



Level the health playing field with full deductibility

By Rep. Christopher Cox (R-Calif.)

February 25, 2004

Lack of competition and choice are denying Americans affordable, quality healthcare. I am pleased that the Congress and the White House have made great strides this past year in reforming the healthcare marketplace with the enactment of health savings accounts (HSAs) legislation. But more work remains. To further reform healthcare, we must address the tax discrimination that forces millions of Americans to accept only one "choice" of health insurance offered by their employer.

Recent decades have seen a diminution in competition and consumer choice, which have made both healthcare and the insurance that covers it prohibitively expensive. While 90 percent of working-age Americans with private health insurance receive it from their employers, more than 90 percent of American employers that provide health insurance offer employees the "choice" of only one healthcare plan. Given the option, many Americans might prefer to buy health insurance only for unforeseeable risks and use fee-for-service medicine for routine care. But tax discrimination against healthcare purchased by individuals themselves makes this financially unworkable. This has seriously interfered with the doctor-patient relationship. And in place of individuals shopping for their own doctors and procedures, we have almost wholly substituted third-party payment systems and "managed care" (all too often, a euphemism for bureaucrats who ration medical services).

This expanding healthcare bureaucracy--meant to control costs--is in fact a leading cause of inefficiency and rising costs. Yet the migration toward managed care and away from consumer choice is a direct result of the tax system. Those willing to accept the health plan dictated by their employers can get it tax-free.

Those who want to make their own decisions must pay with after-tax dollars. Specifically, employer-provided health benefits are excluded from gross income--but the same healthcare, if paid for by an individual, must come from after-tax dollars. (Over 95 percent of taxpayers can now claim no medical expense deduction at all, because medical

expenses up to 7.5 percent of their adjusted gross income aren't tax deductible.) It is in this way that our tax policy is directly responsible for the proliferation of third-party payment schemes, and the unnecessarily wasteful and expensive bureaucratization of medicine.

To restore individual choice and competition that will control healthcare costs, individual patients' choices must be rewarded just the same as those made by employers. There is a very straightforward way to accomplish this objective: make every individual's health expenses 100 percent tax deductible. I have introduced the **Health Care Freedom of Choice Act (H.R. 1117)** to do just that.

Making individual Americans' medical costs tax deductible will remedy the current disincentive to go outside of one's plan to shop for the best physician, or to take personal responsibility for any out-of-pocket medical costs. Allowing 100 percent deductibility for out-of-pocket medical expenses, including health insurance premiums, will re-create a healthcare marketplace of millions of Americans, instead of the current market consisting only of employers.

This simple change to the tax code will provide immediate help for employees of small businesses, who are half as likely to have health insurance as employees of large companies. It will directly benefit nearly 35 million seniors, 90 percent of whom spend their own after-tax money to buy supplemental private insurance and medical care in addition to Medicare and Medicaid.

Most important, this simple change in the tax code will have a dramatically beneficial effect on healthcare competition, costs and quality. And the projected revenue loss for the government is minimal: A study conducted by MIT and the Kaiser Family Foundation estimated the cost at \$870 million a year.

By passing H.R. 1117, we can restore healthcare decision-making to patients and their doctors. By unleashing market forces, we can provide more choice, more competition and lower prices that benefit all Americans.

-- Cox is a member of the House Energy and Commerce Committee and chairman of the Select Committee on Homeland Security.