

# The John McCain Health Plan

Brief Analysis No. 629

by John C. Goodman

September 5, 2008

*If you listen only to presidential campaign rhetoric, you might conclude that Barack Obama has proposed bold new changes for our health care system, while John McCain is offering only small improvements. If so, you are in for a surprise. Most health policy analysts believe that Sen. McCain is proposing the most fundamental health care reform.*



Dallas Headquarters:  
12770 Coit Road, Suite 800  
Dallas, TX 75251  
(972) 386-6272  
Fax: (972) 386-0924  
Web site: <http://www.ncpa.org>

Washington Office:  
601 Pennsylvania Avenue NW,  
Suite 900, South Building  
Washington, D.C. 20004  
(202) 220-3082  
Fax: (202) 220-3096



Right now the federal government primarily uses the tax system to encourage private health insurance — handing out more than \$200 billion in tax subsidies every year. Sen. Obama would leave this system largely intact. Sen. McCain would completely replace it with a fairer, more efficient system with a much better chance of both insuring the uninsured and controlling health costs.

**Current Tax Subsidies for Health Insurance.** Under the current system, every dollar in health insurance premiums paid by an employer is excluded from employee income and payroll taxes. Take an employee in the 25 percent income-tax bracket. Throw in state and local income taxes, add the 15.3 percent (FICA) payroll tax, and the tax exclusion for a middle-income family is worth almost 50 cents on the dollar. Even better, employees can often pay their share of the premium with pretax dollars as well. However, there are drawbacks to the current system.

*The system is arbitrary.* Forty percent of employers do not provide insurance. Their employees get virtually no tax relief, nor do part-time

workers or people not in the labor market, or anyone else who must buy his own insurance. As a result, the after-tax cost of insurance can be up to almost twice as much as employer-provided health coverage.

*The system is unfair.* According to the Lewin Group, a private health care consulting firm, families earning \$100,000 a year get four times as much tax relief as families earning \$25,000. In other words, the biggest subsidy goes to those who least need it, and who probably would have purchased insurance anyway.

*The system is wasteful.* People can always lower their taxes by spending more on health insurance, and there is no limit to how bloated with unnecessary services a health plan can be.

*Special burdens for part-time workers.* About one in every five workers is part-time. Often employers do not offer these workers health insurance. And federal law makes it difficult, if not impossible, for employers to give them a choice between wages and health insurance. If part-timers buy insurance on their own, they must do so with after-tax dollars.

*Special burdens for the self-employed.* The self-employed can deduct some of their health insurance costs on their income tax returns. But, unlike other workers, they get no relief from the 15.3 percent payroll tax. For many, the payroll tax bite is larger than the income tax.

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*Special burdens for women.* Because women move into and out of the labor market more frequently than men, they are more likely to purchase insurance on their own. They are also more likely to work part-time or to be self-employed.

**The McCain Tax Credit.** Under the McCain plan, employers could no longer buy insurance with pretax dollars. Such payments would be taxable to the employee, just like wages. However, every individual would get a \$2,500 credit (and every family would get \$5,000) to be applied dollar-for-dollar against taxes owed.

The McCain plan does not raise or lower taxes. Instead, it takes the existing system of tax subsidies and treats everyone alike, regardless of income or job status. All health insurance would be sold on a level playing field under the tax law, regardless of how it is purchased.

The impact would be enormous. For the first time, when purchasing health insurance low- and moderate-

***“The current system gives higher income families the biggest tax subsidy for health insurance.”***

income families would get as much tax relief as the wealthy. People who purchase their own coverage would get the same tax relief as those who obtain it through an employer. Whereas Sen. Obama would continue the current practice of giving the vast bulk of federal help to the

rich (through tax subsidies) and the poor (through spending programs), the McCain tax credit would give the most new tax relief to the middle class.

The McCain plan would also encourage all Americans to control costs. The tax credit would be sufficient to subsidize the core insurance everyone should have. But it would not subsidize bells and whistles (marriage counseling, acupuncture and so forth) as the current system does. Since employees and their employers will pay for additional coverage with after-tax dollars, everyone will have an incentive to compare the value of extra health benefits to the value of other things money can buy. If they eliminate health care waste, they get to keep every dollar they save.

*The credit would be refundable.* People could apply \$2,500 per person or \$5,000 per family to the purchase of health insurance, even if they do not owe any income taxes.

*The credit would be advanceable.* Families would not have to wait until April 15 the following year to get their credit. They could obtain the subsidy at the time the insurance is purchased.

*The credit would be transferable.* Insurance companies and other intermediaries would be able to help families obtain their tax credit and apply it directly to health insurance premiums.

**Creating a National Market for Insurance.** The McCain health plan would allow people to buy insurance across state lines — thus creating a competitive, national market for health insurance.

Studies estimate that as many as one in four uninsured people have been priced out of the market for health insurance by the cost-increasing effects of state regulation. In some states, insurers are required to cover services ranging from acupuncture to in vitro fertilization, and providers ranging from chiropractors to naturopaths.

***“The McCain health insurance tax credit would give the most new tax relief to the middle class.”***

In a national market consumers could choose their own regulatory regime, opting for consumer protections they like and avoiding those that are not worth the cost. A study by Steve Parente and his colleagues at the University of Minnesota estimates that with this change an additional 12 million people would be insured.

Other provisions of the McCain plan provide additional federal money for people who have been denied coverage because of a pre-existing condition, making it easier for people who have lost their insurance to obtain new coverage. It would also encourage Medicare to become a smarter, more efficient buyer of care.

**Conclusion.** The McCain plan will not solve all our health care problems. But it has a far better chance of positively reforming the system than any other plan that has been proposed this campaign season.

*John C. Goodman is president of the National Center for Policy Analysis.*