[searching for answers]

insightout™

From Buck Consultants Thought Leaders

The Obama and McCain Health Care Platforms: A Guide for Employers

By Anthony P. Rienzi and Chantel Sheaks

When Americans head to the polls on November 4, many will undoubtedly have the presidential candidates' positions on health care reform in mind. A February 2008 Gallup poll identified health care among the top five "extremely important" issues influencing candidate preference. Tellingly, it fell just a few points behind terrorism and government corruption, which shared third place, and the Iraq war and economy, which were one and two, respectively. It seems that the United States has finally reached the health reform tipping point.

In published statements and spoken comments, John McCain and Barack Obama have offered voters visions of health care reform. This *InsightOut* provides a broad overview of their platforms and focuses on three particular aspects that would have profound impact on employers: portability, mandates, and consumer-directed health.

With Americans seemingly committed to substantial health reform this election year, one might reasonably ask, "So, why now?" The sweeping health care reform proposed by the Clinton Administration nearly 15 years ago (See *Rewind to 1993* on page 2.) was derailed through the determined efforts of Republicans and Democrats alike. Since then, U.S. legislators have enacted several minor reforms aimed at broadening health coverage access and introducing more affordable health insurance options. These include:

- The *Health Insurance Reform Act of 1995* which extended COBRA health care continuation coverage to 29 months for people who are determined to be disabled for Social Security purposes in an attempt to bridge the gap to Medicare coverage,
- The *Health Insurance Portability Act of 1996* which restricted pre-existing conditions limitations,
- The *Medicare Improvement and Modernization Act of 2003* which created tax-favored Health Savings Accounts (HSAs) to promote consumerism in health care purchasing and to drive the development of innovative and affordable coverage options.

Despite these federal actions and additional steps taken at the state level, health care costs continue to rise at unsustainable rates and the number of uninsured Americans has steadily grown. (See *A Numbers Game No One Is Winning* on page 6.)

Framing the Debate

Both the McCain and Obama health care reform platforms contain basic guiding principles and some specific approaches, many of which reflect the beliefs, values, and favored causes traditionally associated with their respective parties. Both candidates see health care reform leading to the following objectives:

- Reducing the number of uninsured,
- Providing a coverage "safety net" for the uninsurable,
- Making coverage more affordable for low-income individuals,
- Improving quality, care coordination, health system efficiency, and transparency,

It seems that the United States has finally reached the health reform tipping point.

buckconsultants an ACS company

- Expanding the use of health information technology,
- Promoting a more robust and accessible individual insurance market,
- Encouraging the use of "best practice" treatment protocols,
- Collecting and reporting provider outcomes, quality, and fee data.

Although their objectives are similar, the candidates take very different routes to reach them. The Obama platform leans more heavily on public sector institutions and regulatory requirements whereas the McCain platform prefers tax incentives and other strategies to promote free market activity and encourage individual responsibility.

Several key aspects of the McCain and Obama platforms will directly impact employers, particularly small employers and those in certain industries. They are discussed in the following sections.

Rewind to 1993

In late September 1993, President Clinton received resounding bipartisan support in announcing to a joint session of Congress his intention to reform the U.S. health care system. One year later, the Clinton health reform plan was dead — derailed by aggressive lobbying, sharp media criticism, and staunch opposition from Republicans and Democrats.

Americans saw the Clinton health plan as an unflattering reflection of the excesses of big government and rejected its complexity, far-reaching government intervention, and bureaucratic red tape. Democrats suffered considerably at the polls, losing control of both Houses of Congress to the "Republican Revolution" in the mid-term elections of 1994. It was the first time in 40 years one party maintained a majority in both Houses.

Portability: What Will It Mean for Employer-Sponsored Plans?

The concept of portability figures prominently in both the Obama and McCain health care platforms. Both candidates envision a system in which individuals have relatively easy access to affordable health coverage, whether employed or not. Two key features are discussed in the following paragraphs.

Insurability for All

Obama favors eliminating pre-existing conditions limitations and medical underwriting on individual insurance plans and establishing a new national health plan, which would compete head-to-head with privately insured products. Obama's national plan has been described as similar to the Federal Employees Health Benefit Program (FEHBP), the program covering federal employees including members of Congress. The FEHBP offers a range of plan options from Consumer-Directed Health Plans (CDHPs) with HSAs through co-pay-based HMO plans.

He also proposes a National Health Insurance Exchange, a public agency that would create rules and standards for participating insurance companies. The Exchange would ensure that the coverage offered is at least as generous as the national health plan and that premiums are fair, stable, and not based on health status. The Obama camp claims that these initiatives would broaden the array of coverage choices for people not

Proponents of the McCain tax credit proposal argue that eliminating the favorable tax treatment for those covered by employer-sponsored health plans will level the economic playing field with individual policies, enabling employees to choose more freely between the two.

eligible for employment-based benefits and assist them in navigating the insurance markets.

McCain proposes a Guaranteed Access Plan (GAP), which would be available to anyone not eligible for coverage through traditional insurance markets. He envisions GAP coverage being provided by a non-profit corporation(s) that would contract with insurers to cover individuals who have been denied coverage.

Choice between Employer-Sponsored Plans and Individual Policies

One of the more controversial aspects of either candidate's platform is McCain's proposal to establish refundable tax credits ($2,500/individual; $5,000/family) to offset the cost of health insurance. These tax credits would be paid directly to the provider of coverage, whether it be a private insurer or an employer. McCain would revise tax law further, requiring that the cost of employer-sponsored coverage less the proposed tax credit and any employee contributions be imputed to employees as income and, possibly, for payroll tax purposes. Under current law, employees pay neither income nor payroll tax on the cost of employer-provided coverage.

Proponents of the McCain tax credit proposal argue that eliminating the favorable tax treatment for those covered by employer-sponsored health plans will level the economic playing field with individual policies, enabling employees to choose more freely between the two.

Experts opposed to the McCain tax credit speculate that healthy employees will jump to the individual market and less healthy employees will remain in employer plans. This would drive up employers' costs and could cause many to discontinue their plans. The McCain camp counters this theory asserting that most employers will have to offer health coverage to remain competitive in the labor market.

Questions underlying this aspect of the debate would include:

- Would employers prefer to be out of the health insurance delivery business or is providing coverage a tax-effective way to compensate employees and a practice most employers would like to continue?
- If greater coverage portability allowed people to move more freely from job to job, what range of impacts could that have on employers?
- If pre-Medicare employees retire from their employer sooner because better health insurance options exist elsewhere, would that cause further strain on industries experiencing skilled labor shortages?
- If employers are not the primary source for medical coverage, will they still be inclined to promote health and wellness in the workplace? If not, would the government fill the void?
- Would enhanced competition between employer plans and individual insurance, as McCain advocates, drive young, healthy employees into the individual markets leaving the least healthy, most costly employees in employer plans? Would that conceivably doom the employer-based system?
- Will McCain's proposal eventually result in employers discontinuing coverage and potentially increase the uninsured population, or will it help to decrease the number of uninsured through a more robust individual market?
- If either proposal diminishes the viability of the employer-based system, are the individual market and/or government willing and able to absorb the newly uninsured?

Experts opposed to the McCain tax credit speculate that healthy employees will jump to the individual market and less healthy employees will remain in employer plans.

Mandates: Are They the Only Way?

Obama advocates an employer mandate and a partial individual mandate (young people to age 25 could remain covered under a parent's plan). Under his "pay or play" proposal, employers would be required to meet minimum standards for health coverage or contribute a percentage of payroll toward a new national health plan. This money would be used to fund the proposed national plan, in which both individuals and employers could enroll.

The Obama proposed mandate would most significantly affect small employers not currently offering health coverage, employers with large uninsured segments of their workforces, particularly low-paid, uninsured workers, and those not meeting the yet-to-be-defined minimum coverage standards. It is not known at this time whether the mandate would apply to part-time workers, but industries, such as retail, could also be affected significantly.

McCain rejects employer and individual mandates. He focuses instead on improving access and affordability through tax incentives and free market initiatives. His platform advocates measures that would foster competition among individual insurance and employer-based coverage (as described in the previous section), insurance carriers operating across state lines, walk-in clinics and traditional physician offices, and domestic and international pharmacies.

The Kaiser survey reports that, as of spring 2007, roughly 7.9 million people or five percent of those enrolled in employer-sponsored heath plans were covered by CDHP.

Questions underlying this aspect of the debate would include:

- Is broadening access and affordability as McCain advocates enough to achieve coverage expansion goals or are mandates as Obama proposes necessary?
- Is a free market solution as advocated by McCain preferable, even if a large number of Americans remain uninsured or if coverage expansion goals take many years to achieve?
- Does an employer "pay or play" mandate as advocated by Obama make it more difficult for U.S. companies to compete globally? Is coverage expansion through mandates worth the potential cost to the U.S. economy?
- Would an employer mandate as advocated by Obama make it more difficult for some employers to differentiate themselves from a recruitment and retention perspective?
- If coverage is expanded through mandates as Obama proposes, will a reduction in uncompensated care eventually result in lower provider fees thus lowering health insurance premiums and encouraging employers to establish and maintain plans?

Consumer-Directed Health Plans: What Does the Future Hold?

Since CDHPs were unveiled in early 2000 and HSAs were legislated into existence in 2003, employers have gradually, but steadily, adopted CDHPs. According to the *Kaiser/HRET Annual Employer Health Benefit Survey*, 18 percent of organizations with 1,000 or more employees offered CDHPs in 2007, and 25 to 30 percent more say they are somewhat to very likely to do so in the future. The Kaiser survey reports that, as of spring 2007, roughly 7.9 million people or five percent of those enrolled in employer-sponsored heath plans were covered by CDHP.

Questions abound with regard to CDHPs. Are the plans suitable for low income workers? Do they effectively control medical trend? Can patients really manage their own health care and successfully negotiate price with providers? Do CDHPs discourage patients from receiving the necessary care? There are probably as many answers to these questions as there are constituencies with a vested interest in the future of CDHPs.

McCain and Obama appear to be on entirely different pages with respect to CDHPs. McCain advocates solutions that put individuals more in control of health care spending and decision-making. He openly expresses support for HSAs. In his call for a refundable tax credit (described earlier) to offset the cost of health insurance, he proposes that the balance of the credit would be deposited into an HSA if innovative, less costly coverage were obtained.

By contrast, the Obama platform does not mention CDHPs. His call for a mandate speaks of employers making a "meaningful contribution to the cost of quality health coverage." Whether a CDHP would qualify as "quality health coverage" would likely become part of the debate. It is perhaps noteworthy that Obama proposes a national health plan similar to the FEHBP. As mentioned earlier, the FEHBP offers a range of plan options, including a CDHP option, but the Obama platform does not specify whether to qualify, a plan would be required to include all, some, or only the most generous FEHBP options.

Questions underlying this aspect of the debate would include:

- Will CDHPs have an expanded role under health reform as McCain advocates?
- By avoiding specific mention of CDHPs, does Obama advocate by his silence curtailing both the tax advantages and possible expansion of CDHPs/HSAs?
- Should "quality health coverage" as Obama advocates include a CDHP option? Will employers have the option to offer a CDHP as their only plan? How will health reform affect those employers that already have replaced all other health care options with a CDHP?

In the Final Analysis ...

The demise of the Clinton health reform plan in 1994 and employee reaction to changes in employer-sponsored plans occurring both before and since cast light on the biases and expectations of Americans with respect to health care. Despite the consequences, Americans seem to favor a system in which:

- Government plays a limited role,
- Patients have free choice of providers and care settings,
- Third parties stay out of health care decisions,
- Heroic life saving treatments are available to all,
- Patient out-of-pocket expenses are limited.

Most reformers and economists would agree that these values are substantially opposed to a sustainable health care system. Some might go further, arguing that so long as health care delivery remains in the hands of independent businesses driven by revenue growth and profit motive, any effort at reforming the existing public-private system is merely a band-aid.

It is probably a safe bet that neither John McCain nor Barack Obama will be foisting up the idea of "nationalized health care" between now and Election Day. Although Obama's platform leans more heavily on public sector initiatives, neither he nor McCain advocate the sweeping role of government envisaged by the Clinton plan or the rigid structure and tight controls it sought to impose.

Stay tuned for the election of 2016, however. If medical trends continue at historic levels, we may be paying twice as much for health insurance by then. That would put the average cost of family coverage around $25,000 per year! Who knows what may be possible at that point.

McCain and Obama appear to be on entirely different pages with respect to CDHPs.

A Numbers Game No One Is Winning

The following statistics, reported by the Centers for Medicare and Medicaid Services, World Health Organization, and Kaiser Family Foundation, reflect the state of the U.S. health care system:

- Today, the United States spends roughly 16 percent of Gross Domestic Product ($2.26 trillion, $7,439 per capita) on health care — more than any other nation in the world.
- Health insurance costs are rising faster than wages and general inflation, and have been for the better part of 25 years.
- Sixteen percent of Americans (47 million people) have no health insurance, a percentage that has been rising steadily since 2000.
- In 2000, 64.2 percent of Americans received health coverage through employment; by 2006, the rate had fallen to 59.7 percent, and recent increases in unemployment will continue this trend.
- Despite its considerable investment, the United States ranks only 41st in the world for the lowest infant mortality rate and 45th for highest total life expectancy.

These facts and figures underlie the very significant consequences for employers and individuals alike and help to explain why the American people and their elected officials are at a crossroads on this issue.

About the Authors:

Anthony P. Rienzi, a Principal and Health and Productivity Consultant in Buck's New York office, has more than 20 years of experience in benefits strategy and design, vendor management, health promotion, consumerism, disability management, underwriting, and M&A due diligence. He has held leadership, client management, and consulting roles with several major human resource and benefits consulting firms. He can be reached at 212.330.1109 or at anthony.rienzi@buckconsultants.com.

Chantel Sheaks is a Washington D.C.-based Principal focusing on Government Affairs as a member of Buck's Research, Survey and Knowledge Management group. She is one of Buck's technical experts and spokespersons regarding the firm's interpretation of and positions on regulations, legislation, and court decisions. She maintains working relationships with governmental and legislative staffs, legislators, and employee benefits industry leaders, and also participates in industry groups. She can be reached at 202.776.1040 or at chantel.sheaks@buckconsultants.com.

© 2008 Buck Consultants, LLC. All rights reserved.
Insight® is a registered trademark and InsightOut™ is a trademark of Buck Consultants, LLC.

buckconsultants® an ACS company ACS