

*March 7, 2008*

## [A Detailed Analysis of Barack Obama's Health Care Reform Plan](#)

**Barack Obama's health care plan** follows the **Democratic** template—an emphasis on dramatically and quickly increasing the number of people who have **health insurance** by spending significant money upfront.

The **Obama campaign estimates his health care reform plan will cost between \$50 and \$65 billion a year** when fully phased in. He assumes that it will be paid from savings in the system and from discontinuing the Bush tax cuts for those making more than \$250,000 per year.

By contrast, the **McCain Republican strategy for health care reform** would first emphasize **market reforms** aimed at making the **system affordable** so more Americans can be part of the system and he claims that there would be no additional upfront cost.

**Obama breaks his health care reform plan down into three parts** saying that it builds “upon the strengths of the **U.S. health care system.**”

The three parts are:

1. **Quality, Affordable & Portable Health Coverage For All**
2. **Modernizing The U.S. Health Care System To Lower Costs & Improve Quality**
3. **Promoting Prevention & Strengthening Public Health**

**Obama claims that his health care reform plan** will save the typical family up to \$2,500 every year through:

- **Health information technology investment** aimed at reducing unnecessary spending that results from preventable errors and inefficient paper billing systems.
- **Improving prevention and management of chronic conditions.**
- **Increasing insurance industry competition** and reducing underwriting costs and profits in order to reduce insurance overhead.
- **Providing reinsurance for catastrophic coverage**, which will reduce insurance premiums.
- **Making health insurance universal** which will reduce spending on uncompensated care.

**Will Obama be able to cut the typical family's health care costs by \$2,500 a year?**

Well, yes and no.

All of the candidates, **Republican and Democratic**, are calling for most of what is on the **Obama cost containment list; expanding health information technology, improving prevention and better management of chronic conditions, and a more vibrant health insurance market.**

**Obama is unique in calling for catastrophic reinsurance coverage** in order to reduce the cost of family health insurance. Really, this is **not a cost reduction but a cost shift**. This idea, first proposed by Senator Kerry in his failed bid for the presidency, would have the federal government absorb a large portion of the highest cost claims thereby taking these costs out of the **price of health insurance**. That would reduce the price of family health insurance but would also increase federal spending by the same amount. It would also water down the incentive for insurers and employers to manage these claims since most of these costs would be transferred to the government.

**Obama's** assertion that covering more people would reduce the overall cost of insurance is likely correct because it would mean less **uncompensated care** that would have to be shifted onto the rest of the system. **Hillary Clinton** would cover at least as many people as he would so there is no advantage for **Obama** here. Since the **McCain health plan** emphasizes **making the insurance system affordable** before ensuring widespread coverage as the first priority, one could argue that both **Obama and Clinton** would make gains toward near universal care well before **McCain**.

In the end, **Obama's** claim that he would save families \$2,500 every year are based upon a number of initiatives that the other candidates also argue that they will undertake. More, these ideas, such as **health IT and prevention**, are under way in the market anyway.

The only real difference between **Obama** and **Mrs. Clinton** over cost containment is his **catastrophic reinsurance** idea that isn't so much a cost saver as a cost shifter.

**Obama's** claim that he would save \$2,500 per family beyond a simple cost shift to the federal government of large claims is unsubstantiated.

When compared to **Hillary Clinton**, the biggest difference is that **Obama** does not mandate that all adults have **health insurance** and **Clinton** does. In my mind, there is actually little or no difference between the two candidates on this point because **the real issue in getting everyone covered is to make health insurance affordable**—not whether it is required or not. I did a full post on this topic that you can access [here](#).

Let's take a look at the **three main parts of the Obama health plan**:

### ***1. "Quality, Affordable & Portable Health Coverage For All"***

**Obama** follows the **Democratic health care template** by building on existing private and public programs such as **employer health insurance, private individual health**

**insurance, Medicare, and Medicaid.** This is unlike the **Republican** approach that would refashion the private market by providing incentives to encourage a **reinvigorated individual health insurance platform focused on personal choice and responsibility** ([see McCain post](#)).

Obama's key components here include:

- Establishing a new public program that would look a lot like **Medicare for those under age-65** that would be available to those who do not have access to an employer plan or qualify for existing government programs like **Medicaid or SCHIP**. This would also be open to **small employers** who do not offer a private plan.
- Creating a "**National Health Insurance Exchange**." This would be a **government-run marketing organization** that would sell insurance plans directly to those who did not have an employer plan or public coverage.
- An **employer "pay or play" provision** that would require an employer to either provide health insurance or contribute toward the cost of a public plan.
- Mandating that families cover all children through either a private or public health insurance plan.
- Expanding eligibility for government programs, like **Medicaid** and **SCHIP**.
- Allow flexibility in **embracing state health reform initiatives**.

Obama would also mandate guaranteed insurability, a generous **minimum comprehensive benefits package** such as that required for federal workers, the ability to take their policy from one job to another (**portability**) when it is purchased through the new Medicare-like public plan or the "**National Health Insurance Exchange**," and he would require providers to participate in a new plan to collect and report data about **standards of care, the use of health information technology, and administration**.

**How would Senator Obama do on improving coverage for all?**

This is the section that separates him most from **Senator McCain**—while being very similar to **Senator Clinton's health care plan**.

In Europe they have a way of explaining the general philosophy toward **universal health care for all**. You often here the term, "**solidarity**." The concept implies that everyone is in it together—all are covered in the same pool and share the burden equally.

**Democrats, like Obama and Clinton**, tend to make an **Americanized attempt at health care solidarity** by crafting a structure that ensures everyone will be covered, **not by a single government-run plan but by guaranteeing access to a mix of government and private plans**. **Clinton and Obama** both understand that the vast majority of Americans are not ready to give up their **private health insurance plans** and that creates a political imperative to continue making **private health insurance** a part of any "**unique American solution**."

**Republicans, like McCain**, on the other hand, build their **health reform plans** on the

classic American foundation of “rugged individualism” **promoting choice and personal responsibility.**

Therefore, the **Obama** and **Clinton** plans put as their first priority getting everyone in the system by spending lots of money up front to ensure that everyone can afford a benefit rich traditional private plan—or have access to a public plan. **Clinton** admits her plan would cost at least \$100 billion a year while **Obama** claims his plan will cost half to two-thirds of that.

Since there is little policy difference between the **Clinton** and **Obama** plan there cannot be much cost difference either.

**McCain** argues that we already spend too much on **health care** and says his plan will not cost more than that since he will rearrange existing tax benefits to provide the incentives and support necessary for a more efficient system. It is hard to see how **McCain** can rearrange the existing employer tax benefits those who are insured now get, reapply them on an individual basis to those same people and also have enough money to provide assistance for the millions of uninsured who get no such tax benefits today.

**Obama** sets as his goal **quality, affordable, and portable coverage for all.**

Let’s take them one at a time:

- **Quality- Obama’s quality initiatives** look a lot like **Clinton** and **McCain’s** as well as those things that are going on in the market anyway. All good points—but no advantage here or expectation there will be quick savings.
- **Affordability** – Like **Clinton**, affordability is more about **shifting the cost of insurance to the government** then it is making a more efficient **U.S. health care system.** **Health insurance** is more affordable for people because he spends many billions of dollars subsidizing access for everyone.
- **Portable Health Coverage For All:** While **Obama** does not have an **individual mandate to purchase health insurance;** it is likely that he would cover as many people as would **Clinton** because he argues he makes coverage affordable for about as many as **Clinton** claims to. Compared to **McCain**, he puts far more emphasis on getting people covered upfront.

**Obama** would be successful in getting most of the **uninsured** covered and securing coverage for those that now have it. But when it comes to crafting a system that will not continue to outstrip the rest of the economy in what it costs, I see no evidence that he has tackled the drivers in health care costs—in fact he has likely poured some highly inflationary “gas on the fire” by adding tens of billions more to the system with no effective cost containment features to offset the new inflationary pressures.

## ***2. Modernizing The U.S. Health Care System To Lower Costs and Improve Quality***

**Obama** would argue that I am wrong about the notion that he has **no effective cost containment ideas.** In this section of his plan he argues he will contain, if not reduce costs, with a long list of proposals.

He would **reinsure employer plans** for a portion of their **catastrophic costs**. This would reduce **employer costs** but it would do so by simply shifting them onto the government. He runs the risk of shifting these costs away from a market that now has incentives to manage them to a big government program that likely will not have the same incentives to confront and manage them. I don't see this as cost saving as much as just **cost shifting**.

**Obama** goes on to outline a long list of quality initiatives that include **disease management programs, coordinated care, transparency about cost and quality of care, improved patient safety, aligning incentives for excellence, comparative effectiveness reviews, and reducing disparities in health care treatments for the same illness**.

**McCain** and **Clinton** have virtually the same list—all good ideas and all things the market has been tackling for years with only incremental success. The notion that **Obama** will suddenly make any or all of these more successful than others have with all the billions spent on such programs in recent years constitutes a leap of faith. Why will **Obama** be any more successful in this area than any other candidate or than those who have been tackling these things for years—no new ideas here and no cost containment “silver bullet?”

**Obama** would also reform the **medical malpractice system** by strengthening “antitrust laws to prevent **insurers from overcharging physicians for malpractice insurance**.” Clearly a **malpractice reform strategy supported by the trial bar!** He also makes a vague pledge to “promote new models for addressing **physician errors that improve patient safety**.”

**Obama** makes **investments in health information technology** an important part of his **cost containment strategy**. This is something every other candidate supports and is generally regarded at the heart of what's needed to improve both **cost and quality**. And it is something the market has been spending billions at for many years and has shown only slow but steady progress on.

**Obama** would make the **insurance markets** more competitive and efficient by creating the “**National Health Insurance Exchange**” to promote more efficient competition and he would set a **minimum health cost ratio for insurers**—not defined in detail. **Reducing insurance company overhead** is important but constitutes only a small percentage of costs and those overhead costs have been increasing at the rate of general inflation while health care costs have been increasing by two to four times the basic inflation rate in recent years. The biggest cost containment challenge is in the fundamental **cost of health care** itself.

He would **legalize drug reimportation**. However, the amount of **drugs imported from Canada**, for example, has fallen by half in recent years, as this once popular scheme hasn't produced the savings to even maintain itself at past levels. Somewhat surprisingly, **even Republican McCain favors drug reimportation**.

He would emphasize the use of **generics** by making it harder for **drug companies to payoff generic makers to stay out of their markets**—a good idea that also has bipartisan support.

He proposes **lifting the ban on Medicare being able to negotiate drug prices**—including those for the senior **Part D program**. However, recent **Democratic** proposals to do so do not allow **Medicare** to take a drug off the **Medicare formulary** when the manufacturer is not willing to reduce its prices. If **Medicare** doesn't have the power to walk away from a drug maker, its power to negotiate is a hollow one. **Obama** does not tell us if he would give **Medicare** the leverage it would need to get real results.

When the day is done, **Obama** gives us a list of generally good **cost containment** ideas that are more often than not in both **Senator Clinton** and **Senator McCain's health proposals** and have been part of a market struggling to bring costs under control—nothing really new and nothing that promises to get better results than each of these cost containment ideas are going to be able to get us anyway.

What would it take to really contain costs?

**McCain** would say a more robust market and more reliance on **personal responsibility** and **consumer choice** to make the market work better.

**Obama**, like **Clinton** and **McCain**, came up with the same generally good list of things that are underway in the market anyway with only a limited success to point to so far.

To really get at costs you have to gore some very powerful political oxen among all of the key stakeholders.

**McCain** won't do it because he simply doesn't believe that a direct assault on the market players is the right thing to do—put market incentives in place and it will encourage and reward efficient behavior.

**Obama** and **Clinton** won't do it, not because they don't like **government intervention**, but because they don't want to offend key stakeholders who could derail any **meaningful health care reform effort**.

The **Democrats** learned a very powerful lesson in 1994 when many of the special interests all united in opposition to the **Clinton Health Plan**.

***Capping or even reducing costs means you have to cap or reduce costs.*** There are no magic bullets that reduce payments without **doctors, hospitals, insurers, and lawyers getting less** than they would have gotten. All of the **health IT, prevention, wellness**, and the like will not reduce costs by any big amount at least in the short term.

**McCain** avoids the notion that **aggressive cost containment** is important because he just doesn't believe in it—a **vibrant market** will do the job.

**Obama** and **Clinton** avoid the notion that their **cost containment** list will be inadequate because it is politically expedient to do so—they aren't going to risk their **health care reform proposals** by taking on the big stakeholders head-on.

I have been convinced for some time that we will actually do **health care reform in two parts—access first and cost containment second.**

**These Democratic proposals are about access**—getting just about everyone covered. Getting everyone into this unsustainable system will then make things even more unsustainable creating an imperative for a second wave of real **cost containment** when the feel good list of cost containment proposals now in their plans falls short. My sense is that most **Democratic health policy experts** already know this but see no other political alternative.

### ***3. Promoting Prevention & Strengthening Public Health***

At the core of this **Obama health care proposal** is the notion that, “Each must do their part...to create the conditions and opportunities that allow and **encourage Americans to adopt healthy lifestyles.**”

**Obama** lists **employer wellness programs, attacking childhood obesity in the schools, expanding the number of primary care providers, and disease prevention programs** as part of his effort.

Again, his emphasis on **healthier lifestyles** is embraced by all of the other candidates and doesn't give him an advantage.

Perhaps the most important thing a new president can do in this regard is to use the “**bully pulpit**” to place far more emphasis on just **how unhealthy Americans are becoming.** We can pass all of the **health care reform proposals** we like and spend the many more in billions of dollars each year but that will do little as we watch our **youngest generation on its way to becoming the first in American history to be less healthy than the prior generation.**

#### **Will the Obama health reform plan work?**

The **Obama health reform plan** would get almost everyone covered. In spite of **Senator Clinton's** claims, I don't see her plan covering more people.

The **Obama** and **Clinton** plans are nearly identical in that they focus on access by making it possible for everyone to have coverage in an existing private or public plan and by making a **Medicare-like** program also available for those who don't have private coverage. Both would spend about the same to accomplish near-universal coverage—at least \$100 billion a year.

Neither plan really is a **universal health care plan.** A **universal plan,** like those in **Europe** and **Canada,** start out by including everyone in a plan they are automatically enrolled in and that is paid for by various mandatory taxes. While people in these truly universal systems can sometimes opt out for a private plan, as in **Britain,** they are in one on day one.

**Clinton** and **Obama** build on the American tradition of people having to buy their coverage. Both claim to make it affordable to buy—but the consumer must make the

purchase. **Clinton mandates it and Obama makes that an option for adults.** In the end what matters is not the mandate but whether coverage is in fact affordable to everyone.

**McCain** takes a completely different view continuing to build on **options and choices** and relying upon the **market** to do the work in creating an **affordable system.**

### **Would the Obama/Clinton health care system work?**

It would clearly get almost everyone covered sooner rather than later.

The real question is how would it be sustained. Are their cost containment strategies going to support a system that is affordable in the long run?

No.

The **Obama/Clinton cost containment proposals are only incremental cost containment proposals** that are layered over \$100 billion of upfront spending to cover tens of millions of more people—far too little **cost containment** for the new massive injection of money, almost overnight, into the **health care system.**

Both **Clinton** and **Obama** offer us a long list of **good cost containment ideas**—most of which they share with **McCain.** Most have been underway in the market for many years with limited success. Undoubtedly, a government infusion of resources or requirements aimed at a more efficient system would have a positive impact but it is hard to see how they would be enough fundamentally alter things and bring the system under real control.

**More likely, a \$100 billion infusion of new health care spending by an Obama or Clinton plan would actually increase the rate of health care inflation and ultimately create an imperative for more draconian government intervention in the health care markets both Obama and Clinton would preserve.**

**Cost containment is the big missing link here.**

The **big question John McCain has to answer is how will his health care program cover everyone**—particularly the older and sicker—and how will he be able to provide enough assistance to those who are now uninsured by simply redistributing the tax breaks now only enjoyed by those currently covered?

**The big question for Obama and Clinton is not in getting almost everyone covered—their plans spend enough money up front to likely do that—the question for them is how will they create an affordable health care system with only incremental cost containment ideas?**

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*January 15, 2008*

## [An Analysis of Senator Hillary Clinton's Health Plan Proposal](#)

### **A Detailed Point by Point Analysis of Senator Clinton's Health Reform Plan**

*This is a repost of my October analysis of Senator Clinton's health care reform plan.*

This is nothing like the **Clinton Health Plan** from 1993.

**Senator Clinton** has so far been running a smart campaign for President and her **health care reform strategy** is no exception.

She waited until after all of the leading **Democratic**, and most **Republican**, candidates had announced their plans and then stuck her plan right in the ideological middle of where her **Democratic** opponents put theirs. It also looks a great deal like a **bipartisan plan** enacted in **Massachusetts** and a **bipartisan** compromise in the works in **California**. So on the day it was released, it was correctly identified as being relatively “**centrist**.”

Predictably, **Republicans** tried to wrap 1993 and her **failed health care reform effort** around her new offering. But their attempts to resurrect memories of her catastrophic policy failure fell flat more often than not.

**Former Massachusetts Governor Mitt Romney** is a case in point. Before the day was up, **Romney** was on camera calling her new **health plan**, “**Hillary Care**.” But **Senator Clinton's plan is a virtual clone of the new Massachusetts health care law then Governor Romney signed** and that he continues to say he is “proud of.”

So, **Mrs. Clinton** is out with a plan that looks very much like the new reform effort a leading **Republican** candidate signed into law.

Not something that would have occurred in 1993.

Reaction in the **business community** was also encouraging for **Senator Clinton**. The **National Federation of Independent Businesses (NFIB)** was an organization that had an outsized impact on defeating the 1993 effort because of the **small business mandate** that plan included.

**Mrs. Clinton** learned from that lesson—this time **not including a small business mandate** to buy insurance for their **employees** but including a very generous **tax credit** for those who do. As a result, an **NFIB** spokesman responded to the new **Clinton plan** release about as enthusiastically as the **Clinton** camp could have hoped for, “One of the standout

features of this is it specifically looks to **help small business owners**, and that's a good thing." Now that's a 360-degree turnaround from the group whose **grass roots lobbying** against the **1993 Clinton Health Plan** was nothing less than devastating.

Even the **health insurance industry trade association** responsible for those famous "**Harry and Louise**" ads, also seen as key to defeating the 1993 plan, was cautiously supportive. The **AHIP** CEO said, "**The new Clinton plan includes important ideas to make coverage more affordable.**" But there was also a reference to all the very anti-insurance company rhetoric we have been hearing from **Senator Clinton** recently, "unfortunately some of the divisive rhetoric seems reminiscent of 1993."

Many worry that this is just the **old Clinton Health Plan** and the **old Hillary Clinton** in election-year "sheep's clothing." There is some reason to worry about that.

**In 1992, Bill Clinton's campaign health plan** drew from the pro-market "**Managed Competition**" proposals that mixed **government incentives** with **free market health care** that built on the private insurance markets.

But within days of taking office, **President Bill Clinton** announced that **Hillary Clinton** would chair a **health care task force** that ended up crafting a 1,400 page plan developed in secret that looked nothing like his campaign platform.

This **one-and-a-half page Clinton Health Plan** is clearly nothing more than a **campaign-year outline of principles**. By itself, that is generally what campaign-year policy proposals are.

Any piece of legislation reflecting this outline would run into the hundreds of pages—so there are lots of details left to be filled in.

On the one hand, that gives a **new Clinton Administration** lots of opportunity for mischief.

However, one of the very big lessons an inexperienced **Mrs. Clinton** came away with from 1993 was that you couldn't craft a comprehensive piece of legislation at the **White House** and simply deliver it to the **Congress**.

Every successful President has learned that the best way to do policy is to stand for a clear set of principles, use the "bully pulpit" of the **presidency** to create the political imperative for action, and then stand back and let the **Congress** do the details of **crafting the legislation**.

**Mrs. Clinton** is not running for emperor. She won't be the one doing the details in any **successful health care reform effort**—it will be the **Congress** with all of its checks and balances and special interest influence. It will be the "sausage factory," not the **White House** that will fill in all the blanks.

But **Mrs. Clinton** has proposed an **outline for reform** that has a great deal of **centrist** support in the country.

While the **Republican candidates** for **president** have a different approach—one that builds on a more **vibrant health care and health insurance market**—that philosophy’s time seems to have passed. **President Bush** had six years with a **Republican Congress**. While he scored impressive **private market** victories with the **Medicare Modernization Act of 2003**—which created **Part D** and **Medicare Advantage**—as well as **health savings account legislation (HSAs)**, that purely private market approach now appears to have given way to the approach that was enacted in **Massachusetts** and a number of states are now considering—not the least of which is **California**.

If a **Republican** is elected **president** next year, he will likely face a **Congress** more interested in the approach **Senator Clinton** favors than expanding **HSAs** further.

Only if **Republicans** regain both the **White House** and the **Congress** will the **market-based** approach most **Republicans** favor have a chance of going any further. It doesn’t look like a **Republican** sweep is in the offing.

Let’s take a closer look at **Senator’s Clinton’s \$110 billion health care plan** (her estimate) using her campaign’s outline—keeping in mind that the details of any final bill would eventually be filled in more by **Congress** than the **White House**:

*1. Offer New Coverage Choices for the **Insured** and **Uninsured**: The American Health Choices Plan gives Americans the choice to preserve their **existing coverage**, while offering new choices to those with insurance, to the **47 million** people in the United States **without insurance**, and the tens of millions more at risk of losing coverage.*

- *The Same **Choice of Health Plan Options** that Members of Congress Receive: Americans can keep their **existing coverage** or access the same menu of quality private insurance options that their Members of Congress receive through a new **Health Choices Menu**, established without any new bureaucracy as part of the **Federal Employee Health Benefit Program (FEHBP)**. In addition to the broad array of private options that Americans can choose from, they will be offered the choice of a public plan option similar to **Medicare**.*
- *A Guarantee of Quality Coverage: The new array of **choices** offered in the Menu will provide benefits at least as good as the typical plan offered to Members of Congress, which includes **mental health parity** and usually **dental** coverage.*

This is the “something for everybody” section.

Her plan would put the **federal government** in the **health plan marketing business** by creating a new version of the **FEHBP** menu of options that would be available in the **private market**. This would also be very similar to the **Massachusetts “Connector”** that takes bids from **health plans** that must qualify with the regulator and offer **minimum benefits**.

It is also clear that she would set a **comprehensive minimum benefit threshold** in the **FEHBP**-like program equal to the level of benefits offered in the existing **FEHBP** program—that does include an **HSA** program.

While it appears that the **individual market** would continue, and people who have **individual coverage** could keep it, this would put the **FEHBP**-like program in direct competition with that market segment. It would appear that consumers could continue to purchase **limited or high deductible plans** on their own in the **individual market**. However, she is also proposing an **individual mandate**, which will have to set a **minimum benefit level**. In Massachusetts that provision disqualified 150,000 existing policies—many because of high deductibles.

This provision vaguely resembles the **Health Insurance Purchasing Cooperative (HIPCs)** of the 1993 plan where **Mrs. Clinton** called for far reaching regulation over how **health plans** were sold, how they were priced, and what they looked like. She has carefully steered clear of so far reaching a proposal this time and it is doubtful that the **Congress** would make this version anything close to that failed model.

**Mrs. Clinton** would also put the federal government in **direct competition** with **private health insurance** industry by creating a **Medicare-like government-run plan**.

This provision gives all sides in the debate something. The **single-payer advocates** get a **Medicare-like plan** in direct competition with the **private market** and a chance to push the **private plans** out of existence. Those that favor a vibrant **private market full of choices** arguably get that.

Just where the balance is ultimately struck between **government-run health insurance** and **free market health insurance**, depends heavily on the details. For example, would the **government plan** have the power to unilaterally set provider prices—including drugs?

As long as it's a **fair competition**, neither side should have anything to complain about—but then gaining an advantage for their clients is what **lobbyists** do for a living.

If nothing else, there would be a **direct competition between a Medicare-like plan and the private market**. So long as that turned out to be a fair head-to-head competition it would tell us a lot about which is the best track to follow and one, **public or private**, might eventually come to dominate the other.

*2. **Lower Premiums and Increase Security:** Americans who are satisfied with the **coverage** they have today can keep it, while benefiting from lower premiums and higher quality.*

- *Reducing Costs: By removing hidden taxes, stressing **prevention** and a focus on efficiency and modernization, the plan will **improve quality and lower costs**.*
- *Strengthening Security: The plan ensures that **job loss** or **family illnesses** will never lead to a loss of **coverage** or exorbitant costs.*
- *End to Unfair **Health Insurance Discrimination:** By creating a **level-playing field of insurance rules across states and markets**, the plan ensures that no American is **denied coverage, refused renewal, unfairly priced out of the market, or forced to pay excessive insurance company premiums**.*

Presumably the “hidden taxes” are the **administration costs** she would hope to cut by simplifying the **sale and underwriting of health insurance** as well as moving the system toward a greater use of **information technology**—including a **patient medical record** and investing in **disease prevention**. While it is likely these steps can save money, the market has been moving to improve **health information technology** for years and has found that process slow going and very expensive in the short term. The market has also invested heavily in **wellness and disease management** programs over the past 20 years with only modest success toward controlling healthcare costs.

By **mandating that all Americans have coverage**, Mrs. Clinton hopes to have virtually everyone in the **insurance pool**. By doing that, she would eliminate the need to have the barriers to coverage that currently exist to **protect the insurer against anti-selection** and those now **uninsured** would get the treatments and preventive services that are necessary to keep costs down over the long run.

But this is also the place reality may have to confront hope.

We cannot have everyone in the pool if it is not affordable upfront for people to buy in.

Massachusetts started out with an **individual mandate** but quickly backed off on it when it was clear the program could not provide **affordable coverage** for everyone—particularly those who make too much money to qualify for a subsidy (or an adequate subsidy) and too little to afford family **health insurance** costs that still run in the \$7,000 to \$9,000 range for a family policy with a \$2,000 deductible.

It all comes apart if the subsidies are not adequate to make it affordable for people to buy coverage. How do you mandate a family to do something they just don’t have the money for?

She did not address the status that **illegal aliens** would have in her system—a highly contentious issue.

*3. Promote Shared Responsibility: Relying on **consumers** or the **government** alone to fix the system has unintended consequences, like scaled-back coverage or limited choices. This plan ensures that all who benefit from the system share in the responsibility to fix its shortcomings.*

- **Insurance and Drug Companies:** *insurance companies will end discrimination based on **pre-existing conditions** or expectations of illness and ensure high value for every premium dollar; while **drug companies** will offer fair prices and accurate information.*
- **Individuals:** *will be responsible for getting and keeping **insurance** in a system where **insurance** is affordable and accessible.*
- **Providers:** *will work collaboratively with patients and businesses to deliver high-quality, affordable care.*
- **Employers:** *will help finance the system; **large employers** will be expected to provide health insurance or contribute to the cost of coverage; **small businesses** will receive a **tax credit** to continue or begin to offer coverage.*

- **Government:** *will ensure that **health insurance** is always affordable and never a crushing burden on any family and will implement reforms to improve quality and lower cost.*

This section is probably the lynchpin in her plan's ability to succeed.

**Insurance companies** will gladly drop all of the **front-end underwriting** activity in exchange for a guarantee that everyone will be in the pool. This makes one wonder why **Senator Clinton** feels the need to continue **demonizing the insurance industry**. Her plan gives the **private health insurers** the potential to sign-up **47 million more customers** in a market where they can't be selected against.

Her comments about the **pharmaceutical industry** need a lot of clarification. Just what does she mean by "**fair prices.**" She has previously come out in favor of the federal government **directly negotiating Medicare Part D drug prices and drug "reimportation."**

Her statement that **individuals** will have to **buy health insurance** because her plan will have made it affordable is probably the biggest challenge. How will she be able to **mandate affordable health insurance costs** when the average cost of **employer-sponsored family coverage** is already up to \$12,000 per year? Aligning adequate subsidies with the mandate to buy coverage is the big one. If the plan fails to do that, we will still have plenty of **uninsured, continued cost shifting**, and presumably people who can't get coverage when they get sick because they didn't buy when it was first available to them.

This one takes the prize for the most naïve line in the plan: "**Providers:** will work collaboratively with **patients** and **businesses** to deliver high-quality, affordable care." Oh really? Just what makes her think the **biggest challenge in the health care system, aligning provider and payer interests**, is suddenly going to be a snap?

The **employer mandate** has been much more carefully crafted this time. It is not clear where the **small employer** versus **large employer** break comes but comments from her campaign indicate that it is at 25 **employees**. So, all **employers** with, presumably, more than 25 employees will have to "**play or pay.**"

We also don't yet know what **businesses** that **don't provide coverage** will have to pay. In the **California plan** just passed by their legislature, those **employers** who do not provide coverage would be required to pay a 7.5% **payroll tax**.

While most **large employers** already offer coverage and will welcome other **employers** having to pay their share of these costs, setting the cut-off line at 25 **employees** may still be problematic for many **small companies** that have more than 25 workers.

But, by exempting **small employers**, she has effectively neutralized the **small business lobby** that had such a major role in killing her plan last time. The subsidies she would also offer these **small employers** have also helped with that special interest group. However, there is no information on just how helpful these subsidies would be. But give **Mrs. Clinton** credit for recognizing that **small employers**, a powerful engine in **economic growth**, can't

be mandated to pay these costs.

Her line, government “will ensure that **health insurance** is always affordable” may be more hope than anything.

I would label her plan **access heavy and light on cost containment**. To contain costs, she would focus on **prevention, health information technology, care for the chronically ill, ending the cost shift from the uninsured, saving on insurance administrative costs by improving marketing and cutting underwriting expenses, creating a “best practices institute”** to reduce wasteful medical spending, and implementing “**common sense**” (read that trial bar friendly) **medical malpractice reform**.

These high-level **cost containment proposals** are all good ideas. But almost all of them have been underway in the **health insurance markets** for two decades now and they have not more than blunted **health insurance costs** that have grown at three to four times the country’s economic growth over the last 20 years.

The biggest issue this plan faces is creating **affordable health insurance/affordable care**. Without that, we will just have the problems that **Massachusetts** is facing today as it falls far short of **universal access**.

How do you enforce a **mandate if comprehensive family health insurance costs \$12,000 a year**? If you think that number is too high for a reformed system, just take a look at **Massachusetts** or current **FEHBP** coverage. You can’t mandate comprehensive coverage along the lines of the **FEHBP** plan and expect that the costs are going to be anything less than what the typical **FEHBP** plan offering costs today--an **FEHBP** that already have **guaranteed insurability** and the more efficient distribution model **Mrs. Clinton** is proposing.

But then maybe **Mrs. Clinton** already knows that. I have long believed that fundamental **American health care reform** will come in two parts. **Access** first, then when everyone is in an **unsustainable and unaffordable system**, it will create the political imperative for **real cost control** in a second phase a few years down the line.

#### *4. Ensure Affordable Health Coverage for All: Senator Clinton’s plan will:*

- *Provide **Tax Relief** to Ensure Affordability: Working families will receive a **refundable tax credit** to help them afford high-quality health coverage.*
- ***Limit Premium Payments** to a Percentage of Income: The **refundable tax credit** will be designed to prevent premiums from exceeding a percentage of family income, while **maintaining consumer price consciousness in choosing health plans**.*
- *Create a **New Small Business Tax Credit**: To make it easier—not harder—for **small businesses** to create new jobs with **health coverage**, a new **health care tax credit** for **small businesses** will provide an incentive for **job-based coverage**.*
- *Strengthen **Medicaid and SCHIP**: The Plan will fix the holes in the **safety net** to ensure that the most vulnerable populations receive affordable, quality care.*

- *Launch a **Retiree Health Legacy Initiative**: A new **tax credit** for qualifying private and public **retiree health plans** will offset a significant portion of **catastrophic expenditures**, so long as savings are dedicated to **workers** and competitiveness.*

Senator Clinton defines **affordability** in **political terms**—the upfront cost of the insurance plan to the voter. Real **affordability** is the underlying cost of any **insurance plan**, of **health care** generally, and her **cost containment strategy** falls well short on what it will take to accomplish that.

In her plan with something for everyone, she picks up on the idea of creating a **refundable tax credit**, popular among **Republicans**, to make it possible for families to be able to **afford health insurance**. Here again, the "devil is in the details." As we are seeing in **Massachusetts**, the subsidies are nowhere near good enough for those between 200% of the poverty level and those rich enough to pay the prices.

She also makes **Republicans** happy with her line, “while maintaining **consumer price consciousness**” when a **health plan** is chosen. While vague, this is a concession to those favoring a **defined contribution** approach to personal responsibility.

With **health care costs** growing at two to three times the growth in our economy, and likely to continue to grow at close to those levels given her **light approach to cost containment**, how long will it be before **health insurance costs** outstrip any subsidy program?

Her scheme to **subsidize health insurance costs** (limiting premiums as a percentage of income) is a great way to assure **consumers** that they will have **affordability**. The bigger question is just how much money will she need on day one to do that and how will she be able to sustain that strategy with such a **light cost containment** program?

Her “**Retiree Health Legacy**” proposal will come as welcome news to **America’s legacy industries**, and **state and local governments**, that cannot afford to keep their **retiree health** promises. **Labor unions** will love the requirement that any benefit from government help has to find its way to workers. This proposal recognizes the enormous cost to bail out the **unfunded retiree health care liability** that is crippling **American industry in global markets**. But again, there is no “free lunch” here. To make any **bailout** affordable, even the **federal government** can’t continue to subsidize these incredibly rich benefits at current levels. That Mrs. Clinton does not deal with.

##### 5. *A **Fiscally Responsible** Plan that Honors our Priorities:*

- *Most Savings Come Through Lowering Spending Due to **Quality and Modernization**: Over half the savings come from the public savings generated from **Hillary Clinton’s broader agenda to modernize the health systems** and reduce **wasteful health spending**.*
- *A Net **Tax Cut** for American Taxpayers: The plan offers tens of millions of Americans a new **tax credit** to make **premiums affordable**—which more than offsets the increased revenues from the Plan’s provisions to **limit the employer tax exclusion** for **healthcare** and discontinue portions of the **Bush tax cuts** for those making over \$250,000. Thus, the plan provides a **net tax cut** for American taxpayers.*

- *Making the **Employer Tax Exclusion for Healthcare Fairer**: The plan protects the current **exclusion** from taxes of **employer-provided health premiums**, but limits the exclusion for the high-end portion of very generous plans for those making over \$250,000.*

“Most savings come through lowering spending due to **quality** and **modernization**.” That is her most dangerous assumption.

This is a **political proposal** after all. And like any good **political proposal**, it is careful not to “gore” any political “oxen.” Her **cost containment program** is **cost containment light** because she fears alienating any key **stakeholders**—like the **providers**. *You can’t lower, or even stabilize costs, without key players getting less than they would have had.*

But **real cost control** might doom her plan. That’s why I continue to believe any successful health reform plan will come in those two parts: **Access first**, and when the new access skyrockets costs even further, **cost containment next**.

Her promise for **fundamental reform without pain** continues in her assertion that only the rich are going to have to pay for this. Dream on.

Finally, she picks up on another **Republican idea** (choice, consumerism, tax credits being others) to **limit the employer tax exclusion on health insurance costs** but she only applies it to those who make more than \$250,000 a year. By doing so, she is giving a nod to **conservatives** who argue that the **present system of tax exclusions on health insurance** have encouraged health plans to provide **rich benefits** that have contributed to **high health care inflation**.

But by changing the exclusion only for the those making more than \$250,000 a year, she has bowed to labor pressure not to break the **employer/employee compact on health care benefits** for everyone else.

### **Good Politics and Centrist Health Care Policy**

The other day I referred to **Mrs. Clinton’s new health plan** as **centrist**. A long-time **Hillary Clinton** critic was indignant that I would label **Mrs. Clinton a centrist**.

I pointed out that I wasn’t referring to **Mrs. Clinton** generally—I was referring to her **health plan**. I’ll leave the rest of that to your judgment.

The **center in American health care politics** has moved since 1993. With average costs up to \$12,000 a year for an employer family plan, people are really worried not just about **access** but also about **health care costs**. They see the system as close to crashing and they’re worried.

**Centrist voters** will generally find this proposal as reasonable.

Those on the **right of center** will continue to see it as just **more government intervention in health care**—“**Hillary Care**.”

Those on the **left** will say she caved-in to **special interests** giving **stakeholders** like the **health insurance industry** too much--which may explain her **anti-insurance rhetoric**, that is so much worse than her policy proposal, as a way of deflecting that criticism.

**American elections** are won in the middle. She wasn't ever going to get those on the right to vote for her. Who else will those on the left have to vote for?

The **polls** universally tell us that **health care is the top domestic issue**.

**Politically**, if she wanted to come out solidly where the middle is today on a critical issue, tackling what is possible, it looks like she got it about right.

But, this is a **political proposal**. As **policy**, it is a page-and-a-half that creates more questions than it answers.

For the **Republicans** to take the high ground here, they are going to need to do more than walk into a room and yell, "**Hillary Care**"—expecting that everyone is going to run from the room in terror.

Whatever she may be thinking deep down in her psyche, she is clearly not acting like the **Hillary Clinton** of 1993.

Must be driving her enemies nuts.

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*January 9, 2008*

### [An Analysis of Senator John McCain's Health Care Reform Plan](#)

#### **A Detailed Review of Senator John McCain's Health Reform Plan**

**John McCain** is now the presumptive **Republican nominee for President**. As a result, what he thinks about **health care policy** will be out front in the **Presidential campaign** this fall.

**McCain's thinking** couldn't be more **different from either of the remaining Democratic candidates—Clinton and Obama**.

**McCain** very rightly points to **health care costs** as the **biggest health care issue**, "We are approaching a 'perfect storm' of problems that if not addressed by the next president will cause our **health care system** to implode."

Therefore, his focus is on the **health care costs** that make **health insurance so expensive** that many **individuals** can't afford it for themselves, **employers** can't afford to provide it to their **employees**, and **government** can't afford a wider **safety net** for the poor and **long-term solvency** for **senior benefits**.

He also reminds us that **costs** can't be improved without dealing with **quality** in tandem.

His plan would also provide very strong incentives for **employers** to transfer the primary responsibility for **purchasing health insurance** from the **employer** to the **individual market**. His plan is very much about **individual choice** and **responsibility** and the **conservative view that consumer control is critical to cost containment**.

While **McCain's conservative credentials** have been questioned during the campaign, there is no doubt his **health plan reflects a strong conservative ideology**.

**Senator McCain's health plan** clearly reflects a belief that we need to put as our first priority getting at the things that make **health care** so expensive and frustrating for **consumers** rather than, as he would put it, promising everyone a painless access to a system that isn't working.

In his words:

"For all the grandiose promises made in this campaign, has any candidate spoken honestly to the American people about the government's role and failings about **individual responsibilities**? Has any candidate told the truth about the future of **Medicare**? Its costs are growing astronomically faster than its financing, and leaving its structural flaws unaddressed will hasten its bankruptcy. Has any candidate warned that we have a personal responsibility to take better care of our children and ourselves? Yet that is the only way to prevent many **chronic diseases**. Has any candidate insisted that **genuine and effective health care reform** requires accountability from everyone: **drug companies, insurance companies, doctors, hospitals, the government, and patients**? Yet that is the truth upon which any so-called solution must be based.

“**Democratic presidential candidates** are not telling you these truths. They offer their usual default position: If the **government would only pay for insurance everything would be fine**. They promise **universal coverage**, whatever its cost, and the **massive tax increases, mandates, and government regulation** that it imposes. I offer a **genuinely conservative vision for health care reform**, which preserves the most essential value of American lives—freedom.”

So, how effective would **Senator McCain's plan** be in making **health care**, and **insurance**, **affordable** and better? Let's take a look at his very brief outline:

*Allowing people to buy health insurance nationwide instead of limiting them to in-state companies.*

His focus here is on making **individual health insurance** lower in cost so people can buy it. Creating one **national health insurance policy form**, which would save **insurers** the need to comply with **insurance regulators** in each of the states, would make things more efficient. However, this tackles only the **non-medical expense portion** of a **health insurance policy** and only a small part of that. **Non-medical policy expenses** increase each year with inflation—maybe 3% a year—while by far the larger **individual health insurance medical costs** have been trending at 10% or more in recent years. While making the **distribution of insurance** more efficient is a good thing, it is the far smaller part of the problem—and it's a one-time fix. Often when we hear of these proposals, we also hear that

the states should continue to do the consumer protection work since they tend to be closer to their citizens than one big national regulator could ever be. **McCain** is not clear on this.

But **McCain's** market proposals would create a **more vibrant individual health insurance** market and reenergize what has become a smaller portion of the business.

In this context, we also sometimes hear proposals to give **insurance companies greater freedom to set policy and rating provisions** (Romney has suggested this). That begs the question, would **McCain** allow insurers to have **greater flexibility in rating the healthy versus the sick** and allow them to continue to be aggressive in applying **pre-existing condition provisions**?

It will be most important for **McCain** to make the **individual health insurance system** more workable than it is now. The **McCain campaign** has made reference to providing assistance on a "**cost adjusted basis**" to **older and sicker people** but they have not detailed this idea.

It is not entirely clear how **Senator McCain** will make the **individual market** more viable and robust beyond dealing with the marketing expenses and streamlining regulation.

*Permitting people to buy insurance through any organization or association they choose as well as through their employers or buying direct from an insurance company.*

Here **Senator McCain** again endorses a **vibrant insurance market** as a way to use competition to meet the very different needs one **consumer** has compared to another. The buzzwords we very often hear in regard to this point are "**choice**" or "**freedom of choice**."

His mentioning of **trade associations** as one way to **purchase health insurance** reminds me of the big debate we had a few years ago in Washington about letting **trade associations** offer their own health plans and **exempting them from certain rating and underwriting laws** the rest of the **insurance market** had to follow. That debate led many to believe that brand of association health plans would take us back to "**cherry picking**." Senator McCain needs to clarify what he means here.

*Providing tax credits of \$2,500 to individuals and \$5,000 to families as an incentive to buy health coverage.*

This provision is not unlike the proposal first made by **President Bush** at last year's **State of the Union Address**. The President called for ending the **longstanding tax exemption consumers get on any health insurance benefits paid for by their employer**. The **President** would replace that with a standard **\$7,500 deduction for individuals** and a **\$15,000 deduction for families**.

**McCain** would also end the **employer tax exemption**—meaning that if an **employer** spends the average \$12,000 a year on family **health insurance**, the worker would now have a tax bill on \$12,000 of benefits.

Like **Bush**, **McCain** would offer a personal tax offset, but he would do the new offset a bit differently than **Bush**—who would give a family a new **\$15,000 deduction** on their personal

return.

**McCain** would give each single person a **\$2,500 tax credit** and a **\$5,000 tax credit** for a family who had **health insurance**. A **tax credit** means that when taxpayers calculate their taxes, instead of taking a deduction, as **Bush** would do, they just subtract the amount (\$5,000 for a family) from their final tax bill (and they would likely be able to take advantage of the credit during the course of the year to pay their monthly premiums).

By **exchanging the longstanding employer tax exemption for this tax credit**, **McCain** swaps money around and creates what should be a revenue neutral scheme in the short term. President Bush's 2008 budget numbers actually showed a lower cost program in the long run for the government as **health care inflation** out-stripped his new deductions. But that would also mean higher costs for consumers over the longer-term. **Senator McCain** did not provide financial projections.

If a person is in a 33% tax bracket, **McCain's** idea works out the same for consumers as Bush's plan. But, **McCain's** way of doing it helps low income people the most. If a person is in a 15% tax bracket, a \$15,000 tax deduction is worth only \$2,200 off their taxes toward their **health insurance bill**. By making it a flat \$5,000 credit for a family, **McCain** is giving low-income people more and high-income people less—consistent with a **progressive tax policy strategy**.

However, the real question is, will **McCain's** plan give people enough to be able to afford **health insurance**? With the average cost of **employer-provided family health insurance** at \$12,000 a year, a \$5,000 tax credit will often come up way short—especially for higher age people and those who don't have the benefit of an **employer contribution**. **High deductibles** and **HSA plans** will help but families who don't have **employer contributions** should be prepared to pay at least a few thousand extra dollars.

He calls for the states to develop a **"risk adjustment" bonus for high cost, otherwise uninsurable, and low-income families** to supplement **tax credits** and **Medicaid** funds. But just who will pay for this (the states alone?) and how it would close the cost gap is not explained.

Families who continue to have an **employer** paying a large part of their **health insurance** costs may actually come out ahead—at least in the early years before health care inflation erodes some of the tax credit's impact.

This kind of tax credit structure is also designed to encourage the **individual market** over the **traditional employer-based market**. Many conservatives believe the **employer market** has led to **health coverage** that is too benefit rich and shields consumers from the true costs—all of which contributes to overspending and the high health care costs we have.

If **McCain** were to be successful in moving the system from the **employer** to the **individual** with his **individual tax credit proposals**, the **employer** arguably would have a smaller incentive to continue providing these benefits. Many **employers** might simply say, "Here's the money I was paying—go find your own coverage." It may just be easier for the **employer** to drop the coverage and give the **employee** the cash value of the **health**

**benefits.**

The employer would also have the new advantage of having the difference in wages go up each year by the wage rate while the employee saw his **health care costs** rise at the rate of **health care inflation**—which has averaged two to three times more.

**McCain** does not have a **mandate to buy insurance for individuals or employers**. So, people can still opt to go without coverage.

Again, the big question is how does **McCain** see his **individual health insurance market** working. How will he deal with **age rating, medical underwriting, and pre-existing conditions**? If **McCain** does not develop an **individual health insurance market** everyone can access, no matter how old or how sick they are, his plan will fall way short. He needs to detail his “**risk adjustment bonus**” scheme for older and higher cost families.

*Allowing veterans to use whatever provider they want, wherever they want by giving them an electronic health care card or through another method.*

**McCain** has always had a special place for **veterans** and his **health plan** is no exception. While his goal of giving **veterans** access to any provider is noble, it will also be very expensive and there is no mention of what he estimates the costs will be or how he will pay for it.

*Supporting different methods of delivering care, including walk-in clinics in retail outlets across the country.*

**McCain** makes the common sense suggestion here to deliver care in more efficient places. However, there is no estimate for just how much this would save. It's like his **health insurance proposal** to cut **administrative costs**—a good idea on the surface but likely relatively small in scope. It is also not without controversy as the **physician lobby** has been opposing **walk-in clinics** that use **nurse practitioners** rather than **physicians** to deliver care.

*Developing routes for cheaper generic versions of drugs to enter the U.S. market, including allowing for safe reimportation of drugs.*

In fact, **drug "reimportation" from Canada** has dropped in half from its height a few years ago. With **Part D**, **seniors** are now able to get **prescription drugs**, in great part because of the **managed care discounts** that underlie the plan, for a lot less than before the program. **Generic drugs** are already very cheap and readily available. It is not clear how **McCain** sees any major savings here.

It is also not clear to what degree this **free market conservative** would use **drug "reimportation"** schemes to leverage-off the **single-payer systems** in places like **Europe and Canada** to **negotiate his drug prices** ("allowing for safe importation of drugs"). His **reimportation** proposal begs the question, if he believes using the **Canadian government to negotiate drug prices**, why not the U.S. government?

*Revamping Medicare payment systems to pay providers for diagnosis, prevention, and care coordination*

*without paying them for preventable medical errors or mismanagement.*

**McCain** would use the **Medicare** program to lead the market in the development of a system of bundled service payment—often referred to by him as "**coordinated care.**" Effectively, he would create a budget for each treatment program thereby putting providers at risk for **delivering the care effectively and efficiently.** He's really talking about pushing the market back toward **capitation, or bundled at-risk payments for providers,** as a means of **controlling costs.** This may be the only real **cost containment** proposal that any of the candidates, **Democratic or Republican,** has made.

However, as we learned, when **capitation** was in vogue in the mid-1990s, it is hard to do and **providers** don't like it.

**Senator McCain** is a big believer in the value of "**coordinated care.**" He would likely suggest that the Kaiser Permanente medical group is a good example of a system of **coordinated care.** While lots of data points to that kind of system as the best provider model to follow for both **cost and quality,** some **doctors** love it and most say they will never allow themselves to be "managed" by it.

This **McCain payment system** proposal needs to be developed further and **McCain** will have to show us how he is going to get the broad provider community to allow themselves to be put at risk once again and how we have the **data and management systems** to do a better job than we did the last time.

*If the cheapest way to get high quality care is to use advances in web technology to allow a doctor to practice across state lines, then let them.*

His proposal to **let doctors practice across state lines** is another idea that makes sense. However, it will be the **physician community** looking to protect their markets that will question this on quality grounds.

*We cannot let the search for high-quality care be derailed by frivolous lawsuits and excessive damage awards. We must pass medical liability reform, and those reforms should eliminate lawsuits for doctors that follow clinical guidelines and adhere to patient safety protocols.*

**Senator McCain** also favors **medical malpractice reform** that would place a **cap on the damages a patient** can collect. This traditional approach to **tort reform** went nowhere when **George Bush** and his **Republican Congress** pushed it when they controlled all branches of the government between 2001 and 2006. So long as at least **40 Democrats** are in the **U.S. Senate**—almost a certainty during a **McCain presidency**—his **medmal** proposal will also go nowhere.

**McCain** would go further on **tort reform** by **eliminating lawsuits to doctors** that followed established **clinical guidelines and adhered to patient safety protocols**—a good idea. But here again, the details are difficult because getting agreement among doctors about "**appropriate protocols**" has been a struggle. The **trial bar** will also likely expect their **Democratic** allies to block it.

**Senator McCain** has also called for a greater use of **health information technology** to confront the cost and quality problems. So have about all the other **Democratic and Republican candidates**. While this is a good idea, these efforts have been underway in the **U.S. health care system** for many years. It has been slow going because like every other effort to control health care costs it's always harder to do than it first sounds.

And like all of the other **Democrats and Republicans** he would **promote disease prevention, healthy diets, and exercise**.

So, how does **Senator McCain** come out toward his objective of dealing with both **health care costs and quality**?

Would the **McCain** proposal work?

Like all of the other **presidential health care proposals**, this is a **political proposal** in outline form—well short on details.

His program won't cost a lot since most of his spending comes from **rearranging the existing tax exemption on employer-provided health insurance**. But it is not at all clear how he would give the **individual health insurance market** the fundamental overhaul it would need to become the primary **insurance market** he would make it. How he would deal with **age rating, medical underwriting, and pre-existing condition provisions** are on top of that list of overhaul questions.

He also needs to show us how a **\$5,000 tax credit** will give a near-poor uninsured family enough assistance to buy a health insurance policy with meaningful benefits when the average cost of **employer-provided care** is \$12,000 a year. Even **HSA-style employer-based plans** still develop costs in the \$10,000 area. Cheaper plans are available to **young and healthy people in the individual market**, but it will be the sick and old we will need to hear more about.

Any resolution to this low income and lower middle class access issue would drive the cost of his program way up.

He says that **cost containment and improved quality are essential to a sustainable system**—and he is clearly right on that point. But he has very little in the way of **cost and quality improvement** in his outline. The primary proposal here is to **put providers at risk in Medicare** by taking us back to the early days of **managed care** when the market believed the same thing and unsuccessfully tried to implement **capitation**. We need to know more about how it would be different this time.

**McCain's health reform plan is a patchwork of largely good ideas built on solid market-based principles.**

He **makes a good point when he says we need to fix the cost and quality problems before we just load tens of millions more uninsured people on a dysfunctional system.**

**Senator McCain's health care proposal** is one that **will appeal to conservative Republican voters** as well as centrists.

**The McCain proposal, unlike the Democrats' proposals, also does more than give lip service to the marketplace. McCain** is offering a proposal that would truly put the market front and center in a largely **conservative prescription to solve America's health care cost problems.**