



GIVE 'EM HEALTH, REVISITED: MEDICARE-FOR-ALL (ADDENDUM)  
MOTHER'S DAY - MAY 2008  
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**The Past Year: Greater Need – Inadequate Proposals**

The economic slowdown has swelled the ranks of people without health insurance. But now it is also threatening millions of people who have insurance but find that the coverage is too limited or that they cannot afford their own share of medical costs.

Many of the 158 million people covered by employer health insurance are struggling to meet medical expenses that are much higher than they used to be – often because of some combination of higher premiums, less extensive coverage, and bigger out-of-pocket deductibles and co-payments.<sup>1</sup>

Job loss often means health insurance loss. In addition to the more than 47 million lacking insurance, millions more are “underinsured,” a group that receives scant attention. In the guise of providing “affordable coverage,” some employers, state plans and insurers offer plans that increase the ranks of the underinsured.

Meanwhile, state and local governments face reduced tax income and increasing health care costs for their employees and federal/state means-tested programs. Despite the overwhelming support of state governors and the public, President Bush vetoed legislation to improve the federal/state State Children's Health Insurance Program (SCHIP).

**Current State Plans – Skimping and Under-funded**

**Massachusetts Plan – Not Universal as Advertised – Beset by Cost Problems**

The package that emerged from the horse-trading between the Governor, the hospitals, health care providers, and state legislators mandates coverage for all adults not covered by an employer plan. It relies on a continuation of employer-sponsored plans, Medicaid, SCHIP, and “affordable” plans offered through the Massachusetts health care “Connector.” It aims to provide subsidies according to income and family size for those 300% below the poverty level.

The “Connector” oversees the program and negotiates with insurers to offer “affordable” plans. After a false start with overly costly plans, insurers lowered premiums by reducing coverage and increasing deductibles and co-payments. Even after those changes, the Connector exempted some

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<sup>1</sup> *The New York Times*, “Even the Insured Feel the Strain of Health Costs,” May 4, 2008, p. A1.

60,000 adults on the grounds that the lowest-priced plans were unaffordable. Moreover, the Massachusetts mandate does not require the inclusion of children.

Companies not offering employment-based coverage must make a contribution; initially thought to be about \$900 per employee, the actual figure is less. The program does not require other funding (beyond Medicaid) and instituted no cost-constraining measures. From the very outset, critics warned that the program lacked adequate funding, not least because it understated how many low-income people lacked insurance.

While Massachusetts has provided coverage for many who did not have coverage before, many have skimpy coverage and a sizeable number remain uncovered. Meanwhile, double-digit medical insurance cost increases outside the program continue unabated.<sup>2</sup> While it prohibits exclusions for pre-existing conditions, it permits delay of such coverage.

### **California – Sunk by Cost Estimates**

Governor Schwarzenegger's proposal, similar to the Massachusetts plan, failed to win approval in the state legislature due to its anticipated costs. Previously, Governor Schwarzenegger vetoed the legislature's single-payer universal health care plan.

### **Maine – Dirigo Health Struggles – Suspends New Subsidized Coverage**

Starting in 2005, Maine's Dirigo sought to make health insurance affordable by providing subsidies to those who did not qualify for Maine's Medicaid. It focused on employees of small firms, the self-employed and otherwise uninsured residents. Originally heralded as a plan for universal health insurance, Dirigo extended net coverage only by about 10,000, out of an uninsured population of 140,000 to 150,000.<sup>3</sup>

The expected funding for the subsidies from "Savings on Plans" fell short. In April 2008, legislation shifted the source of the subsidy to a surcharge on insurance benefits paid and taxes on spirits and soft drinks, viewed as "health impairing" goods. Until the new revenue sources prove adequate, new participants will not be eligible for Dirigo subsidies unless already participating businesses employ them.

## **The Presidential Candidates' Plans**

### **The Democrats – Public and Private Mixes**

In response to public concern, the Democratic presidential candidates early on declared support for universal affordable health care. Both Senator Clinton's and Senator Obama's plans build on the current private system of insurance coverage - with choices similar to those offered to members of Congress. They require large employers to play (provide insurance) or pay (contribute to the cost of doing so), but exempt small employers from those requirements. "Small" is not defined. The Family and Medical Leave Act, which exempts firms with fewer than 50 employees, omits half the workforce. Exempting companies with fewer than 20 employees would omit over 5 million employers and 21 million employees (latest available Census figures). People not covered by an employer plan could obtain coverage from a purchasing pool of private plans or from one public plan like Medicare. Both proposals would prohibit insurance companies from denying coverage or

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<sup>2</sup> *Boston Globe*, "Employees' Health Insurance Costs Soar in Boston," November 20, 2007.

<sup>3</sup> Telephone interview with Maine Legislative aide, May 1, 2008.

charging higher rates to people with health problems. Both would expand Medicaid and SCHIP. Both would make plans portable.<sup>4</sup>

Although the plans differ in details, the major difference concerns mandates. Clinton would “mandate” coverage, which requires all persons to pay premiums, even if not eligible for subsidies. Obama would only “mandate” coverage for children. Those who support mandates fly the banner of “responsibility,” contending that it is only fair to require all individuals to obtain coverage. Those opposing mandates point out that they are difficult to enforce and bear most heavily on middle class earners who do not qualify for Medicaid or subsidies.

The sloganeering about mandates might suggest that the refusal of employees to elect coverage when employers offer it is a widespread phenomenon. However, the overwhelming majority of employees who are given the option of becoming insured do accept coverage.<sup>5</sup> At the same time, as the percentage of the required employee contribution increases, participation rates decline.<sup>6</sup> Bottom line: employee refusal to accept offered health insurance coverage is not the problem, affordability is.

### **The Republicans – Individuals on their Own**

Senator John McCain, the presumed Republican nominee, has declared his reliance upon market mechanisms despite their long-demonstrated failure to either restrain costs or expand coverage. He proposes to move away from employer-sponsored health insurance by eliminating the tax deductibility of employer health plans, thereby removing an incentive for employers to provide group coverage. He would provide individuals with \$2,500 and families \$5,000 in tax credits towards the purchase of their own health insurance coverage. Neither amount meets the cost of coverage. For those unable to purchase health insurance on the open market, McCain would provide federal subsidies to states to form high-risk pools that contract with insurers to cover those who have been rejected on the open market. Presumably this pool would consist of those with pre-existing conditions. As for those for whom tax credits are meaningless, the McCain plan is silent.<sup>7</sup>

### **None of these Plans Reduce Costs Significantly**

Although all these plans claim to reduce costs by modernizing record keeping, removing inefficiencies, stressing prevention and healthy living – all of which are good ideas – the major cost is the non-benefit costs of private insurance: administration, advertising, commissions, high executive compensation, and handsome profits. Seemingly inexorable costs confound efforts to expand assured coverage. Two possible responses are to mask or reduce them.

### **Subsidies or Tax Credits Mask and Shift Actual Costs to Taxpayers**

Major state and candidate proposals mask costs by subsidies or tax credits (which are subsidies) to participants determined by income (and possibly assets) and to employers based on their size. Not only do subsidies increase costs, determining the eligibility of tens of millions of participants and how much each participant should receive increases non-benefit costs enormously. Moreover, the

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<sup>4</sup> *New York Times*, April 30, 2008, p. A16; <http://www.barackobama.com/issues/healthcare/>; <http://www.hillaryclinton.com/feature/healthcareplan/summary.aspx>.

<sup>5</sup> In 1988, 88% of employees given the chance for affordable coverage accepted it. By 2005, that percentage had fallen to 83.5%. Many of those declining have other coverage, for example through a spouse’s plan. Employment Benefit Research Institute (EBRI) Brief, No. 312, December 2007.

<sup>6</sup> Federal Reserve Bank of San Francisco (FRBSF) Economic Letter, 2006-25, Sept. 29, 2006. A study for the Kaiser Family Foundation reached similar conclusions.

<sup>7</sup> *New York Times*, April 30, 2008, pp. A1, A16; <http://www.johnmccain.com.healthcare>.

factors to determine eligibility and the amount of subsidy do not hold still; the eligibility game has to be played again and again, adding yet more non-benefit costs. Every subsidy or tax break, every test for eligibility, every step required to determine the amount of subsidy, every proceeding to compel compliance, and every measure to determine whether compliance should be waived add substantially to non-benefit costs.

Subsidies designed to lure companies into participation attract those enterprises that feel the need to compete for employees. The irony of these explicit subsidies is that the tax code already offers hundreds of billions of dollars<sup>8</sup> in subsidies to employers by treating health care contributions as deductible business expenses and not taxable earnings. However, deductions have value only if an enterprise has profits. The big gainers are profitable companies and their employees.

### **Multi-payer Plans Increase Costs**

Plan costs continue to increase by double digits. The lessons from the states show that complexity increases costs. Maine's Dirigo is contracting and floundering because costs exceed assured income. Massachusetts has faced repeated cost problems, resulting in skimpy plans with high deductibles for many people to meet the "affordability" threshold. The Schwarzenegger plan capsized short of the dock, because its cost outlook was too daunting.

### **Medicare-for-All – The Lowest Cost Route to Universal Coverage**

Medicare-for-All would reduce non-benefit costs – big time savings large enough to provide universal coverage without spending more money than is already being spent for medical care and insurance.<sup>9</sup> That advantage has been ignored by most proposals and commentators.

The usual laws of supply and demand and competition do not work in medical care. The multiplicity of insurance options has not abated the high cost of private insurance; as much as 33% of every dollar goes for non-benefit expenses. That compares to 7% for Medicaid and about 1.5% for Medicare Part A, Hospital Insurance (HI) and 1.5% for Part B, Supplementary Medical Insurance (SMI) according to the latest Medicare report.<sup>10</sup> Simplifying insurance by billing under a single regime such as Medicare has been shown to save hundreds of billions of dollars.

H.R. 676, the proposal for universal coverage that enjoys the most (90) Congressional co-sponsors, would be funded by new taxes. The bill's advocates, including the Physicians for a National Health Plan (PNHP), argue that those taxes would cost employers less than they already expend on health care. Like Medicare-for-All, it would eliminate or minimize non-benefit costs for advertising, commissions to sellers, insurer profit, and often lavish compensation to top insurance personnel. In addition, H.R. 676 would save on the costs incurred by both insurers and care providers for matching billions of billings with thousands of differing plans. Fifty-nine percent of doctors responded favorably to a survey calling for a national health care system.<sup>11</sup>

To forgo the chance to cover all by expanding and improving Medicare – a program that is already functioning, is popular, works well, and does not discriminate by age or health status – is the supreme impracticality.

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<sup>8</sup> U.S. Joint Committee on Taxation, Committee Print JCS-3-07.

<sup>9</sup> See: OWL Mother's Day Report, 2007, *Give 'Em Health Revisited: Medicare for All*, p. 21, ftns. 104 – 109.

<sup>10</sup> *The 2008 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*, April 8, 2008, pp. 43, 50, 79, 85.

<sup>11</sup> <http://www.healthcare-now.org>