NATIONAL REVIEW ONLINE

On the 'Replace' Half of Repeal and Replace

By Reihan Salam
March 27, 2012 12:15 P.M.

Michael Cannon of the Cato Institute kindly passed along the latest Reason-Rupe survey, which finds President Obama leading his Republican rivals by wide margins yet that also finds that the president's health law remains quite unpopular. Emily Ekins, director of polling at the Reason Foundation, notes the following:

Opposition to the individual mandate to buy health insurance is likely a significant driver of opposition to the new health care law passed by Congress in 2010, with 33 percent favorable and 50 percent unfavorable. Intensity is found on the side unfavorable toward the law, with 32 percent "very unfavorable" versus the 10 percent "very favorable." These intensity findings concur with a recent Kaiser Foundation poll, which finds intensity among those in opposition to the law. 25 percent of respondents said they would be "angry" if the Supreme Court upheld the individual mandate whereas 13 percent would be "enthusiastic."

When asked whether Congress should repeal the health care law or let it stand, 49 percent want to repeal it and 36 want to let it stand. Yet, according to the recent Kaiser Foundation poll, 28 percent want to "expand the law" 19 percent want to "keep the law as is", 18 percent want to "repeal the law and replace it with a Republican-sponsored alternative", and 23 percent want to "repeal the law and not replace it".

Cannon flagged another finding from the survey:

Respondents support "changing Medicare into a program that gives them a credit that can be used to purchase a private health insurance plan of their choice" by a margin of 65%-34%. A 34% plurality believes this will improve seniors' quality of care. Intensity strongly favors the pro-reform side (page 10).

Given the intense criticism of various premium support reform proposals for Medicare, this struck me as a surprisingly positive outcome, though of course much depends on how the proposal is characterized in the light of day. This finding also led me to think that the Obamacare replacement strategy backed by James Capretta and Robert Moffitt might prove more popular than is commonly believed:

The most plausible way to implement such a change would be to transform today's tax exclusion for employer-provided insurance into a standard tax credit that would extend to all Americans, regardless of employment status, which they could then use to purchase the private coverage of their choice. As to how such a consumer-controlled federal tax credit would be designed, policymakers have a variety of options from which to choose. For instance, in its 2011 "Saving the American Dream" plan, the Heritage Foundation proposed replacing today's unlimited tax break with a new, non-refundable tax credit that would be phased out for the wealthiest citizens. Another approach would be to limit the credit to some pre-determined level of insurance coverage. Because the credit amount would not be increased for workers selecting more expensive insurance plans, those choosing such plans would pay the difference while those opting for plans with lower premiums would not be penalized (with a diminished tax benefit) for economizing.

One such proposal was offered during the 2008 presidential campaign by Senator John McCain, who suggested a universal program of refundable tax credits that would be payable to all households. In 2007, President George W. Bush proposed replacing today's tax treatment of insurance with a universal deduction for health-insurance premiums that would be available to people in employer-sponsored plans, as well as to those in the individual market. In both cases, the value of these credits and deductions would increase over time by some measure of inflation — ensuring that they would keep pace with fluctuations in the cost of living, while also ensuring that government's costs would remain predictable and manageable.

In all of these formulations, the essential common element is a move toward consumer control. Individuals would become active, cost-conscious consumers looking for value in the health-care marketplace. This shift would, in turn, create tremendous incentives for those delivering medical services to find better and less expensive ways of caring for patients and keeping them well.

The authors go on to suggest that a post-Obamacare reform law should treat small and large employers differently:

For smaller employers (for instance, those with fewer than 200 employees), there is reason to move quickly to change the tax treatment of job-based insurance: Many small businesses do not even offer coverage today, so a reform that substituted tax credits for today's tax preference would immediately help millions of working Americans get better coverage than they now have. Indeed, the availability of a credit or deduction would likely reduce the number of uninsured Americans by a significant measure. Consumers wouldn't want to leave the credit money on the table, and insurers would be eager to provide them with ways to spend it. Insurance companies would thus have every reason to design minimal plans (including, at the very least, catastrophic coverage) with prices roughly equal to the amount of the credit or deduction, and consumers who might otherwise not buy coverage would have every reason to purchase those plans. Moreover, the insurance marketplace for small-business workers tends to be volatile, with workers passing in and out of coverage frequently as they change jobs or leave the work force. Moving toward a tax-credit system would give these workers the chance to sign up for insurance that they would own and keep, even as their life circumstances changed.

On the other hand, many tens of millions of Americans are now signed up with good and stable large-employer plans. Although these workers see a need for reform, they do not want to lose the coverage they have today. For both political and practical reasons, it would make sense to leave these people where they are, in their large-employer plans, as the reforms in the other parts of the marketplace are implemented and refined. The advantages of these changes — including the expansion of personal and portable health insurance, lower-cost health coverage, and higher take-home pay — would, over time, become evident to workers in large-employer plans. The key, however, is that the decision to change coverage would rest not with government but with workers and employers, who would be under no obligation to change the terms of employees' benefit plans. The only modification that should be pursued immediately is the placement of an upper limit on the amount of employer-paid premiums eligible for the existing federal tax break; this would level the playing field somewhat between the existing tax benefit and the new tax credit. Under this proposal, premiums paid by employers above the upper limit would be counted as taxable compensation to workers. This would give both employers and employees a stronger incentive than they have today to move toward low-premium, high-value plans.

Capretta and Moffitt go into much greater detail in the article regarding how their approach differs from Obamacare, including how they'd approach partnering with state governments, how they'd encourage continuous coverage, etc. The article is an encouraging look at the policy mix that Republicans seem to be embracing — one that acknowledges the importance of coverage expansion, yet that places heavier emphasis on consumer-driven cost containment and protecting the interests of taxpayers.

This, however, is far from the only strategy for replacing Obamacare. We'll explore an intriguing alternative in the next post.