

NATIONAL REVIEW

Bringing Senate Conservatives and Moderates Together on Health-Care Reform

With a bit of give-and-take, Mitch McConnell's caucus can reach a compromise that works for both factions of the caucus.

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July 10, 2017

Senate majority leader Mitch McConnell is struggling to line up the 50 Republican votes he needs behind his health-care bill. Conservatives complain that it does not fulfill the GOP's seven-year pledge to repeal Obamacare, while the caucus's more moderate members complain that it goes too far. McConnell cannot afford to have more than two of the 52 Republican senators vote no. If he is going to pull the bill out of the fire, he will need ideas that make it more appealing to both factions of the Senate GOP.

Fortunately, there are at least two such ideas that have not yet been part of the debate: "large" health savings accounts (HSAs) and zero-growth Medicaid block grants.

Large HSAs

Incorporating ideas from Senator Jeff Flake's "[Health Savings Account Expansion Act](#)" could make McConnell's bill more palatable to both conservatives and moderates.

Current law allows taxpayers enrolled in high-deductible health plans to save money for their deductibles and other uncovered medical expenses in a tax-free HSA each year. Account holders can generally contribute enough to cover their annual deductibles, but not enough to cover the maximum cost-sharing exposure of many plans. Americans had opened more than 18 million HSAs and accumulated more than \$35 billion in deposits by 2016. The Senate bill would expand the accounts, principally by allowing contributions equal to the maximum allowable out-of-pocket exposure in HSA-eligible plans (\$6,550 for individuals and \$13,100 for families).

Flake's bill would make three further changes: (1) allow all taxpayers, not just those enrolled in high-deductible plans, to have HSAs; (2) increase contribution limits to \$9,000 for individuals and \$18,000 for families; and (3) let taxpayers purchase health insurance with HSA funds.

These changes would lead taxpayers to direct more of their income to the tax-free HSAs, and would therefore reduce the amount of tax revenue the federal government collects. But Senate leaders could cover that revenue loss simply by eliminating other tax cuts already in the Senate bill.

What's in it for conservatives?

Large HSAs would cut taxes and reduce the size of government more than the tax cuts currently in the Senate bill. A large part of the burden of government is how much the tax system reduces economic productivity by distorting the economic decisions of producers and consumers. For decades, the federal tax code has heavily favored third-party payment for medical services and health insurance over direct payment, which has left Americans less wealthy. Large HSAs would completely level the playing field, reducing tax-based distortions of Americans' economic decisions and thereby reducing the burden of government.

Large HSAs would deliver an effective tax cut nine times as large as the one that would result from repealing Obamacare's taxes, because they would let families control more of their earnings. The federal tax code's current treatment of health insurance denies workers control of a huge chunk of their compensation. The so-called "employer contribution" to each worker's health-insurance premiums is actually part of the worker's earnings, and averages \$13,000 per family. Yet the tax code gives control over that money to employers rather than the workers who earned it. If workers demand that money as cash wages, the tax code penalizes them by taxing it. Large HSAs would eliminate that penalty, allowing workers to receive the extra money as cash compensation, deposit all of it and more in a Large HSA, and use the resulting nest egg to purchase insurance tax-free, as employers do today.

Even better, Large HSAs would cause health-care prices to fall, which is the most important form of assistance we can provide vulnerable patients. HSAs encourage patients to comparison shop and avoid unnecessary spending, because they allow the taxpayer to keep whatever she doesn't spend, which then continues to grow tax-free. With large HSAs, consumers would keep whatever they save on out-of-pocket expenses and premiums, which would put downward pressure on health-care prices across the board. Research shows cost-conscious patients spark price competition that reduces prices by an average of 20 percent across a range of health-care services. Obamacare and the current Senate bill just throw more taxpayer dollars at unaffordable care. Large HSAs would actually make health care more affordable.

What's in it for moderates?

Large HSAs would shift the Senate bill's tax relief from the wealthiest taxpayers to the middle class. According to the Center for Budget and Policy Priorities, by 2025 the tax cut from repealing Obamacare's payroll and investment taxes "would average over \$50,000 per year for households with annual incomes exceeding \$1 million," while "the 400 highest-income taxpayers . . . would get annual tax cuts averaging roughly \$7 million each." Large HSAs would give the wealthiest taxpayers an annual tax break of no more than about \$9,000, and would shift the bill's remaining tax relief to the middle class. (Republicans could still repeal Obamacare's tax hikes in the 2018 reconciliation bill, if they wanted to.)

Large HSAs would also provide tax relief to Americans struggling with the rising costs of Obamacare. Exchange enrollees could use the accounts to pay their portion of the premium tax-free. Enrollees struggling with Obamacare's narrow networks could use the accounts to help them afford out-of-network care. And Flake's proposal would provide the most tax relief to the near-elderly, whose premiums would rise the most under the Senate bill.

Finally, Large HSAs would make the tax code more equitable. Current law only permits taxpayers who have high-deductible plans to have an HSA. Conservatives seem to forget that not everybody likes high-deductibles, and that those folks who don't should have a right to purchase more comprehensive coverage without a penalty. Large HSAs would make tax-free health savings a reality for all taxpayers, regardless of their risk preferences.

Zero-Growth Medicaid Block Grants

Neither conservative nor moderate Republicans are particularly happy with the Senate bill's Medicaid provisions. The bill would phase out Obamacare's Medicaid expansion by 2024. Beginning in 2025, it would limit the growth of federal Medicaid spending to the rate of inflation. The Congressional Budget Office projects federal Medicaid spending would grow at an average rate of less than 2 percent per year through 2026. Conservatives complain that these spending constraints are too little, too late. Moderates complain that they limit federal spending too much, too soon.

The second change Senate leaders should adopt is to convert Medicaid to a system in which states enjoy full flexibility to administer their own programs, each state receives more federal funds in the initial years than they would receive under current law or the Senate bill, and yearly funding levels remain fixed — i.e., a zero-growth block grant.

What's in it for conservatives?

Unlike the House or Senate bills, block grants would provide actual, structural reform of the Medicaid program. States would enjoy full flexibility to target Medicaid funds to the truly needy. At the same time, the incentive states face to eliminate waste, fraud, and abuse — with which Medicaid is rife — would greatly increase. States would police their programs more aggressively, further enabling states to devote taxpayer dollars to those who need them.

A zero-growth rate would mean federal Medicaid spending would not grow from year to year, which would dramatically restrain federal spending and reduce future federal deficits.

What's in it for moderates?

A zero-growth rate is not much less than the Senate bill's 2 percent growth rate, and would allow moderate Republicans to secure higher initial Medicaid funding for their states than they would receive under the Senate bill, or even under current law.

A zero-growth rate would save so much toward the end of the ten-year budget window that Senate leaders could significantly increase each state's initial Medicaid allotment above the levels in both the Senate bill and current law without increasing total Medicaid spending. They could increase federal Medicaid spending in 2018 from \$403 billion to \$428 billion without increasing Medicaid spending in the ten-year budget window. That alone would give states \$78 billion more than they would receive through 2022 under the current Senate bill.

Senate leaders could then fold into the block grants the \$107 billion the bill now offers states for high-risk pools and other policies, plus the \$200 billion of "candy" — the money the bill can spend while still meeting its deficit-reduction target — left over. These funds would allow

Senate leaders to increase federal spending on Medicaid block grants in 2018 to \$462 billion. States would receive \$307 billion more in federal Medicaid funds through 2025 than they would under the current Senate bill. Through 2020, they would even receive \$75 billion more than under current law, again without increasing spending under the Senate bill. This would be a bitter pill for conservatives, who want to cut that spending rather than give it a permanent home in the Medicaid program. But it would also give states adequate funding to address the opioid crisis and any other challenges they face.

If moderates won't take yes for an answer, Senate leaders could engage in a little more give and take by tapping Obamacare's exchange subsidies. The Senate bill preserves enough of those subsidies to increase Medicaid block-grant allotments by yet another \$43 billion per year, to \$505 billion. That's 25 percent more than states would receive under the Senate bill in 2018. Indeed, it is more than states would receive in any year under the Senate bill. States would receive an additional \$390 billion through 2026 that would otherwise go to straight to insurance companies, all without spending any more than the Senate bill already does.

Redirecting exchange subsidies to Medicaid block grants, of course, would mean exchanges would collapse even faster than they already are. Senate leaders would have to take steps to stabilize the individual market. The only sure-fire way is to eliminate the regulations that are causing the instability — in particular, Obamacare's community-rating price controls.

Moderates are loath to repeal Obamacare's regulations, but doing so is only pragmatic. Even ideological supporters of those regulations admit that, absent sufficient popular support to enforce the individual mandate and/or shower private insurers with taxpayer subsidies, those regulations harm consumers by causing insurance markets to collapse. Repealing the regulations, on the other hand, would instantly stabilize the individual market and provide visible benefits to tens of millions of voters. Premiums in the individual market would fall an estimated 45-68 percent, while innovative insurance products would reduce the price of insurance protections by another 80 percent.

For the small share of exchange enrollees who could no longer afford coverage after repeal of the regulations, Medicaid block grants already provide a solution. Actually, 50 solutions. That additional \$390 billion means states would receive more federal Medicaid funds than they would in any year through 2021 under current law, or through 2026 under the Senate bill. States would pursue diverse approaches to address preexisting conditions, which would produce better results than Obamacare's ham-handed, economically and politically unsustainable, one-size-fits-all approach. If moderate Republicans really are moderate, they will have no ideological attachment to those regulations, but will care primarily about whether there are adequate resources for people with expensive medical conditions.

Compromise Is the Only Way Forward

Nobody is going to like all of these ideas. I don't even like all of these ideas.

But if conservatives agree to defer repeal of Obamacare's hated payroll and investment taxes, they can get a much larger tax cut, and add real health-care reform to a bill that sorely lacks it. If

moderates agree to expand HSAs, they can make the federal tax code more equitable, deliver a huge middle-class tax cut, and provide relief to the very people who will see their premiums rise most under the Senate bill.

If conservatives can stomach increasing federal spending by \$78 billion over the next five years, they could get structural reform of Medicaid and a baseline that imposes real spending restraint. If moderates can defer the battle over the long-term trajectory of Medicaid spending until the next presidential term, they can bring an additional \$78 billion home to their states between now and then.

If conservatives can stomach keeping Obamacare's exchange spending and using it to boost federal Medicaid spending by \$390 billion, they could possibly get moderates to go along with repeal of the regulations that are increasing premiums and destabilizing the individual market. If moderates can let go of regulations to which they have no particular ideological attachment, they could deliver to states \$390 billion for use in tackling preexisting conditions, opioid addiction, and other challenges — money that would otherwise go to insurance companies.

There is plenty here to give both conservatives and moderates heartburn. But there is even more for those on each side to gain by overcoming their misgivings. Health-care reform's success will ultimately hinge on whether both sides are willing to compromise.

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