Congressman Joe Pitts

Sixteenth Congressional District of Pennsylvania

Memorandum on Health Care

MEMORANDUM

TO: Citizens of the 16th Congressional District of Pennsylvania
FROM: Congressman Joe Pitts
DATE: March 30, 2010
RE: My Vote Against H.R. 3590

No American should have to go without medical care. A prosperous and caring nation should provide for all its people, and health insurance should not simply be a perk for the wealthy or the gainfully employed. Few Americans disagree with this, but there are two visions of how to get there. I voted against H.R. 3590 because I strongly believe that it does not constitute actual reform and will, in fact, make the problems facing America's healthcare system worse. It is important that you understand why I feel this way. It is equally important that you understand what I believe we should be doing instead.

This is an updated version of a similar memorandum I wrote in November after the House passed H.R. 3962, the House's version of the health legislation.

The Problem.

Americans get their health insurance today in one of two ways: through private health insurance or from the government. Both of these systems have problems that need to be fixed. The problems with the private system are not simple, but they pale in comparison to the crisis looming before the government system, which faces near-term insolvency and systemic failure.

As different as the problems facing the two systems are, they do have one common theme: lack of competition. In the private system, there isn't enough competition because the government won't allow it. In the government system, there is no competition at all. Anyone who has bought a hot dog at a major league ballpark knows what happens to price and quality when there is little or no competition. More than anything else, real competition is the key to making health care affordable in America.

Private Insurance. Americans have three primary complaints with private insurance: it is too expensive, it is sometimes denied to people (especially to those with pre-existing conditions), and having it at all usually depends on your employer. Together, these result in both high costs and millions of Americans having no coverage at all. Unlike government insurance, the cost of private insurance

responds to trends in the marketplace. Aggressive and frivolous litigation has driven up the price of private care, as has persistent underpayment by government insurance plans.

Government Insurance. Nearly half of all Americans are insured by the government, through Medicare, Medicaid,[1] SCHIP, TRICARE, the Department of Veterans Affairs, and the Indian Health Service. People who are insured by these programs are much less aware of the problems facing the government system. These programs are expensive entitlements, and their problems relate to the their financing, which patients don't see in the course of care. Nevertheless, the problems facing the government system are dire. Medicare's trustees have repeatedly warned that the system is spiraling into insolvency, bankruptcy, and (if nothing is done) collapse.

Two Visions for Solving the Problem.

Some politicians, including President Obama, describe the current debate as one between those who want reform and those who want to stop reform. This is partisan rhetoric and is simply not true. Democrats and Republicans have been arguing for decades over how to reform the system and both parties have advanced plans over the years that have met with strong opposition from the opposing side. It is disappointing to many Americans, especially those in need of help, that Washington doesn't seem able to come together to solve the issue. The disagreement is a principled one, though, and it is hard to reconcile because the two sides have essentially opposite visions.

The end-goal of leading liberals is a single-payer system in which the government is the only insurer in America. The President and other leaders of the Democratic Party are on record supporting this. This is not, however, what H.R. 3590 creates. H.R. 3590 would, for the time being, simply expand the number of Americans who are covered by government health insurance and dramatically increase regulation of private insurance companies. The price tag for this is about $1 trillion for the first ten years (though only six years of program benefits happen in that time frame). It would also force employers to offer health insurance and force every American to buy health insurance. Employers and individuals would both pay penalties for non-compliance. Unfortunately, H.R. 3590 does nothing substantive to save and strengthen Medicare and the current government insurance system from its serious financial problems.

The end-goal of most Republicans and many Democrats is a system in which private insurers engage in robust competition, creating the same market-based inducements to reduce prices and improve service that apply to most of the American economy. Individuals, not employers, would have control over which policy to buy—but with the same level of support they get now from their employers or with increased help from the government, through tax credits or tax incentives. Today, individual insurance plans are tied to regions never any larger than a state and sometimes much smaller. Because present law prevents insurance companies from competing across state lines, there is very limited competition in the business. Republicans strongly support changing this limitation. We also support legislation to reform medical malpractice litigation, which is estimated to cost up to $124 billion a year as doctors and hospitals practice "defensive medicine" to protect themselves.[2] The Congressional Budget Office

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1 Medicaid is known as "Medical Assistance" in Pennsylvania.

2 McQuillan, L.J., et. al. Jackpot Justice: The True Cost of America's Tort System. Pacific Research Institute, 2007.

estimates litigation reform would save the government $54 billion over ten years.[3] Health insurance premiums are 17 percent lower in states that have enacted their own litigation reform.[4] Republicans support sensible government regulation. We also want to save Medicare and the rest of the public system by reducing the cost of healthcare itself through lawsuit reform, real competition, and other measures. Finally, Republicans support increased emphasis on prevention, which would save money across the board.

Concerns with the Democratic Plan.

As unfortunate as the partisanship and acrimony surrounding the healthcare debate is, I also believe the opposition the legislation faced was largely warranted. The leading proponents of the plan are far to the left of the political spectrum, representing places like Boston, New York City, San Francisco, and Hollywood. While I believe President Obama should be treated with respect, it is true that he also belongs to the left wing of the Democratic Party (his 2007 Senate voting record was the most liberal in the Senate).[5] Knowing a plan of this kind would not be viable under normal circumstances, Democratic leaders attempted to rush health reform and other priorities through Congress while they had a veto-proof majority in the Senate, a 257 to 178 majority in the House, and the president was still in his

The Republican Record on Health Reform

(House Republicans held the majority from 1995 to 2006)

Medical Malpractice Reform - FILIBUSTERED
The House of Representatives passed medical malpractice reform *four* times. Each time it was filibustered in the Senate.

Medicare Advantage - LAW
Recognizing that competition is the only way to rein in entitlement spending, Republicans created Medicare Advantage plans in 2003 to allow private insurers to compete with each other as government contractors.

Prescription Drug Coverage - LAW
In 2003, Congress created a prescription drug benefit for Medicare beneficiaries.

Association Health Plans - FILIBUSTERED
The House passed legislation *seven* times allowing businesses to arrange their health benefits through associations, which would have significantly reduced cost. Each time, the legislation was blocked in the Senate.

Health Saving Accounts - LAW
In 2003, Congress created HSAs to allow individuals to save money in an account they control, using the money to pay for everyday medical expenses while an insurance company covers major expenses after a high deductible paid out out of the HSA.

Community Health Centers Funding - INCREASED
From 2000 to 2006, Republicans substantially increased funding for Community Health Centers, the safety net of providers for Americans who don't have access to primary health care. This more than doubled the number of CHCs available to America's poor.

Tackling Entitlement Spending - LAW
In 1997, Congress passed the Deficit Reduction Act, which (among other things) created a "sustainable growth rate" for Medicare spending. Unfortunately, this good-faith effort to control spending didn't work.

National Institutes of Health Funding - INCREASED
Between 1998 and 2003, Republicans almost doubled funding for the national Institutes of Health from $13.6 billion to $27.1 billion in an effort to step up the search for cures for deadly diseases ranging from cancer to HIV/AIDS.

The Health Coverage Tax Credit - LAW
In 2002, Congress created a health coverage tax credit to subsidize coverage for early retirees and workers displaced by international trade. The HCTC pays 65 percent of premiums.

Tax Deduction for the Self-Employed - LAW
In 2003, Congress began allowing self-employed individuals to deduct 100 percent of the cost of their health insurance.

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3 http://www.cbo.gov/ftpdocs/106xx/doc10641/10-09-Tort_Reform.pdf

4 Thorpe, Kenneth E. The Medical Malpractice "Crisis": Trends and the Impact of State Reforms. January 21, 2004, pp. 20-30.

5 2007 Vote Ratings. National Journal, March 8, 2008.

post-inaugural "honeymoon."[6] The election of a Republican Senator from Massachusetts temporarily stalled the Democrats' progress. Soon, though, they redoubled their efforts as they realized their window of opportunity was closing. H.R. 3590, which is now law, does not represent the wishes of the political center of the country.

Partisanship aside, I have two primary concerns with H.R. 3590. First, it does nothing to address the most pressing problem facing the American healthcare system: the looming insolvency of Medicare. I actually believe it will make that problem worse, by taking more than $500 billion out of Medicare. Second, I believe that it is, in fact, consciously designed to lead us toward a single-payer government healthcare monopoly. I am aware that this sounds like partisan rhetoric to some, but there are very good reasons to believe it is true.

Ignoring the Medicare Crisis. Medicare is in serious trouble. The 2009 Medicare Trustees Report contains this dire warning: "The HI trust fund does not meet our short-range test of financial adequacy, and fund assets are projected to be exhausted in 2017. …These projections demonstrate the need for timely and effective action to address Medicare's financial challenges."[7]

Former Treasury Department economist Bruce Bartlett, a conservative critic of both parties, puts Medicare's problems this way: "Just part A of that program, which pays for hospital care, has an unfunded liability of $36.4 trillion in perpetuity." If you add part B (doctor visits), part D (prescriptions), and Social Security (which faces similar challenges) "taxes would have to rise by roughly 81% to pay all the benefits promised by these programs under current law over and above the payroll tax. …Put another way, the total unfunded indebtedness of Social Security and Medicare comes to $106.4 trillion."[8] To comprehend this number, consider that the nation's total private wealth is $51.5 trillion.[9]

Underpaying, But Spending Too Much.

As with Medicaid, the strongest evidence that Medicare needs to be reformed is the fact that it pays doctors too little while also spending so much it is on the brink of insolvency. Douglas Elmendorf, the director of the Congressional Budget Office told the Senate Finance Committee this year: "On average, payment rates under Medicare and Medicaid are lower than private payment rates. Specifically, Medicare's payment rates for physicians in 2006 were nearly 20 percent lower than private rates, on average, and its average payment rates for hospitals were as much as 30 percent lower."[8] Medicaid pays even less.

This has produced a phenomenon known as "cost-shifting" in which doctors and hospitals often charge private insurance above the cost of care to recoup the losses incurred by treating Medicare and Medicaid patients below the cost of care. This is a significant reason for the high cost of private health insurance. It could also be accurately described as a hidden tax on private insurance.

It has also produced a bonanza in Congressional lobbying. I serve on the House Energy and Commerce Committee, which has jurisdiction over most of Medicare. Every medical procedure approved by Medicare has a prescribed reimbursement rate set by the Centers for Medicare and Medicaid Services. Every medical specialty, and there are many, has a team of lobbyists in Washington whose job it is to push every year for a larger slice of the reimbursement pie. This lobbying frenzy is what happens, of course, when government price fixing replaces the free market.

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6 There are now 258 Democrats and 177 Republicans in the House, following two special elections.

7 2009 Medicare Trustees Report. Centers for Medicare and Medicaid Services. U.S. Department of Health and Human Services. http://www.cms.hhs.gov/ReportsTrustFunds/

8 Bartlett, Bruce. "The 81% Tax increase." Forbes, May 15, 2009. http://www.forbes.com/2009/05/14/taxes-social-security-opinions-columnists-medicare.html

9 Federal Reserve Bank. http://www.federalreserve.gov/releases/z1/Current/z1r-5.pdf

Millions of seniors rely on Medicare for their health insurance. Every American counts on it for their current or future medical care. Medicare insolvency is no longer a theoretical future event. According to its trustees, insolvency is just seven years away. In an address to Congress, the President said, "Our health care system is placing an unsustainable burden on taxpayers. ...Put simply, our health care problem is our deficit problem. Nothing else even comes close." I completely agree. However, the bill he just signed into law will only make the problem worse.

The First Step in a Broader Agenda? There is strong evidence that leading Democrats see the new law as merely a first step toward the sort of single-payer government monopoly socialist governments have established in many European countries. Many of them were quite explicit in saying the unsuccessful push for a "public option" was intended to set the stage for such a system.

President Obama once said, "If I were designing a system from scratch I would probably set up a single-payer system... Over time it may be that we end up transitioning to such a system...I don't want to wait for that perfect system."[10]

> *"If there's one thing that can bankrupt our nation, it's health care costs. Health care reform must do more than add a wing on a house that is structurally flawed, mortgaged for more than it's worth and built on a sinkhole of sand."*
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> --David M. Walker,
> Former Comptroller General.

Barney Frank, Chairman of the House Financial Services Committee was even more explicit. He was asked by Single Payer Action—a liberal activist group—on July 27, 2009 "Why shouldn't we start with single payer new?" He responded, "Because we don't have the votes for it. I wish we did. I think that if we get a good public option it could lead to single payer and that is the best way to reach single payer. Saying you'll do nothing till you get single payer is a sure way never to get it. … I think the best way we're going to get single payer, the only way, is to have a public option and demonstrate the strength of its power."[11]

John Conyers, Chairman of the House Judiciary Committee has introduced H.R. 676 to create a single-payer healthcare system. Eighty-seven Democrats have joined him as cosponsors.[12]

It is clear, therefore, that the larger debate is between those who believe in competition and free markets and those who believe in a government controlled and run system.

Specific Concerns. Aside from these broad concerns, I have a number of specific concerns with the bill.

Creates state-based "Exchanges": Federal subsidies to purchase insurance would be available even to those who earn up to $73,240 a year for a family of three.

Higher Premiums: Because the reconciliation bill nearly doubles the tax on health insurers beginning in 2014, and also raises taxes and fees on drug makers and medical devices, these taxes will be passed on to all Americans in the form of higher health costs and rising insurance premiums.

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10 "Fact Check: Obama Consistent in His Position on Single Payer Health Care." January 5, 2008. http://www.barackobama.com/factcheck/2008/01/05/fact_check_obama_consistent_in.php

11 Single Payer Action video. http://www.singlepayeraction.org/blog/?cat=6&paged=2

12 www.thomas.gov

More Lost Jobs: Penalties of $2,000 will be imposed on businesses that cannot afford to provide their workers with health coverage. No distinction is made between part-time and full-time workers. As if these higher taxes were not enough of a disincentive to prevent firms from hiring workers, the reconciliation bill also includes an unprecedented extension of the Medicare tax to all non-wage income. These tax increases will raise the top marginal rate on small business owners by 20%, discouraging the activity needed to grow the economy and create new jobs.

Budget Gimmicks: The reconciliation bill includes a physician payment "cliff" in Medicaid, whereby payments for primary care physicians are increased for 2013 and 2014 only—a provision designed to mask the long-term cost of such a change. The bill also hides the cost of filling in the "doughnut hole" in Medicare prescription drug coverage by not fully phasing in the provision until 2020.

Phony Deficit Reduction: Contrary to recent claims, the Democratic health care overhaul will increase Federal deficits by at least $59 billion and more likely $260 billion, over the next 10 years. Because the "doctor fix"—at a cost of $371 billion—is not included, new analysis from CBO provided indicates that including the "doctor fix" in the Majority's health care overhaul adds $208 billion to the cost of the bill, increasing the deficit by $59 billion over the next 10 years. The proposal assumes unlikely cuts made by a Medicare commission. The Independent Payment Advisory Board is tasked with unrealistic Medicare cuts that history tells us will never be implemented (like the "doctor fix"). The bill currently removes the annual indexing of the subsidies. Throughout this process, the bill has been modified to increase subsidies in the near term, but reduce their growth in the out years. This is intentionally misleading.

Broken Promises

President Obama made a number of promises regarding health reform that he did not keep. Here are a few of them.

Middle Class Tax Increases. The President repeatedly promised that, "Under my plan, no family making less than $250,000 a year will see any form of tax increase. In fact, there are 12 new taxes in the law that violate this pledge. Additionally, 46% of the funds generated by the new "individual mandate tax" will come from households earning less than 300% of the poverty level.

Higher Premiums. The President promised that premiums would decrease by $2,500 when the bill became law. In fact, the Congressional Budget Office estimates premiums will increase by $2,100 for millions of families.

Endangering Medicare. At the White House healthcare "summit," the President claimed that the bill would "extend the life of the Medicare Trust Fund." But the huge cuts to Medicare in the bill are not used to improve Medicare's solvency--they are used to create a huge new entitlement. Either you're shoring up Medicare or you're paying for Obamacare. Even the CBO confirms you can't claim to be doing both.

Worsening the Deficit. The President repeatedly argued that the law is "deficit neutral." Shortly before passage, Democrats even argued it would reduce the deficit. This claim is based on a series of deceptions built into the bill:

- The so-called "doctor fix" was removed from the bill and will be passed separately. Not passing this would cause a 21 percent cut in Medicare reimbursements to doctors.
- Most of the bills provisions don't kick in for four years, but the revenue mechanisms kick in immediately. Therefore, six years of spending is paid for with ten years of taxation.
- $29 billion in Social Security revenue is taken to pay for the new entitlement.
- $529 billion in medicare cuts are double-counted.
- $210 billion in new Medicare taxes are likewise double-counted as improving Medicare's solvency while also paying for the new entitlement.

Losing Current Coverage. The President often promised that "if you like the plan you have, you can keep it." For millions of Americans, that won't be true. The CBO found that as many as 10 million individuals will lose their current coverage. Likewise, the massive cuts to Medicare Advantage will cause millions of seniors to lose access to the critical extra benefits these plans provide.

More Medicare Cuts: The reconciliation bill raises another $66.1 billion from Medicare Advantage, cutting a total of $202.3 billion from the program in order to fund new entitlements for other Americans. The total Medicare cuts in the bill now add up to $523 billion.

Sweetheart Deals: The reconciliation bill retains unpopular provisions in the Senate-passed measure—the "Louisiana Purchase," special Medicare coverage for individuals in Libby, Montana, and $100 million for a Connecticut hospital. The bill also increased Medicaid payments for Hawaii hospitals in a way that will force the other 49 states to pay more taxes to pay for Hawaii's special treatment. The bill also contains provisions to increase Medicare payments to hospitals in Michigan and Connecticut.

Pushing people onto Medicaid: The reconciliation bill forces an additional 1 million individuals into Medicaid on top of the 15 million already forced into Medicaid in the Senate bill. That means that 16 million of the 32 million newly insured individuals would obtain that coverage through Medicaid—a program which President Obama admitted at the recent health care summit suffers from serious access problems already. The Congressional Budget Office estimates that 2 million fewer individuals will have a choice of plans on the Exchange, and 23 million individuals would remain uninsured.

Federal Funding of Abortion: Not only does the reconciliation bill not prohibit federal funds from flowing to plans that cover elective abortion, it increases funding for community health centers by $2.5 billion—and neither the reconciliation bill nor the Senate-passed

$569.2 billion in new taxes

H.R. 3590 will increase the tax burden of the American people by at least $569 billion. Here is a list of tax increases in the new law:

Raises taxes by *$4.5 billion* by eliminating the exclusion employer plans receive in connection with offering qualified retiree prescription drug coverage under the Part D retiree drug subsidy program (RDS). Under current law, these plans are not subject to the corporate income tax. Some conservatives may be concerned that eliminating this favorable tax treatment will lead to employers dropping drug benefits for retirees.

Raises taxes by *$23.6 billion* by prohibiting so-called "black liquor"—a wood pulp byproduct that can be used as an alternative bio-fuel—from becoming eligible to receive a tax credit for cellulosic bio-fuel production that was established in the 2008 farm bill.

Raises taxes by *$4.5 billion* by codifying the "Economic Substance Doctrine," which starting in 2010 allows the IRS to disallow a tax deduction, or other tax relief provision, simply because the IRS deems that the motive of the taxpayer was not primarily business-related (as opposed to tax-related).

Corporate Timing Tax Shift Gimmick This provision would apply a 15.75 percentage point corporate tax timing shifts to corporations. This provision is merely a revenue timing shift, a gimmick used to comply with the House's PAYGO rule, yet would have real-world implications, as it forces certain companies to pay more of their tax payments earlier (*$8.8 billion)*. Given the time value of money, earlier payments harm the bottom line of employers.

Raises taxes by $17.1 billion through expanding of 1099-MISC information reporting to corporations beginning in 2012.

Health Insurance Taxes ($519.5 billion) The bill includes limitations on Health Savings Accounts (HSAs), Flexible Spending Accounts (FSAs), Health Reimbursement Arrangements (HRAs), taxes on medical devices, health plans and other items including:

***$210.2 billion* tax increase** Beginning in 2013, the bill increases the Medicare payroll tax by 0.9% on individuals making $200,000 and families making $250,000 *(not indexed to inflation)* which creates a new marriage penalty and over time will hit more of the middle class.

The bill adds an additional 3.8% tax on net investment income for these same individuals, estates and trusts. Income derived from the ordinary course of business that is not a passive activity such as active participation in an S-Corp or distributions from qualified plans (listed on page 91), and any item taken into account in determining self-employment income.

$2.7 billion tax increase Replaces the "botax" or excise tax on elective cosmetic surgery with a new excise tax starting in 2010 (10% of the amount paid for the service by the customer) on indoor tanning services.

***$20 billion* tax increase** Moves the tax on medical devices manufactures and importers back two years from 2011 to 2013 and changes it to an annual 2.3% excise tax. The Manager's Amendment reduced the tax from 2.9% to 2.3% while simultaneously expanding taxable items to Class I medical devices (in addition to Class II and III). Items that are still exempt include contact lenses, eyeglasses, hearing aids, and other devices that are generally purchased at retail by the public at the Secretary's discretion.

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measure include any prohibition on community health centers using these federal funds to offer elective abortion.

Federalizing Student Loans: One way the authors of the bill were able to bring the apparent cost down was by nationalizing the guaranteed student loan industry. By taking this profitable industry and nationalizing it, the government will be taking business (and jobs) away from the private sector and making money for the government instead, "reducing" the overall cost of the bill.

New Taxes: The bill also includes a never before seen 3.8 percent tax on the "unearned income" of people who have adjusted gross income above $200,000 for individuals and $250,000 for married couples. Unearned income includes interest, dividends, passive business income and capital gains. Because the underlying Senate bill does not adjust this new tax for inflation, more and more middle-class American families will be hit by this tax over time, just like the Alternative Minimum Tax (AMT). Combined with the Administration's other proposals, the new tax would raise the top income tax rates on capital gains and dividends from 15 percent to 23.8 percent by 2013.

The Right Way to Reform Healthcare.

If we make healthcare more affordable to individuals by making it even more unaffordable for the nation, we are just adding to a house of cards that will even more quickly collapse. This will benefit no one, and hurt everyone. Modern healthcare is inherently expensive,

...Continued from the preceding page.

***$5 billion* tax increase** Excludes non-prescription medications from being purchased with pre-tax dollars beginning in 2011.

***$1.4 billion* in tax increases** from subjecting non-qualified distributions from HSAs to a tax of 20% on the disbursed amount (current law is 10%), beginning in 2011.

***$13 billion* tax increase** Places an annual cap of $2,500 on FSAs, which are currently uncapped due to the "use-it-or -loose-it rule" whereby at the end of a plan year money remaining in an FSA must be forfeited by the employee. The cap would be indexed to CPI-U beginning in 2013 (back two years from 2011).

***$60.1 billion* tax increase** Pushes back the annual, non-deductible tax on health insurers, allocated based on market share of net premiums, by three years (from 2011 to 2014). The fee is phased at $8 billion in 2014 (up from $2 billion in 2011, $4 billion in 2012, $7 billion in 2013, and $9 billion in 2014 – 2016), $11.3 billion in 2015 and 2016, $13.9 billion in 2017, $14.3 billion in 2018, and indexed to medical cost growth thereafter (up from $10 billion in 2017 and thereafter). Provides a partial exclusion for non-profit plans, plans where no net earnings go to private shareholders or individuals (and no "substantial" part of activities is "carrying on propaganda or attempting to influence legislation and does not intervene in any political campaign), and plans where 80% of the revenue is from government programs for low-income, elderly or disabled individuals.

***$2.6 billion* tax increase** Places a new tax on insurance policies to fund the Patient-Centered Outcomes Research Trust Fund. The Senate bill provided an exemption from the health insurer fee for nonprofit insurers that meet certain requirements (only two insurers in the States of Nebraska and Michigan qualify), including a high Medical Loss Ratio (MLR).

***$32 billion* tax increase** Places a tax on high-cost "Cadillac" plans beginning in 2018 (reduced from $148.9 billion due to a special deal for the unions). Includes additional carve-outs for "high-risk professional," retirees, and the cost of vision or dental plans.

***$27 billion* tax increase** Places an annual non-deductible "fee" or tax on pharmaceutical manufacturers allocated according to market share and not applying to companies with sales of branded pharmaceuticals of $5 million or less. The tax is increased by $7.8 billion phased in beginning in 2011.

***$0.4 billion* tax increase** from modifying section 833 treatment of certain health organizations beginning in 2010.

***$0.6 billion* tax increase** from placing a $500,000 deduction limitation on taxable year remuneration to insurance executives (officers, employees, directors, and service providers of covered health insurance providers) beginning in 2012.

***$15.2 billion* in tax increases** from raising the 7.5% AGI floor on medical expenses deduction to 10% in 2013. The AGI floor for individuals age 65 and older (and their spouses) remains at 7.5% through 2016.

$60.3 billion tax increase from "other revenue effects."

(Source: Republican Study Committee)

relying on ever more complex technology and investment-heavy research and development. There is no magic formula for making it cheap. If we are truly interested in making health insurance not only available to everyone but also sustainable into the future, we are going to have to do it the old-fashioned way.

Health insurance rates suffer from the same problem college tuition rates suffer from: the government's efforts to help have backfired. By trying to make sure we can afford them, the government has made both less affordable. By "guaranteeing" we can afford them, the government has removed the natural price ceiling from the marketplace. This is exacerbated by the fact that neither education nor healthcare are thought of as "optional" purchases by most Americans. If healthcare is to be affordable for families and for our nation as a whole, it is imperative that old-fashioned free-market forces be reintroduced into the marketplace. Consumers must have the power to compare insurance products and shop for the best deal. Consumers must also have control over their own policies, rather than relying purely on the "wisdom" of their employers' human resource departments. The current imbalance of universal demand against limited supply must be changed. Insurance companies must be placed into a truly competitive marketplace, nationwide, in which dozens or even hundreds of competitors are vying daily for customers. Today, because of government rules, many markets are served by only one or two private insurers.

Carrots Instead of Sticks. While there are probably some businesses in America that intentionally avoid providing health insurance for their employees, the real problem is that too many just can't afford to. Many new, small, and struggling businesses simply don't have the profit margin that makes it possible. We should stop criticizing those who can't offer the benefit and start helping them instead.

Risk Pooling. I have teamed up with a Democrat to do just that. Congresswoman Nydia Velazquez of New York and I have co-authored the Small Business CHOICE Act, which will allow small business to form private health insurance cooperatives to buy insurance at lower rates while transferring catastrophic costs to a larger insurer. The bill helps small businesses offer health insurance through a refundable tax credit of 65 percent. Self-employed people would save $5,000 a year on health insurance, and other small firms would save more than 34 percent. While only part of the solution, I believe this bill would bring us much closer to universal healthcare without government control.

Association Health Plans. Another way to accomplish risk pooling is through association health plans (AHPs). Republicans have long advocated allowing Rotary clubs, professional associations and other groups to band together and form their own health plans, reducing prices through increased scale and shared risk.

Individual Responsibility. Wherever possible, Americans should be asked to be responsible for their own well-being. Preventive medicine and healthy lifestyles could add up to major cost savings. Likewise, I believe there should be a tax-advantaged mechanism for Americans to save up for a day when they are unemployed and lose their employer coverage. I will soon be introducing legislation to help Americans escape the "catch 22" that COBRA coverage currently represents for most people who need it.

Encourage Innovation. We should never forget that innovation comes almost exclusively from the private sector. New drugs, therapies, and cures will only be developed if the companies that find them

are able to make a profit from them. We should not nationalize healthcare and we should not weigh down innovation and invention with unnecessary new taxes and regulations.

Wise Regulation. Clearly, we need regulatory reform as well. Insurance companies should not be allowed to drop people's policies for arbitrary and capricious reasons. Those who have pre-existing conditions should not be barred from obtaining coverage. Doctors should not be overruled by insurance companies when determining the care patients need. At the same time, we need to recognize that the more we regulate doctors, hospitals, and insurance companies the more we increase their costs. Those costs are always passed on to the consumer.

Litigation Reform. While we need new rules for insurance companies, we also need new rules for lawyers. Unscrupulous attorneys have discovered how to become multimillionaires by trolling the country for "victims" who may not even be sick. Settlements or jury awards in class-action suits often result in millions for lawyers and only a few dollars or even just store coupons for those they represent. This problem extends beyond health insurance, but has hit physicians and hospitals particularly hard. Malpractice insurance policies for individual doctors now cost in excess of $200,000 per year for obstetricians and many other specialists. Patients ultimately foot the bill for this.

Consumer Control. In no other sector of our economy do consumers have less active involvement in major purchases. Today, consumers have almost no ability to reward insurance companies for providing good service for less money, nor do they have the ability to punish insurance companies by "taking their business elsewhere." Employers make most of the contracting decisions, placing individuals in a "take it or leave it" situation. Putting consumers in control of purchasing decisions will allow the market to work the way it should, driving down prices. Real health reform will give individuals the same tax benefits corporations get when it comes to purchasing insurance--giving them the power they, as consumers, should have.

Portability. Another effect of this is that insurance is too-closely tied to employment. People who are laid-off, fired, or have to quit working can find themselves uninsured at a time when they can least afford it. Americans should be able to take their insurance with them from one job to another and from one state to another.

Nationwide Competition. Consumers should be allowed to purchase health insurance across state lines, the way they can with other forms of insurance. Under the present system, insurance plans operate only within states or even just areas within states, not nationally, frequently facing little or no competition. In some areas, one insurance plan holds 90 percent of the market. This distorts the marketplace, removing the incentives to be efficient and customer-oriented that robust competition creates. It is essential that we change this.

Health Savings Accounts. Lack of consumer control also has the effect of reducing people's motivation to make their own responsible decisions. There is little incentive to make wise decisions about when to see a doctor or to make healthy lifestyle choices. Instead, insurance companies try to reduce costs by requiring doctor referrals and insurance pre-certification. A better way to help people to make responsible decisions is to transfer the motivation to be frugal from the insurance company to the individual. Health Savings Accounts, created in 2003 by Republicans but still under-used, allow individuals to save money in an account they control, using the money to pay for everyday medical

expenses. Only when major medical expenses are incurred does the insurance company step in, after a high deductible (paid out of the HSA) is met. HSAs encourage individuals to make smart spending decisions and cost them less over time than traditional insurance.

Insuring Young People. A large proportion of the uninsured in America are healthy young people who don't believe health insurance is an important priority on their limited budgets. This increases the cost of insurance for everyone else and also creates real problems when young uninsured people do become sick or are injured in an accident. One provision that Republicans and Democrats agreed on was allowing parents to keep their children on their insurance policies until they turn 26.

Conclusion: Don't Forget About Medicare.

Making sure that no American has to go without the medical care they need is extremely important. H.R. 3590 attempts to solve this problem through massive expenditures, huge new tax increases, and significantly increased federal government control of the private sector. As I have detailed, I believe there is a better way to achieve our common aims.

A great many Americans are calling for repeal of the Act. At the very least, a great many of its provisions will need to be revised. Columnist George Will recently wrote, "As America's teetering tower of unkeepable promises grows, so does the weight of government, in taxes and mandates that limit investments and discourage job creation."

The Act not only ignores, but worsens, the fiscal problems looming before Medicare. Any real effort to reform healthcare in America will need to shore up the system every senior in America relies on. H.R. 3590 is, in that way, a missed opportunity. Saving and strengthening Medicare will be a difficult project and one too easy to demagogue for one party to accomplish it alone. The ideological rigidity and partisanship seen in the current legislative process and in H.R. 3590 itself do not bode well for Medicare's future. Congress must act in a bipartisan fashion to protect Medicare, and it must do so very soon.