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AEI: Replace group health tax deduction

By Allison Bell - DECEMBER 10, 2012

The American Enterprise Institute (AEI) has released a "playbook" for replacing the Patient Protection and Affordable Care Act of 2010 (PPACA).
Thomas P. Miller, the author of the PPACA alternative proposal, "When Obamacare fails," is calling for policymakers to kill the current group health insurance tax deduction.

The ideal would be to go cold turkey and simply eliminate all tax subsidies for health coverage, Miller said.

If that's not politically possible, Congress could start by creating an individual health insurance purchase tax credit for people under 65, Miller said.

The initial value of the credit could be comparable to the current value of the group health tax subsidy, or about $5,000 to $6,000 per family, Miller said.

"Any household that chose to forgo purchasing at least some basic level of insurance would lose the entire value of the credit," Miller said.

The risk of losing the credit would be more effective at getting families to buy coverage than the PPACA individual coverage ownership mandate, because the sixe of the Miller health insurance tax credit would be much higher than the PPACA uninsurance tax, Miller said.

Policymakers could adjust the tax credit and make it bigger for sicker, lower-income taxpayers, Miller said.

But one challenge would be that adminstering the adjustment mechanisms could make the tax credit more complicated and harder to explain, Miller warned.

Miller, a resident fellow at the AEI, was a senior health policy advisor for the John McCain presidential campaign in 2008. Earlier, he was a senior health economist at the Joint Economic Committee, an arm of Congress. He also has been director of health policy studies at the Cato Institute and director of economic policy studies at the Competitive Enterprise Institute.

Many health policy analysts refer to federal income tax breaks as "tax expenditures," or efforts by the government to hide the fact that it is spending large sums of money by having taxpayers use money that would normally be sent to the tax collectors to buy what the government wants them to buy.

Using tax expenditures to help pay for health coverage fosters the illusion that "we can pay most, or at least a substantial share, of everyone's health insurance premiums with other people's money," Miller said. "But there simply is not a sustainable line of credit or enough projected tax revenue to keep financing these efforts at the same current-law levels far into the future."

Reducing group health tax deduction tax expenditures on health coverage for upper-middle-income and high-income taxpayers would free up money the government could use to reduce the budget deficit and pay for basic care for people with very low incomes or unusually serious health problems, Miller said.

Miller also calls for replacing the current version of Medicare with the kind of "premium support" version of Medicare that Rep. Paul Ryan, R-Wis., has promoted.

Today, enrollees already can choose between traditional Medicare and private Medicare Advantage plans, but they have little financial incentive to choose more affordable private plans, and inertia leads many to stick with the traditional Medicare program, Miller said.

The government should focus on providing a fixed amount of premium support per enrollee, and ensuring that the out-of-pocket costs are lowest for enrollees who choose the lowest-cost plans, whether the lowest-cost plan is the traditional Medicare plan option or a private plan, Miller said.

The government should make sure that the plans that bid for the right to sell coverage to Medicare enrollees set "real," economically viable prices, by forcing participating plans to stick to their bid price until the next year's round of bidding, enrollment and plan switching, Miller said.

In the past, members of Congress have focused on the idea that Medicare enrollees should have a minimum number of plan choices, even in rural areas and other difficult-to-service markets.

Miller said a Medicare program that combines defined-contribution financing with competition on a truly level playing field "cannot ensure that private plans will be abundant everywhere, while simultaneously rewarding efficiency with larger market share."

Congress should help traditional Medicare program managers do a better job of competing by freeing them from the constraints that now limit their ability to adjust premiums, cost-sharing and benefits, Miller add.

Other sections of the Miller playbook address topics such as changing the Medicaid system and providing coverage for people with serious preexisting health conditions.

The country should focus on creating better-funded, more flexible versions of today's state high-risk pools, Miller said.

PPACA created a federal risk pool program - the Pre-existing Condition Insurance Plan (PCIP) -- for people with health problems who have been uninsured for at least six months. PCIP enrollment has been much lower than expect, and the cost per enrollee has been much higher than expected, Miller said.
Under PCIP rules, a PCIP enrollee are supposed to pay about as much for PCIP premiums as the enrollee would pay for ordinary commercial coverage, if the enrollee could qualify for commercial coverage.

PCIP enrollment has probably been low because "the estimated size of the population denied coverage due to a preexisting condition is much smaller in practice than the inexact estimates of various national surveys suggest," Miller said.

Chances are that, in most cases, people with health problems are uninsured simply because the cost of health insurance is too high for almost everyone, not because people with health problems pay more for coverage than other people do, Miller said.

In a new, reformed state high-risk pool system, "individuals anticipating more expensive health care costs could and should pay somewhat more than others to handle their costs (through higher premiums and more cost sharing), but with some realistic and equitable ceilings on how much is too much and guidelines for when public subsidies should begin," Miller said.