



Health Contract with America

By: **John C. Goodman**

July 7, 2012

Opponents of the Affordable Care Act (ObamaCare) have a nifty catch phrase: repeal and replace. Unfortunately, they are much clearer on "repealing" than they are on "replacing."

Until now. The Congressional Health Care Caucus has posted on their website a [Health Contract With America](#), fashioned by yours truly. I conducted a [Capitol Hill briefing](#) on the subject and you can find [more details](#) at the National Center for Policy Analysis (NCPA) website. Let's hope every candidate for office this fall endorses the Contract. Here are the main ideas:

Tax Fairness. The federal government should give everyone the same tax relief for the purchase of private health insurance, regardless of where it is obtained — through an employer, in a health insurance exchange or in the marketplace.

As [I explained last week](#), we could replace the current system of tax and spending subsidies with a lump sum, refundable tax credit of \$2,500 for every adult and \$8,000 for a family of four. These credits would fund the core insurance that we want everyone to have. Additional coverage could be purchased by individuals and their employers with (unsubsidized) after-tax dollars.

The current system of granting tax relief for the purchase of health insurance is arbitrary, regressive and unfair. In general, only employer purchased health insurance receives favorable tax treatment. People who must purchase their own insurance get little if any help from the IRS. In addition, the amount of subsidy depends on your tax bracket. That's why people who earn \$100,000 a year get a tax subsidy that is six times the subsidy available to someone earning \$25,000. Some may argue that government shouldn't be involved at all. Fair enough. But there is no rational argument for giving the most encouragement to those who need it least.

Under ObamaCare, things will get even more arbitrary and unfair. Families will be required to have health insurance — either through an employer, the government or in a newly created health insurance exchange. Take a family earning, say, \$30,000. If the family qualifies for Medicaid, the government will pay 100% of the cost. If the family qualifies for insurance in the exchange, the government will pay about 95% of the cost. But if the family is eligible for insurance at work, the government subsidy will equal only 15% of the cost. Families at the same income level can receive subsidies that differ by \$10,000 or even \$20,000.

Tax fairness means we are all treated the same.

Portability. Remarkable as it may seem, almost every state in the union prevents employers from helping their employees obtain the type of insurance they most want and need: [portable insurance](#) that travels with the individual from job to job and in and out of the labor market. The reason the states are doing this: misguided federal laws. ObamaCare will continue this strange and indefensible policy.

We should reverse course and encourage personal and portable insurance instead.

Patient Control. Roughly 24 million families are currently managing some of their own health care dollars in special savings accounts and a [RAND study](#) shows that employer plans cut costs by as much as 30% as a result. The rules governing these accounts are too restrictive, however. What is needed is a very flexible Health Savings Account (HSA) that can wrap around any health plan. In this way, individual choice and the marketplace would determine which expenses individuals will self-insure for in an HSA and which expenses will be paid by a third-party insurer.

Real Insurance. If health insurance were portable, the problem of pre-existing conditions would rarely arise. And the remaining problems would go away if health insurance worked like life insurance or casualty insurance. Specifically, people should be able to buy change of health status insurance. If you acquire a pre-existing condition and if you are forced to switch health plans, the current plan would pay the new plan any additional premium that is needed to reflect your higher health care cost. See additional explanation [here](#).

Universality. In any system in which individuals are offered tax relief for the purchase of health insurance, some people will inevitably turn the offer down. What happens to the unclaimed tax credits? They should be made available to safety net institutions in the area where the uninsured live, so that money is available if the uninsured cannot pay their medical bills.

As [I explained last week](#), this is a system under which money follows people. If everyone in Dallas County accepts the government tax credit offer and obtains private insurance, we do not need safety net institutions. The \$8,000 family tax credits all go to pay premiums and deposits to HSAs. On the other hand, if everyone in Dallas County decides to become uninsured, the unclaimed credits all go to the safety net institutions.

This is a practical, realistic and workable form of universal coverage.