Universal, Effective, and Affordable Health Insurance

An Economic Imperative

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The Hamilton Project was founded to develop an economic strategy together with innovative policy ideas to promote three goals: growth, broad-based participation in growth, and economic security in a changing global economy. The Project's proposals span a wide range of policy areas including education, income security, health, science and technology, tax policy, climate change, energy security, workforce training, and poverty reduction. The proposals have come from leading academics, practitioners, and policy analysts from across the nation, taking cutting-edge and evidence-based ideas from economists and others and bringing them to bear on policy debates in a relevant, accessible, and actionable way. Each idea is offered as a potentially innovative step in the right direction to upgrade the country's policies, though they are not collectively a comprehensive "solution" to the nation's challenges. Rather, they are intended to provoke thought and discussion and serve as a portfolio of options from which policymakers may choose.

In a previous volume, The Hamilton Project collected its proposals in the areas of income security, education, and tax policy (Bordoff and Furman 2008). In this volume, we turn to another central element of an effective economic strategy: achieving universal health insurance coverage that is both affordable and effective. Access to health care is not just a major social objective but also an economic imperative.

In total 45 million Americans are uninsured, and the Institute of Medicine (2003) estimates that 18,000 of them die prematurely each year as a result. But the problems are much broader than just the uninsured. The typical insured family pays, directly and indirectly, more than one-sixth of its income for health care. And this expensive care is far less effective than it should be: Americans get too little preventive care when well, and only 55 percent of proven-effective therapies are administered when they are sick. At the same time, one-third or more of many major medical procedures are either inappropriate or of debatable value (McGlynn 1998; McGlynn and others 2003).

Moreover, the problems of uninsurance and expensive or ineffective care are interrelated. More medically effective care could also be more affordable, reducing the number of uninsured. Conversely, it is impossible to address fully the problems of affordability and effectiveness without covering everyone. Much of the health care the uninsured do get is costly and inefficient, with the costs passed on to others. Insuring everyone would not just eliminate these uncompensated cost shifts, it would also enable the health system to function better by expanding risk pooling and reducing the fragmentation of financing.

Responding to these interrelated health challenges is also critical for economic performance more broadly for four reasons:

—*Rapidly rising premiums put a strain on businesses, wages, and jobs.* When premiums jumped 52 percent from 2000 to 2005 (in inflation-adjusted terms), the rising cost of compensating workers led businesses to cut jobs, particularly in sectors like manufacturing that tend to offer workers good health coverage (Kaiser Family Foundation and Health Research and Educational Trust 2006; Reber and Tyson 2004). Over a longer period, workers generally bear the cost of higher premiums in the form of lower wages. Finally, rising premiums have led employers to drop coverage: the percentage of nonelderly Americans with employer-sponsored insurance has fallen from 70 percent in 1987 to 62 percent in 2005 (DeNavas-Walt, Proctor, and Lee 2006).

—*Ineffective care results in a less productive workforce* that misses more days of work and performs less effectively on the job. The benefits of better health care create a positive externality for other workers and other firms that is not captured by the individuals or employers paying for the health care, creating an important role for government in public health and other areas.

—*The rapid increase in public health spending is a central cause of the serious fiscal challenges* we face in the years and decades ahead, a challenge

that represents a deep threat to our economic well-being if not addressed. Solving the long-run financing challenges facing Medicare and Medicaid requires addressing the similar growth in health spending taking place in the private sector.

—*Health care security is an important piece of the broader question of economic security.* America's patchwork, incomplete system of health insurance impedes the flexibility the economy needs to thrive and grow. Many workers are effectively locked into their jobs because they fear losing health insurance. According to one study, labor mobility is 25 percent less for those with employer-sponsored health insurance than for those without it (Madrian 1994). Moreover, the market-based economics and trade liberalization that are key to strong growth are more politically sustainable when workers have a greater sense of security and feel that they have more to gain and less to lose from the global economy.

In the chapters that follow in this book, leading experts offer innovative ideas about how a combination of private markets and effective government policies can reform health care. The next four chapters contain four alternative proposals to achieve universal health care coverage, and the following three chapters contain three proposals intended to promote greater affordability and more effectiveness in the health care system.

The proposals in this book represent the views of their authors and do not reflect a specific position taken by The Hamilton Project. In some cases the approaches are complementary; in other cases they represent alternatives to achieve the Project's broad goals of promoting growth, broad-based participation in growth, and economic security. In every case they are intended to be innovative ideas that will promote discussion and debate on one of the central economic challenges facing the United States.

Achieving Universal Coverage

Chapters 2 through 5 lay out four different approaches to achieving universal health care coverage. Although they all agree on the same goal of expanding access to health care, the proposals represent a wide range of philosophical approaches.

In chapter 2 Gerard Anderson and Hugh Waters of the Johns Hopkins Bloomberg School of Public Health propose expanding a well-known public health insurance program—Medicare—to offer an affordable coverage option to all firms and individuals wishing to buy into it. Instead of requiring fundamentally new ways of operating, their proposal for Medicare Part E(veryone) is guided by the principle that a practical universal coverage

proposal should minimize disruptions and costs. Therefore, their proposal would allow individuals to keep their current employer-sponsored coverage while also offering insurance to all Americans through Medicare. Their proposal achieves universal coverage by requiring individuals to acquire health insurance (with federal subsidies for low-income households) and requiring firms to provide it. By building on the history and experience of Medicare, Anderson and Waters aim for a feasible plan that provides affordable, continuous, and efficient health care coverage to everyone.

Stuart Butler of the Heritage Foundation addresses in chapter 3 the growing mismatch between the current health insurance system, which works best for long-serving employees of large firms, and the realities of today's workforce, in which workers are increasingly mobile, part-time, self-employed, or employed by smaller firms. Butler's proposed reform calls for the creation of the Health Exchange Plan. Operating in parallel with—rather than replacing—the employer-sponsored system, the plan is designed to fill in the present system's gaps. Butler's plan contains three key steps that he argues are needed to achieve a gradual transformation in the health insurance system without disrupting the successful parts of the system. First, states should establish "insurance exchanges." Exchanges would offer an array of coverage options, and families could retain their chosen plan from workplace to workplace with the same tax benefits as those available for traditional employer-sponsored plans. Second, most employers should become facilitators, rather than sponsors, of coverage. While many large employers would continue to sponsor coverage, most employers would hand over sponsorship to an insurance exchange and focus on providing administrative support for their employees' insurance choices. Third, the federal government should reform the tax treatment of health insurance to focus the benefits on lower-income families. By partly delinking the availability and the subsidy of health coverage from the workplace, Butler's plan aims at evolutionary reform of the current system that would enhance economic and health security for all working families.

In chapter 4 Ezekiel Emanuel of the National Institutes of Health and Victor Fuchs of Stanford University propose a major health care reform to achieve universal and continuous coverage, control costs, and improve the quality of care. Under their proposed Guaranteed Health Care Access Plan, all Americans would receive a universal healthcare voucher to purchase a comprehensive benefit package through private insurance. The set of standard benefits would be modeled on a high-end plan currently available to

federal employees. Private insurance firms would administer the program, and Americans would be able to choose their own physicians, hospitals, and health plans. The authors argue that their proposal would give private insurers more incentives to cut costs and compete on the basis of quality, and fewer incentives to discriminate against individuals based on their health since the government would pay insurers a risk-adjusted amount for each individual. The authors propose an independent National Health Board to define and adjust standard benefits, calculate premiums paid by the government, and sponsor research on quality and performance outcomes. The voucher system would establish an institute to evaluate the cost and effectiveness of drugs, medical devices, tests, and medical procedures, and another institute to resolve malpractice disputes. It would be funded through a dedicated value-added tax of 10 to 12 percent. Taking into account savings from administrative efficiency and the phasing out of public insurance, Emanuel and Fuchs argue that universal vouchers would be more effective and equitable than the current system without increasing total health care spending.

Finally, in chapter 5 Jonathan Gruber of the Massachusetts Institute of Technology examines the feasibility, costs, and benefits of extending nationwide the "Massachusetts model," which provides universal coverage through a combination of mandates, subsidies, and alternative insurance risk pools. Under Gruber's plan those happy with their current employer-sponsored health insurance plans could keep them, while those that want to change plans would have more affordable coverage choices than those available today. Like the Massachusetts model, which Gruber helped design, the national system would include subsidies for low-income Americans, pooling mechanisms to keep premiums low, and a requirement that all residents purchase health insurance. Gruber also proposes some important modifications to the Massachusetts model, however. His proposal would extend subsidies to households with incomes up to 400 percent of the federal poverty line to help middle-income families who do not have employer-based coverage. It would allow individuals with incomes below 400 percent of the poverty line who are not able to afford their employer's health insurance to use a voucher to buy health insurance in the low-income health insurance pool. And it would mandate insurance coverage for all individuals and improve enforcement of the mandate through the tax code. Modeling a national plan after the Massachusetts reforms, argues Gruber, would expand coverage and provide affordability to all Americans.

Enhancing Affordability and Effectiveness

To be successful, efforts to expand health insurance coverage must be coupled with efforts to make health care more affordable and effective. Chapters 6 through 8 target specific aspects of the system in which new policies could lower costs and improve the quality of care at the same time.

Richard Frank and Joseph Newhouse of Harvard University argue in chapter 6 that while the Medicare Part D prescription drug benefit provides welcome and important benefits, the program suffers from four significant limitations: a daunting complexity that has likely discouraged enrollment, incentives for insurance companies to avoid covering higher-cost individuals, inefficient purchasing rules that increase the cost of the program, and partial coverage (the so-called "doughnut hole") that leaves many seniors facing significant financial risks. In response, they propose four reforms. To reduce complexity, they would limit the number of prescription drug plans to between seven and nine and introduce automatic enrollment of seniors in a default drug plan, while preserving choice by allowing beneficiaries to change plans or to opt out entirely. To increase competition and reduce incentives to avoid serving high-cost seniors, they would require plan sponsors to compete for regional contracts rather than for individual enrollees. To enhance cost-effectiveness, they would adopt Medicaid's "best price" rule used for beneficiaries eligible for both Medicaid and Medicare, monitor the prices of unique drugs, and remove the distinction between Part D drugs and drugs still covered under Medicare Part B (which pays for outpatient services and has payment rules that differ from Part D, thus creating an opportunity for manufacturers to game the system to receive compensation from whichever part of Medicare will pay the most). Finally, to fill in the coverage gap, they would allow plans that are actuarially equivalent to the standard plan to offer higher deductibles in exchange for filling the doughnut hole.

Jason Furman of the Brookings Institution shows in chapter 7 that although families ultimately pay for all their health care costs, there has been a dramatic shift in the financing of health care over the past several decades away from out-of-pocket spending and toward insurance coverage. While more comprehensive health insurance benefits are largely a positive development, Furman offers empirical evidence that the increased insulation of consumers from direct out-of-pocket health care costs has also contributed to higher overall spending on health care, which, in turn, increases both the number of uninsured and the risks faced by those who

have insurance. In response Furman advances a proposal for progressive cost sharing in health insurance. Furman rejects health savings account (HSA) approaches because they involve costly tax breaks for the affluent while increasing risks for low- and moderate-income families. Instead he suggests an alternative approach that bases cost sharing on income (limiting it to 7.5 percent of a family's income and even less for low- and moderate-income families) and potentially includes evidence-based exceptions for highly valuable treatments and preventive care. Furman estimates that progressive cost sharing could reduce health insurance premiums by 22 to 34 percent without compromising health outcomes. This approach provides robust protection against major risks, providing every family with an affordable ceiling on out-of-pocket spending. In addition, out-of-pocket expenses would fall for 23 percent of families, primarily low- and moderate-income families and families with large out-of-pocket expenses.

In chapter 8 Jeanne Lambrew of the Lyndon B. Johnson School of Public Affairs and the Center for American Progress proposes a Wellness Trust to prioritize disease prevention. Chronic and preventable diseases currently account for most costs, as well as deaths, in the health care system, despite the relatively low-cost and low-tech services that could limit them. Disease prevention and health promotion are crucial for ensuring the health and well-being of Americans in a cost-effective manner, but the current system is ill-suited to achieve these goals. People often are unaware of preventive services, perceive them as having low value, or are deterred by costs. Moreover, the myopic focus of the health care system on treating disease crowds out resources and directs incentives away from preventive care that fosters long-term wellness. Lambrew's Wellness Trust would be formed by carving preventive services out of disparate pieces of the health care system and uniting them under a single agency with the appropriate mission, incentives, and tools to deliver those services. The Wellness Trust would set national prevention priorities based on evidence of their impact, cost, and feasibility. It would employ effective delivery systems by connecting individuals to accessible and affordable preventive services, for example, through better communications and record-keeping, greater training of health care workers in preventive care, and state and local grants that incorporate prevention priorities. The Wellness Trust would also use payment incentives to encourage appropriate delivery, high standards, and greater take-up of preventive services. Finally, it would draw from public and private resources currently spent on prevention to fund its activities. By gearing the national health care system toward effective prevention, Lambrew's proposal could eventually lower insurance premiums

and improve the quality of treatment, thereby contributing to a healthier and more productive nation.

Conclusion

The chapters in this book offer innovative and evidence-based proposals to inform the public policy debate over health care reform by laying out a promising path toward expanding health insurance coverage and increasing the affordability and effectiveness of health care in the United States. Achieving these objectives is among the most pressing economic policy issues facing our country. By meeting our nation's health care challenges, we can go a long way toward enhancing the economic security of individual workers, strengthening America's businesses as they struggle to compete in the global economy, and increasing our nation's overall productivity and fiscal soundness.

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