

WORLDS APART

The Health Care Plans of the Presidential Candidates

THE 2008 ELECTION provides us with a clear choice between two very different directions on health care. On the one hand, the “on your own” approach substitutes individual insurance coverage for group coverage, whether public programs or union and employer-sponsored plans. Besides leaving individuals to deal with insurance companies by themselves, this approach also would drive up health costs by giving insurers and health plans even more power than they enjoy today, even greater license to make arbitrary decisions and even greater range on what they can charge.

On the other hand, the “shared responsibility” approach would strengthen the coverage that now exists by lowering health care costs, increasing coverage options, policing insurers and creating a new national public insurance plan that would ensure coverage for all.

Here’s how the two presidential candidates address one of the biggest economic problems facing working families today.

McCain would send everyone to the individual insurance market

For Sen. John McCain, competition in the individual insurance market—where people go one on one with insurance companies—is the solution to our health care crisis. His proposal would:

- Eliminate the tax benefits for employer-based coverage and require those covered by employer or union plans to pay taxes on the value of their coverage. For families, this would add about \$15,000, on average, in income for tax purposes.
- End the employer-based coverage of 20 million people, “or maybe many more.”¹
- Establish a deregulated nationwide private insurance market allowing the purchase of health insurance across state lines and letting insurance companies choose the rules they want to follow.
- Encourage and expand health savings accounts.
- Give everyone who has health care coverage, whether through their employer or on their own, a tax credit—\$2,500 for individuals and \$5,000 for families—to offset the cost.²

The proposed change in the tax treatment of workplace health benefits threatens the coverage of the 160 million people who now receive their health care through work. While union members might be able to negotiate to keep their coverage, others would be defenseless if their employer chose to drop benefits. They would be forced to shop for coverage in the individual insurance market, which is “much more costly than providing that coverage through groups (because) administrative expenses are twice as high in nongroup markets as in group markets.”³

Even within group plans, some, particularly young or healthy workers, would decide to leave and buy coverage in the individual insurance market. In at least two ways, this would hurt employers that continue to provide coverage:

- Those competing with businesses that drop their plans will be at a greater competitive disadvantage.
- Younger or healthier workers leaving workplace plans would increase the costs of those plans as the group retains its older or sicker workers.

By deregulating the health insurance industry, the McCain proposal would make a bad situation even worse. Insurance companies don’t provide affordable coverage in today’s market, especially for older or sicker people. Creating a national market will only empower insurance companies even more than today and weaken the existing consumer protections available in the states.⁴ State protections, such as limiting premium differences based on health status and requiring coverage of some essential services, would be undermined if insurance companies were able to choose which state rules to follow. That way, insurance companies would have a free hand to “cherry pick” whom they cover—not covering care when it’s needed most.

In the current issue of *Contingencies*, a magazine for actuaries, McCain revealed the depth of his commitment to deregulating the health insurance industry by saying we should use the crisis-ridden banking system as a model for our health care system.

McCain wrote: “Opening up the health insurance market to more vigorous nationwide competition, as we have done over the last decade in banking, would provide more choices of innovative products less burdened by the worst excesses of state-based regulation.”⁵

Obama's plan would lower costs and expand group coverage to cover everyone

In his proposal, Sen. Barack Obama goes down a very different road. He secures and builds on today's primary sources of health care: workplace-based plans and public programs, including Medicare.⁶ The key features of his proposal include:

- A new national health plan providing the same health care insurance choices available to members of Congress, and a public insurance option. Combined with Medicare, the plan would have sufficient purchasing power to lower health costs, making existing coverage more affordable for workers and employers. To ensure that the new options are affordable for average and low-wage workers and families, Obama would provide tax subsidies funded by repeal of the Bush tax cuts.
- New insurance regulations that would:
 - Outlaw current insurer abuses such as denying coverage to people with pre-existing conditions.
 - Set standards for a range of private insurance plans requiring them to provide benefits at least as generous as the new public plan.
- A requirement that most employers contribute to their employees' health care plan or to the new national plan if they do not offer comparable coverage.⁷

The health reform path chosen by Obama offers group coverage to all. Those who now have coverage at work could keep it. If they like their health insurance, nothing changes except that costs go down.

Obama's proposed national health program would offer group coverage to workers whose employers do not provide it today and to those who are not working. In addition, small businesses and the self-employed, two groups that often can't find affordable, comprehensive coverage in today's private market,⁸ will be able to obtain coverage through the new public plan. Small businesses will also have new tax credits to reduce the cost of providing health care to their employees.⁹

In addition to using the new national public plan to control costs, Obama's plan also ensures quality benefits—a comprehensive benefit package to cover the full range of services, including preventive care—in both the public and private plans.

Finally, Obama's plan would build on and significantly expand the efforts in recent years to restructure health care along high-quality, patient-centered lines.

A Clear Choice

The two candidates offer very different approaches to keeping health care available and affordable for working families and expanding coverage to all. As one health policy expert noted, "You have one party saying we have to transform the health care

system by regulating the insurance industry...and the other party saying we have to transform the health care system by deregulating the insurance industry."¹⁰

Questions and Answers

on the

Candidates' Health Care Reform Proposals

Will the candidates' proposals control health care costs?

McCain	No
Obama	Yes

By expanding the individual insurance market, the McCain approach would lead to higher overall health care system costs. The administrative costs in that market are double those anywhere else in our health care system. A recent report estimates that putting more people into the individual insurance market will increase costs between \$4 billion and \$20 billion per year depending on how many move to the individual market from coverage at work.¹¹

The McCain preference for individual health insurance coverage also will result in people who need health care the most—those who are older or suffer from chronic health conditions—paying more as insurance companies base their premiums on age, health status and even gender, practices McCain doesn't propose to change.

The Obama proposal puts in place a coordinated structure with robust purchasing power to control costs:

- First, it creates a new public health plan available to small employers and people without coverage that would have much lower administrative costs.
- Second, it creates a new “national insurance exchange” that uses centralized marketing and a required benefits package to reduce costly competition among insurers and cut down on administrative costs.

The two candidates' plans also differ significantly in terms of household costs—what working families pay for their health care coverage.

McCain supports the expansion of health savings accounts and high-deductible health plans. While monthly premium costs for these plans are generally lower than those of other plans, the high deductibles—at least \$2,300 beginning in 2009—and the high out-of-pocket expense limit—\$11,600 in 2009—require working families to shoulder more of their health care costs. The preference for health savings accounts and high-deductible plans is likely to limit the effectiveness of preventive care and care coordination and lower any potential savings from these changes that McCain also seeks to implement.

The Obama proposal relies on maintaining the health care plans now available in the workplace and expanding access to health care plans with comprehensive benefits and affordable premiums and deductibles. He proposes a standard benefit package based on the program covering members of Congress. The most popular plan under that program includes a modest annual family deductible of \$500.

Both candidates include similar elements that experts believe will lead to savings and improved quality in the delivery of care.¹² Those features include making information on the quality and cost of services available, implementing health information technology and emphasizing preventive care and care coordination. Greater savings are likely under the Obama proposal because the changes will cover more people through large group plans, the proposed public plan and plans available through the national exchange,¹³ and they are more specific and concrete.¹⁴

Can I keep my health care plan under the candidates' proposals?

McCain	Likely Not
Obama	Yes

The change in the tax rules under the McCain proposal is widely predicted to lead to more employers dropping their plans.¹⁵ Under today's rules, health benefits provided through work are tax-free, and McCain proposes to end that treatment. Instead, workers would receive a tax credit to apply against the tax increases that result from his proposal. For people whose employers drop coverage in the wake of McCain's health care tax—estimated to be at least 20 million workers¹⁶—they can use the tax credit to shop for coverage in the individual market.

The Obama proposal, on the other hand, allows working families to keep their health care coverage through work without any change in the current tax rules.

Are employers required to offer health care coverage?

Obama	Yes
McCain	No

The Obama proposal requires employers to offer coverage and make a “meaningful” contribution to its cost or contribute to a new national plan where working families can get health care benefits that must be at least as good as what members of Congress receive.¹⁷ While small employers would be exempt, the Obama proposal levels the playing field by requiring employers that don't offer coverage today to either do so or finance a new program that makes health benefits available to their employees.

The McCain proposal does not require employers to offer or contribute to health care coverage. Instead, he proposes a modest tax credit—\$2,500 for individuals and \$5,000 for families—that may help offset any increased income tax for some whose employers continue to offer coverage.

Are small employers encouraged to contribute to the cost of health care?

Obama	Yes
McCain	No

The Obama proposal encourages small employers to offer health care coverage through a refundable tax credit even though they are exempt from the requirement to provide coverage for their employees or contribute to the new national plan. The credit—up to 50 percent of the premiums paid on behalf of workers—would be available to small businesses that offer a quality health plan and pay a meaningful share of the premium. The credit would be phased out for medium-sized firms and small firms with high-income employees.

Small employers would be able to obtain coverage for their employees in the new public plan or a private plan through the “national health exchange” and benefit from the lower costs of large group health plans, including lower administrative expenses.

The McCain approach—changing the tax rules for workplace-based benefits—will lead to fewer small employers offering coverage. Those that do so today are less likely to continue the benefit, and those that do not have little incentive to provide health care coverage.

Do the candidates' proposals help employers that offer retiree health care coverage?

Obama	Yes
McCain	No

In addition to addressing the need to lower health care system costs, Obama would create a federal reinsurance pool to reimburse workplace plans for a portion of their catastrophic costs if the savings are used to reduce premium costs.¹⁸ The reinsurance pool would be particularly important for retiree health care plans because the greatest health expenses are incurred as people age.

The McCain proposal does not provide any assistance for catastrophic costs incurred by workplace plans. Moreover, his proposed change in the tax rules—ending the tax-free treatment of benefits provided through work—could lead to even more employers shifting even more costs to retirees or dropping coverage.

Will insurance companies be prohibited from charging more or denying coverage to people with pre-existing health conditions?

Obama	Yes
McCain	No

Under the Obama proposal, the new public plan and the private plans participating in the national exchange must offer coverage to everyone, and the private plans can't charge higher premiums because of someone's health condition.¹⁹

The McCain proposal does not change today's private insurance market rules, so people with pre-existing conditions can be charged more or denied coverage. The only protection offered by McCain is to "work with governors to develop a best practice model that states can follow," building on high-risk pools.²⁰

The experience with existing state high-risk pools, designed to cover only "uninsurable" individuals rejected by insurance companies, suggests that the McCain approach is inadequate. Coverage through the pools can be very expensive and it is often limited. For example, high-risk pools typically exclude coverage for pre-existing conditions for a

period of time and many set lifetime maximum limits.²¹ What makes things worse is that many state pools have yearlong waiting lists.

Will the high cost of prescription drugs for Medicare beneficiaries be reduced?

Obama	Yes
McCain	No

When Medicare Part D, the prescription drug program, was created, Medicare was prohibited from negotiating drug prices with the pharmaceutical companies, and the standard benefit design included a "donut hole," a gap in coverage forcing seniors to bear the full cost of their prescription drugs until they reach the catastrophic limit.

The Obama proposal addresses both of these gaps in Part D. Medicare would be authorized to negotiate drug prices, just as the Veterans Affairs Department does today, and the "donut hole" would be eliminated.

Prescription savings for those enrolled in Part D plans, as well as everyone else, will result from permitting the reimportation of drugs from other developed countries if they are safe and cost less and from increasing the availability of generic drugs.²²

The McCain proposal offers more limited savings for Medicare beneficiaries. He does not propose to change today's rules for Part D, although he would allow drug reimportation and faster introduction of generic drugs.²³

ENDNOTES

¹T. Buchmueller, S.A. Glied, A. Royalty and K. Swartz, "Cost And Coverage Implications of the McCain Plan to Restructure Health Insurance," *Health Affairs* (Sept. 16, 2008): 472-481

²Straight Talk on Health System Reform, available at <http://www.johnmccain.com/Informing/Issues/19ba2flc-c03f-4ac2-8cd5-5cf2edb527cf.htm>

³T. Buchmueller, S.A. Glied, A. Royalty and K. Swartz, "Cost And Coverage Implications Of The McCain Plan To Restructure Health Insurance," *Health Affairs* (Sept. 16, 2008): 472-481

⁴J. Lambrew, "Conservative Health Reform: Why It Could Deepen Our Health System Crisis" (Center for American Progress Action Fund March 2008)

⁵<http://www.contingencies.org/septoct08/mccain.pdf>

⁶In 2006, workplace plans covered 54 percent of the U.S. population and Medicare covered 16 percent. Kaiser Family Foundation Fast Facts, available at <http://facts.kff.org/chart.aspx?ch=477>

⁷Plan for A Healthy America, available at <http://www.barackobama.com/issues/healthcare/>. Very small employers and start-up businesses would be not be required to offer coverage or contribute to the national plan. Background Questions and Answers on Health Care Plan, available at http://www.barackobama.com/pdf/Obama08_HealthcareFAQ.pdf

⁸C. Schoen, K. Davis and S. Collins, "Building Blocks for Reform: Achieving Universal Coverage with Private and Public Group Health Insurance," *Health Affairs* 27 (May/June 2008): 646-657

⁹Barack Obama: Ensuring Opportunity for Latino Families in the 21st Century Economy, available at http://obama.3cdn.net/fc553925959aec67fd_bg1mnb2n2.pdf

¹⁰*The New York Times*, Federal Money in Health Care Plan from McCain http://www.nytimes.com/2008/04/30/us/politics/30mccain.html?_r=1&scp=1&sq=michael+cooper+kevin+sack&st=nyt&oref=slogin

¹¹P. Harbage, McCain's Hidden Increase in Health Care Costs (Center for American Progress, May 2008) available at http://thinkprogress.org/wonkroom/wp-content/uploads/2008/05/health_admin_costs.pdf

¹²C. Schoen, et al., "Bending The Curve: Options for Achieving Savings and Improving Value in U.S. Health Spending" (Commonwealth Fund, Dec. 2007); J. Lambrew, "Conservative Health Reform: Why It Could Deepen Our Health System Crisis" (Center for American Progress Action Fund, March 2008)

¹³J. Lambrew, "Dear 44: Take A Pragmatic Approach," Politico.com, available at <http://www.politico.com/news/stories/0708/11512.html>

¹⁴P. Harbage and K. Davenport, "Containing Health Care Costs: Two Presidential Proposals But Only One Realistic Plan" (Center for American Progress Action Fund, July 2008)

¹⁵J. Lambrew, "Conservative Health Reform: Why It Could Deepen Our Health System Crisis" (Center for American Progress Action Fund, March 2008); L.E. Burman, et al., "The President's Proposed Standard Deduction for Health Insurance" (Tax Policy Center, February 2007); E. Park, "Administration's Proposed Tax Deduction for Health Insurance Seriously Flawed" (Center on Budget and Policy Priorities, July 2007)

¹⁶T. Buchmueller, S.A. Glied, A. Royalty and K. Swartz, "Cost And Coverage Implications of the McCain Plan to Restructure Health Insurance," *Health Affairs* (Sept. 16, 2008): 472-481

¹⁷Plan for A Healthy America, available at <http://www.barackobama.com/issues/healthcare/>

¹⁸Plan for A Healthy America, available at <http://www.barackobama.com/issues/healthcare/>

¹⁹Plan for A Healthy America, available at <http://www.barackobama.com/issues/healthcare/>

²⁰<http://www.johnmccain.com/Informing/Issues/19ba2flc-c03f-4ac2-8cd5-5cf2edb527cf.htm>

²¹Families USA Issue Brief, "High-Risk Health Insurance Pools" (May 2006); Kaiser Family Foundation, State Health Facts, available at <http://www.statehealthfacts.org/comparecat.jsp?cat=7>

²²Plan for A Healthy America, available at <http://www.barackobama.com/issues/healthcare/>

²³<http://www.johnmccain.com/Informing/Issues/19ba2f1c-c03f-4ac2-8cd5-5cf2edb527cf.htm>

**TURN
AROUND** 2008
AMERICA
AFL-CIO **HEALTH CARE**

AFL-CIO

815 16th St., N.W.
Washington, DC 20006
www.aflcio.org

