

## HEALTH CARE REFORM: WHAT NOW?

by Peter Ferrara

In his State of the Union address, President Obama said regarding health reform, “But if anyone from either party has a better approach that will bring down premiums, bring down the deficit, cover the uninsured, strengthen Medicare for seniors, and stop insurance company abuses, let me know.” Just such a better approach is explained below.

### COVERING THE UNINSURED

The best-kept secret of health policy over the past year is that the uninsured can be covered at relatively modest additional net cost, without a government takeover of health care, rationing, or any new health care bureaucracy, all of which were essential to Obamacare.

The lack of a clear safety net for the uninsured is what gives proponents the political lift to keep coming back for government-run medicine. Efforts now should focus on the modest reforms necessary, parts of which were sprinkled throughout the Democrats’ plan, to establish a true safety net that will ensure no one is denied essential health care. Only that will permanently protect the health care of the American people from government takeover and control.

### REFORMING MEDICAID

Health reform must begin by reforming Medicaid, which already spends more than \$400 billion a year providing substandard coverage for more than 50 million poor Americans. Governors complained loudly that Obamacare tied their hands while increasing their costs. They wanted *more* flexibility, and they should get it.

Congress should transform Medicaid to provide assistance to purchase health insurance, ideally with health insurance vouchers, for all who otherwise could not afford coverage. This one step would enormously benefit the poor already on Medicaid. The program today pays only 60 percent of health care providers’ costs. As a

result, 40 percent of doctors won’t take Medicaid patients—and the number is growing.

These low reimbursements are a form of rationing, because Medicaid patients find obtaining health care increasingly difficult. And studies show the poor suffer worse health outcomes as a result. Health insurance vouchers would free the poor from this Medicaid ghetto, enabling them to obtain the same health care as the middle class, because they would be able to buy the same health insurance in the market.

Ideally, we should transform Medicaid financing by providing states with finite block grants that do not vary just because a state chooses to spend more money. States that innovate to reduce costs can keep the savings. States that operate costly and inefficient programs would pay those additional costs themselves. Such reforms worked spectacularly to stop the runaway costs of the old AFDC (Aid to Families with Dependent Children) program when Congress adopted welfare reform in 1996, and they can do the same for health care. Congress should also block grant the State Children’s Health Insurance Program (SCHIP) along with Medicaid.

Give states the incentive to embrace such reform with a block grant formula that would provide increased federal funding sufficient, counting state Medicaid and SCHIP funds, to provide assistance to all who truly cannot afford health insurance on their own, along with broad flexibility to redesign their Medicaid programs. The voters of each state can then decide how much assistance they want to give families at different income levels to purchase health insurance.

This proposal would not cost much more than is spent today because only about 12 million Americans not already on government programs arguably cannot afford health insurance without some public assistance.

## GUARANTEEING ACCESS

But a second step is necessary as well to ensure a complete safety net. Federal funding should also be provided for each state to set up a high risk pool. Those uninsured with a pre-existing medical condition who have been denied coverage in the private sector would be able to obtain it through the risk pool. They would be charged a premium for this coverage based on their ability to pay, ensuring that they will not be asked to pay more than they could afford. Federal and state funding would cover remaining costs.

Such risk pools already exist in over 30 states, and for the most part they work well at relatively little cost to the taxpayers. President Obama has supported the risk pool idea, and both the House and Senate bill included temporary funding for them.

Risk pools work far better than forcing insurers to cover everyone regardless of pre-existing conditions, known as guaranteed issue. A small number of states passed guaranteed issue in the 1990s and without exception their premiums exploded. It's like requiring insurers to provide fire insurance for houses that are already on fire.

The law already provides that insurers cannot cancel individual existing policyholders, or impose discriminatory rate increases, because they become sick *while* covered.

## INCREASING COMPETITION

Insurers should be allowed to sell health policies nationwide across state lines, subject to the regulation of their home states. This would reduce costs through increased competition, as well as greatly expand consumer choice. Democrats have complained about the lack of health insurance competition, since people in some states have very few insurance options. This is the way to vastly increase competition.

## MALPRACTICE REFORM

Medical malpractice reform would also reduce costs. Non-economic damages, such as compensation for pain and suffering, should be sharply limited. Punitive damages should apply only in criminal proceedings, not in civil trials. Traditional tort standards for medical liability should be strictly enforced. Doctors and hospitals should be responsible only for damages for which they were the proximate cause.

## CONTROLLING SPENDING

Tax-free Health Savings Accounts (HSAs) give patients incentives to control costs by allowing them to retain unspent funds in their accounts for future uses. With patients newly interested in costs, doctors and hospitals would increasingly compete to control costs in serving patients.

The American Academy of Actuaries released a report last year looking at insurers' experience with consumer driven health care plans—high deductible policies, usually combined with HSAs or Health Reimbursement Arrangements (HRAs). In short, these are the only plans that are controlling—indeed, reducing—health care costs, and people with such plans are using more chronic and preventive care. That's why employers and health insurers are increasingly turning to these products. The president said he wanted to include ideas that lower health care spending; well, consumer driven plans do just that.

## UNDERMINING REFORM

Health reform also must stay away from any component that leads to health care rationing. These elements include fixed health care budgets, accountable care organizations, pay for performance, comparative effectiveness dictates, or "cost effectiveness" regulations. Such provisions were the main source of the grassroots revolt over health reform, and any new reform proposals will be closely monitored by grassroots watchdogs who will likely raise alarms if they are included.

## CONCLUSION

Health reformers looking to start anew on health policy legislation should start with the list above. Instead of rationing, new bureaucracies and increased taxes, government policy should seek to maximize incentives so that patients, in consultation with their physicians, seek value for their health care dollars. Getting the incentives right will go a long ways towards solving the problems in our health care system.

---

Peter Ferrara is Director of Entitlement and Budget Policy for the Institute for Policy Innovation.

Copyright © 2010 Institute for Policy Innovation

Nothing from this document may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or by any information storage and retrieval system, without permission in writing from the publisher, unless such reproduction is properly attributed clearly and legibly on every page, screen or file. IPI requests that organizations post links to this and all other IPI publications on their websites, rather than posting this document in electronic format on their websites.

The views expressed in this publication do not necessarily reflect the views of the Institute for Policy Innovation, or its directors, nor is anything written here an attempt to aid or hinder the passage of any legislation before Congress. The Institute for Policy Innovation (IPI) does not necessarily endorse the contents of websites referenced in this or any other IPI publication.

Direct all inquiries to:

Institute for Policy Innovation  
1660 South Stemmons, Suite 245  
Lewisville, TX 75067

(972)874-5139 [voice]  
(972)874-5144 [fax]

Email: [ipi@ipi.org](mailto:ipi@ipi.org)  
Website: [www.ipi.org](http://www.ipi.org)