



President Obama's Health Care Proposals Make a Bad Senate Bill Worse

The White House today released its own health care “proposal” in the form of a series of changes to the 2,733 page legislation (H.R. 3590) that passed the Senate in December.^[i] While the White House claims the changes “improve” on the House and Senate-passed legislation, in reality many of the changes proposed would only exacerbate the flaws in the current bills:

Rising Costs—and More New Federal Spending. Even without an official budgetary score, the Administration admits that its proposed changes would cost at least \$950 billion—nearly \$100 billion more than the Senate-passed bill.^[ii] Actuaries at the Centers for Medicare and Medicaid Services (CMS) have already confirmed that the Senate bill would raise, not lower, health care costs by hundreds of billions in its first 10 years alone.^[iii] The White House proposals—increasing health insurance subsidies, an additional \$1 billion for new federal bureaucracies, and other changes adding to the cost of the Senate legislation—would raise both overall health care spending and the related federal share.

Higher Premiums. The Congressional Budget Office has already confirmed that the Senate bill would raise individual health insurance premiums by an average \$2,100 for every family, but the President’s proposal would likely raise that number even higher. The White House proposal would raise still further the \$101 billion in higher taxes on drug manufacturers and insurers included in H.R. 3590—taxes CBO concluded “would be largely passed through to consumers in the form of higher premiums for private coverage.”^[iv] Moreover, the White House proposes to decrease the tax penalty for non-compliance with the health insurance mandate below the \$750 tax in the Senate legislation. Experience in Massachusetts—the only state with an individual mandate—strongly suggests that many healthy people would rather pay the nominal tax than buy costly coverage, leaving insurance companies with a pool of sick, costly enrollees.^[v] As a result of this insurance “death spiral,” premiums would rise quickly, chasing off healthy customers and leading to yet another spike in premiums.

Secret Deals. While the proposal purports to remove the “Nebraska FMAP provision” that saw 49 other states funding Nebraska’s Medicaid largesse (known as the “Cornhusker Kickback”), it does not address other deals negotiated in the Senate legislation—including the deals negotiated for Louisiana (Section 2006), Massachusetts (Section 10201), and Vermont (Section 10201) with respect to their Medicaid programs. The proposal maintains the controversial “Gator Aid” provision (Section 3201) of the Senate bill that shields certain Floridians from Medicare Advantage cuts. The proposal also retains a special tax benefit for Blue Cross/Blue Shield of Michigan (Section 10905), even though a Department of Health and Human Services report released just last week called the carrier’s 2009 rate increases “disturbing”—proving that backroom deals with fellow Democrats can overcome the President’s heated rhetoric against insurance companies.^[vi]

Dropped Coverage. The proposal would impose costly new mandates on all health insurance plans—including so-called “grandfathered” plans—beginning in 2014. These mandates would raise premiums for individuals and businesses in the same way that CBO asserted the Senate bill would increase premiums in the individual market by at least 10 percent.^[vii] As a result, millions of individuals would pay more for their health coverage, or could lose it entirely, breaking the President’s campaign promise

that “You will not have to change [health insurance] plans. For those who have insurance now, nothing will change under the Obama plan—except that you will pay less.”^[viii]

More Killed Jobs. The White House proposed a near tripling of the “fair share” penalty for employers included in the Senate-passed bill from \$750 to \$2,000—creating an even higher tax on jobs for companies that cannot afford to offer health coverage. The proposal also indicates that the cost of changes to the “Cadillac tax” will be paid for by a further unprecedented expansion of the Medicare payroll tax to include non-wage income like dividends and capital gains, imposing a new 2.9 percent levy on this income. The higher taxes on capital formation needed to fund the proposal’s changes could force firms to lower wages, delay hiring, or even lay people off.^[ix] Both these changes would reduce wages for current employees and destroy new jobs at a time when businesses are reluctant to hire.

Unfunded Mandates. The proposal still requires states that cannot afford their current Medicaid programs to contribute tens of billions more to fund new coverage expansions beginning in 2018. Governors in both parties have already voiced significant concerns about what Tennessee Democratic Gov. Phil Bredesen termed “the mother of all unfunded mandates” being imposed upon states.^[x] As a result of the added restrictions in Democrats’ proposals, the head of Washington State’s Medicaid program believes that states facing severe financial distress may say, “I have to get out of the Medicaid program altogether.”^[xi]

Smoke and Mirrors Accounting. While the proposal claims that the increases in the Medicare payroll tax outlined above would be devoted to the Medicare trust funds, the CBO has already stated that such budgetary gimmicks “would not enhance the ability of the government to pay for future Medicare benefits.”^[xii] In other words, funds from proposed Medicare savings and new Medicare-based taxes would be used to finance new health care entitlements.

New Bureaucracy. The Senate bill already includes language (page 41) requiring state exchanges to examine “excessive or unjustified [insurance] premium increases.” But the White House would go further, by establishing a new federal bureaucracy in the form of an unelected board to impose government price controls and micro-manage health insurance premiums.

^[i] White House plan available at <http://www.whitehouse.gov/sites/default/files/summary-presidents-proposal.pdf>; Senate-passed bill text available at <http://www.opencongress.org/bill/111-h3590/text>.

^[ii] “Obama Releases New Overhaul Plan,” *CongressDaily PM* February 22, 2010, http://www.nationaljournal.com/congressdaily/hcp_20100222_2715.php.

^[iii] CMS Office of the Actuary analysis of H.R. 3590 as passed the Senate, January 8, 2010, http://www.politico.com/static/PPM130_oact_memorandum_on_senate_bill_as_passed_01-08-09.html.

^[iv] Congressional Budget Office, Letter to the Honorable Evan Bayh, November 30, 2009, <http://www.cbo.gov/ftpdocs/107xx/doc10781/11-30-Premiums.pdf>.

^[v] “The Massachusetts Health Mess,” *Wall Street Journal* July 11, 2009, <http://online.wsj.com/article/SB124726287099225209.html>.

^[vi] White House Office of Health Reform, report on insurance company practices, February 2010,

<http://www.healthreform.gov/reports/insuranceprospers/insuranceprofits.pdf>.

^[vii] CBO Letter to Honorable Evan Bayh.

^[viii] BarackObama.com, “Background Questions and Answers on Health Care Plan,” http://www.barackobama.com/pdf/Obama08_HealthcareFAQ.pdf.

^[ix] See for example the Heritage Foundation, “Economic Effects of Increasing the Tax Rates on Capital Gains and Dividends,” April 2008, and the Treasury Department, “A Dynamic Analysis of Permanent Extension of the President’s Tax Relief,” July 2006.

^[x] Quoted in “Governors Fear Medicaid Costs in Health Plan,” *New York Times* July 19, 2009,

<http://www.nytimes.com/2009/07/20/health/policy/20health.html?scp=2&sq=medicaid&st=cse>.

^[xi] Quoted in “Governors Fear Added Costs in Health Care Overhaul,” *New York Times* August 6, 2009,

<http://www.nytimes.com/2009/08/07/business/07medicaid.html?scp=1&sq=krauss&st=cse>.

^[xii] Congressional Budget Office, Letter to the Honorable Jeff Sessions, January 22, 2010, http://www.cbo.gov/ftpdocs/110xx/doc11005/01-22-HI_Fund.pdf.