

McCain Plan Relies on Tax Changes, Cost Control

BY MARY ELLEN SCHNEIDER
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While the Democrats continue to debate the need for individual mandates for health coverage, Sen. John McCain recently unveiled a starkly different plan for reforming the health care system.

At the heart of Sen. McCain's health proposal is a plan aimed at eliminating the tax exclusion that allows employees to avoid paying income tax on the value of their health benefits.

Sen. McCain, the presumptive Republican presidential nominee, is proposing to replace that tax break with a refundable tax credit of \$2,500 for individuals and \$5,000 for families.

For those who remain in their employer-sponsored plan, the tax credit would roughly offset the increased income tax burden.

For those seeking to buy their own health coverage on the individual market, the tax credit would be used to pay their premiums, according to Sen. McCain's plan.

Sen. McCain also espouses creating a national market for health insurance by allowing Americans to buy coverage across state lines.

"Insurance companies could no longer take your business for granted, offering narrow plans with escalating costs," Sen. McCain said during a recent Tampa speech in which he announced details of his health care proposal. "It would help change the whole dynamic of the current system, putting individuals and families back in charge, and forcing companies to respond with better service at lower cost."

For those with preexisting conditions, Sen. McCain is proposing a Guaranteed Access Plan. The GAP would re-

flect the best practices of the more than 30 states that have a "high-risk" pool for individuals who cannot obtain health insurance. Sen. McCain pledged to work with Congress, governors, and industry to ensure that the initiative was adequately funded and included disease management programs, individual case management, and health and wellness programs.

The tax changes would not occur in a vacuum, said Crystal Benton, a spokeswoman for the McCain campaign. The idea is to reform the marketplace and drive down costs overall.

Grace-Marie Turner, a McCain campaign adviser and president of the Galen Institute, which favors free-market approaches to health care, said that Sen. McCain recognizes that the first step to expanding coverage is to make health care more affordable. The cornerstones of that approach include giving consumers more coverage options, paying for wellness and preven-

tion, and getting rid of waste in the system.

But critics say the McCain plan essentially would destroy the employer-based health insurance system in the United States.

"We are pretty amazed at how extreme a plan Mr. McCain has staked out," said Roger Hickey, codirector of the Campaign for America's Future, a progressive think tank.

The elimination of the employee health benefits tax exclusion would be an excuse for employers of all sizes to get out of providing health insurance, leaving many workers to the purchase coverage in the individual market where coverage is expensive and difficult to obtain. "Our prediction is a race to the bottom," he said.

And a \$5,000 tax credit wouldn't be enough to cover

the cost of family coverage, which the Kaiser Family Foundation estimates costs on average nearly \$12,000, he said.

It's hard to predict exactly what will happen with employer-based coverage under this proposal, said Sara R. Collins, Ph.D., assistant vice president for the Program on the Future of Health Insurance at the Commonwealth Fund. The question is whether individuals who currently have comprehensive coverage through their employer would end up underinsured after moving into the individual market.

The proposal is raising some concerns among physicians. Dr. Jack Lewin, chief executive officer of the American College of Cardiology, called on Sen. McCain to rethink his tax proposal, saying that taking away the employee tax exclusion would "undoubtedly" cause a shift to individual coverage and force many people into government health care programs. The focus should be on expanding coverage to the uninsured, not destabilizing the current system of coverage, he said.

But Dr. Lewin praised the direction of Sen. McCain's quality of care proposals, which include plans aimed at increasing the adoption of health information technology and paying physicians for prevention and chronic disease management.

In the areas of health information technology and medical research funding, Sen. McCain's proposal is actually similar to the plans put forth by the Democratic candidates Sen. Hillary Clinton (D-N.Y.) and Sen. Barack Obama (D-Ill.), said Naomi Senkeeto, a health policy analyst at the American College of Physicians.

For example, Sen. McCain plans to dedicate federal research dollars on the basis of "sound science" and a put a greater emphasis on chronic disease care and management.

ACP does not endorse candidates but the organization has performed an analysis of how the presidential candidates compare with one another on guaranteeing access to affordable coverage, providing everyone with a primary care physician, increasing investment in health information technology, reducing administrative expenses, and increasing funding for research. The side-by-side comparison is available online at www.acponline.org/advocacy/where_we_stand/election/.



Sen. John McCain is in favor of allowing Americans to buy health insurance coverage across state lines.

Massachusetts Plan Is Doing Well

BY JOYCE FRIEDEN
Senior Editor

WASHINGTON — Don't believe what you read in the national media: The Massachusetts health coverage plan enacted in 2006 is actually doing quite well, thank you very much.

That was the message from John McDonough, D.P.H., executive director of Health Care for All, a consumer health advocacy organization in Boston that has supported the plan. "We've expanded affordable coverage to 325,000-350,000 of the [state's] estimated 550,000 uninsured," he said at a diabetes meeting sponsored by Avalere Health.

But significant challenges are ahead. The state government recently announced that the program will cost "significantly" more than the proposed \$869 million budgeted for it in 2009. One reason for the increase is that state regulators approved a 10% increase in

payments to private insurers for each person enrolled in the program, in which the state subsidizes the insurance premiums. The insurers had sought a 15% increase but agreed to settle for 10% after lengthy negotiations.

Richard Powers, a spokesman for the program, said in an interview that the real driving force behind the increased cost is growing enrollment. "Certainly, the rate increases will factor into the final figure—which has yet to be determined—but it is minor in comparison to the enrollment," he said.

The payment increase will take effect July 1. In addition, the state said it would be willing to take on additional financial risk if enrollees end up using more medical care than expected. Also, premiums will be increased for about one-fourth of enrollees—the other three-fourths will continue to pay no premiums—while copays will go up for half of

those enrolled. (See box.)

Dr. McDonough said cost increases were not unexpected. "Yes, it's true ... When you enroll a ton of people, costs do go up," he said during his talk, which was given before the announcement but after state officials had projected an increase in the program's budget. "Most of [those costs] were expected and, by the way, most of those costs are being paid by the federal government, not by Massachusetts."

The Massachusetts plan has engendered dislike on both extremes of the health care reform debate, Dr. McDonough said. "We know we're in radically experimental terrain, and we hope we're providing some ideas and some paths for [the] system [to] advance."

Health Care for All receives financial support from the Massachusetts state government to support its enrollment and outreach efforts.

Medicaid Expansion for Children Is a Key Feature

Under the plan, the state has expanded Medicaid eligibility for children from those families making 200% of the federal poverty level to those families making 300%, Dr. McDonough explained. The state also set up Commonwealth Care for adults making less than 300% of the poverty level who can't get insurance anywhere else. In that program, there are no premiums for those under 150% of the poverty level, and then there is a sliding-scale premium structure for those between 150% and 300% of poverty, up to \$107 per month.

For people above 300% of poverty who are having difficulty finding affordable

coverage, the state offers coverage plans through a variety of private insurers, Dr. McDonough continued. Some plans have higher premiums in exchange for lower cost sharing; others offer the opposite approach. In addition, employers are required to set up "cafeteria plans" that allow workers to deduct their health insurance premiums from their paychecks pretax.

As of July 1, 2007, the state also requires all residents to be insured, provided that affordable coverage is available to them. Residents who do not comply with the law must pay penalties. In 2007, the penalty for not having coverage was a standard \$219.