance, but at group-insurance prices.

This portability is not simply a matter of convenience; it would also improve the quality of health care. One disadvantage of the current system is that most of us are vulnerable to losing our coverage if we become unemployed. Moreover, virtually all employer health-insurance contracts last only twelve months. At the end of the year, an employer searching for ways to reduce costs might choose a different health plan or stop providing insurance altogether. A switch in health plans or a job change often means switching doctors as well, since plans tend to provide coverage only for doctors within their own networks. Additionally, different employer plans come with different benefit packages. So coverage for some services, like mental-health care, are included in some plans but not in others.

For people who are healthy, these disruptions may be only minor inconveniences. But for the chronically ill, breaks in the continuity of care can present

major challenges. Not surprisingly, one study of chronically ill workers found that those who rely on their employers for coverage have an average job-mobility rate 40 percent lower than that of those who obtain their health insurance through other means.

Chronically ill workers would also benefit from another of the proposed reforms: allowing employers to make special deposits into employees' HSAs. Employers currently make different premium payments on behalf of different employees, depending on the employees' expected health-care costs. Similarly, the president proposes that employers be permitted to make deposits of varying amounts to different HSAs, allowing them to respond to the individual needs of their employees.

Finally, Bush's reforms would let consumers buy insurance from a national marketplace instead of being restricted to providers in the states where they happen to live. Many cities and towns are served by only one insurer. The coverage available may be overpriced, with benefits that do not fit the needs of many individuals and families; but, with few or no alternatives, buyers must either purchase an unsuitable policy or forgo insurance altogether. Furthermore, state governments regulate health insurance excessively -- and they do so in 50 different ways. Beyond

collecting taxes, imposing price controls, and regulating access to insurance, states also require buyers of insurance to pay for extra benefits they may not want. Studies estimate that as many as one in four uninsured Americans has been priced out of the health-insurance market by these regulations and mandated benefits.

The president would allow insurers to sell insurance in all states under the rules and regulations of their home state. This is a major step in the direction of replacing 50 overregulated markets with one large, relatively free, and less costly market. Thanks to the Supreme Court, you can buy wine across state lines -- and that has led to a big drop in wine prices. National competition in the insurance industry would cause premiums to plummet in a similar fashion.

If passed, all of these reforms will make health insurance more affordable and more accessible. They will reshape the health-care marketplace by empowering patients to make their own choices about the care they receive. They will strengthen the doctor-patient relationship and allow doctors to be agents of their patients rather than of third-party payers. They will, in short, be a vast improvement over our current system.

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