THE GLOBE AND MAIL

December 23, 2009

Obama's health-care revolution, buried in loopholes and red tape

By Konrad Yakabuski
From Thursday's Globe and Mail

Legislation is set to pass in the Senate this morning - but what's not clear is whether Americans will be better off for it

For the better part of a week now, U.S. Senators have been cooped up in the north wing of the Capitol, enduring midnight sessions and roll calls at dawn, all to pass a historic health-care bill before Christmas.

The legislation is at once the most meaningful advance in American social policy since Lyndon Johnson and a 2,500-page bureaucratic monstrosity that only a lobbyist could love.

Everyone agrees the leviathan otherwise known as the U.S. health-care system is in dire need of surgery.

But the Democrats' health care reform - which the Senate is expected to pass Thursday morning - could well make a bad situation worse. It will serve to fatten insurer profits and deepen the country's budget crisis. It's not clear it will make Americans any healthier. And it certainly won't make the system any simpler.

Mr. Obama's health-care reform will go a long way to correct a national embarrassment as the richest country on Earth, the one that spends proportionally more on health care than any other, finally moves to ensure almost all of its legal residents have access to insurance.

Mr. Obama's health-care reform will go a long way to correct a national embarrassment as the richest country on Earth, the one that spends proportionally more on health care than any other, finally moves to ensure almost all of its legal residents have access to basic insurance. But by entrenching private insurers as the arbiters of patient care, rather than creating a single-payer public program like Canada's, the current reform promises to make an unwieldy American health-care system even more complex.

"Our administrative arrangements make pyramid building seem like parsimony," Henry Aaron, a leading Brookings Institution health-policy analyst, opined in an interview. "And the U.S. system is going to continue under this law to be administratively grotesque."

As much as a quarter of the $2.5-trillion Americans spend on health care annually goes toward administrative costs, compared to less than 10 per cent in most developed countries with universal health coverage. Paper-pushing - such as pre-authorizations for care and disputes between patients, doctors and insurers about who pays what - remains a big and growing subsector of the U.S. health-care economy.

The Senate bill tries to address the problem by requiring insurers to spend between 80 per cent and 85 per cent of patient premiums on actual "care." But Wall Street analysts who have studied the bill say it contains enough loopholes

to keep insurers doing business as usual.

No wonder insurance company stocks have soared as investors contemplate 30 million new insurance consumers and the absence of new competition in the form of a public health-insurance plan for Americans under 65.

Instead of creating a new government-run health plan, as Democrats on the left have pushed for, the Senate bill proposes to expand the proportion of Americans with health insurance - to 94 per cent from the current 83 per cent - in two ways.

First, Americans earning up to 133 per cent of the poverty level would become eligible for Medicaid, an existing public health program that provides a bare minimum of care and whose costs are shared by the federal and state governments. The current cutoff is 100 per cent of the poverty level.

Those who are ineligible for Medicaid but earn less than $88,000 (for a family of four) would get government subsidies to buy health insurance from private companies. Only illegal immigrants, and a few million legal residents who choose to pay modest fines rather than buy insurance, would remain without coverage.

The problem with the Medicaid expansion and subsidy programs, says health policy analyst Michael Cannon, is that they will discourage low-income Americans from seeking better-paying jobs since a higher income would render them ineligible for government assistance.

"One of the nasty side effects of this legislation is that ... if low-income Americans try to climb the economic ladder they will face an effective tax rate of 100 per cent," said Mr. Cannon, director of health policy studies at the right-leaning Cato Institute in Washington. "It traps them in low-wage jobs."

Under the Senate bill, the subsidies to buy insurance would not begin to flow until 2014 and would cost the government $871-billion in the first six years. New taxes on wealthy Americans and the most generous health plans, which would kick in as early as 2010, would pay part of the tab. But the rest - some $470-billion - would be squeezed out of Medicare, the public plan created in 1965 by former president Johnson, which insures American seniors.

Mr. Obama has seized on an analysis by the Congressional Budget Office, the nonpartisan agency that costs out government programs, to claim the Senate bill would reduce the deficit over time.

In fact, the agency's report is not that categorical. It notes that the bill would be deficit-neutral only if Congress makes good on its promise to slash the growth in Medicare spending, a Herculean task in the best of times, but one that will become even tougher in coming years as the baby boomers enter senior citizenship.

"It is unclear whether such a reduction in the growth rate could be achieved, and if so, whether it would be accomplished through greater efficiencies in the delivery of health care or would reduce access to care or diminish the quality of care," the CBO said in a note this week.

Mr. Aaron, the Brookings analyst, conceded that "it is possible Congress will chicken out" and reverse the proposed Medicare cuts. But he thinks legislators will have a powerful incentive to contain health-care costs once the government starts providing direct subsidies to consumers to buy insurance.

"The budget is going to be under increasing pressure in the years ahead so Congress is going to be forced to consider moves to rein in growth in health care spending," Mr. Aaron said. "If this [Senate] bill passes, we're going to see legislation every few years to control costs."

If history is any guide, don't bet on it. For years now, Congress has repeatedly postponed proposed reductions in the fees paid to doctors under Medicare. But those yet-to-materialize cuts are still built into Medicare actuarial projections. Hence, there is legislation on the books to impose a cumulative 21-per-cent cut in doctor fees in 2010.

Unsurprisingly, the Senate bill puts off the cuts for yet another year - enough of a breather for the American Medical Association to provide Mr. Obama with a crucial endorsement this week.

In an oligopolistic U.S. health-care system, dominated by a handful of for-profit insurers in each state, the best way to contain costs might have been through the creation of public health-insurance plan for all Americans under 65. The bill adopted by the House last month contains such a "public option" - albeit a very weak one. And not many observers believe it will survive as the bills from each chamber are merged.

The nearly $400-million spent on health-care lobbying in the first nine months of 2009, not counting as-yet-undisclosed millions disbursed in the fourth quarter, will see to its exclusion. Besides, Mr. Obama would never get the 60 Senate votes he needs in order to get a final bill to his desk without killing the public option he personally favours.

Ensuring health-care coverage for as many Americans as possible is a noble and necessary goal. This, however, is the wrong way to go about it. Medicaid is a poor substitute for comprehensive health insurance and private insurers are notorious for leaving Americans in the lurch when that feared diagnosis comes. For the average American, the very act of sorting through the fine print to choose a plan is enough to provoke an anxiety attack.

But in a country where distrust of government is almost a patriotic duty, most Americans still seem to prefer the health-care leviathan they know.