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Tightening The Belt For Health Reform

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Just before the recess, the House Energy and Commerce Committee marked up the Democrats' health reform bill. (Chip Somodevilla/Getty Images)

If health care reform has to be put on a diet to pass this year, how much must the proposal slim down?

Officials are already eyeing possible cuts. The Senate Finance Committee negotiators are focusing on a health care package in the range of \$700 billion over 10 years, according to a Senate GOP aide, well down from the \$900 billion that committee chairman Max Baucus, D-Mont, announced in late July.

A senior Democratic Senate aide, however, said that putting any figure on the size of the current Finance Committee bill "would be an exercise in false precision," in part because the negotiators have not met in person for a month and "they are not at any definable point."

Policy experts say that Democrats may have to accept a bill that is a far cry from the ambitious and costly health care overhaul blueprints on the drawing boards in the House and Senate that would extend coverage to many uninsured Americans, eliminate discriminatory practices within the insurance industry and try to rein in health costs in the coming decade.

These experts suggest that if President Barack Obama and lawmakers move to scale back the plan, they might end up having to shift to a middle ground or a bare-bones approach.

A middle-ground alternative, in the range of \$500 billion to \$700 billion over the coming decade, would likely include an expansion of the Medicaid program for the poor, subsidies to help low-income people buy coverage and some basic reforms in the insurance industry, these experts say. A bare-bones package, in the neighborhood of \$200 billion to \$300 billion, would focus primarily on a Medicaid expansion, more health care coverage for children and state health insurance exchanges.

"What you're talking about then would appear to be very thin gruel to most Democrats," said Robert Reischauer, president of the Urban Institute, a Washington think tank.

Obama's Options

Since Congress departed for an August recess of angry town hall meetings on health care reform and widespread complaints about out-of-control government spending, Washington has been abuzz with talk about the need to scale back the Democrats' proposals for health care reform or simply hit the restart button.

After months of private deal making with special interest groups and coaxing Democratic and Republican lawmakers from the sidelines, Obama next week will move to center stage with a prime time speech to House and Senate members in which he is expected to propose important refinements to health care legislative proposals pending on Capitol Hill in a bid to win over a majority of Democrats and at least one or two Senate Republicans. But Republicans are offering stiff opposition.

"It's clear the American people don't want a new speech, they want a new plan," said House Republican leader John A. Boehner, Ohio, while Robert E. Moffit of the conservative Heritage Foundation advised the White House to "erase the blackboard, start over and do it right to expand insurance coverage, reduce costs and make the insurance markets work better."

One thing Obama might do, much to the displeasure of liberal Democrats, is put off for at least a number of years the creation of a public health-insurance plan to compete with private insurers to drive down costs, along the lines of a proposal by Sen. Olympia J. Snowe that would have the government offer a health care insurance alternative only if private plans didn't enter certain markets by

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certain dates. A scaled back package could also require most individuals to purchase insurance, create a government operated exchange in which individuals and small businesses could buy insurance, and provide subsidies or tax credits to defray the premiums for low-income Americans.

But it's not clear that such a bill could capture enough support, and health care policy experts say that Democratic leaders may have to shed more to win final passage of health care legislation this year.

For example, rather than shooting for near universal coverage, these experts say, the Democrats might try to extend coverage to all uninsured children, which was Obama's original campaign promise, or forget about creating a public insurance plan or co-ops, and instead substantially expand the Medicaid program for low-income children and adults.

The proposal might also include a far more limited version of a national health insurance exchange in which consumers could compare and purchase health care coverage. Finally, federal lawmakers might require state governments to pick up some of the cost of a Medicaid expansion, although this would almost certainly touch off loud complaints from governors and other cash-strapped state officials.

"This is deja vu all over again, when the Clinton administration plan failed in '93 and '94 and we turned to incrementalism," said Jonathan Oberlander, an associate professor of health policy at the University of North Carolina at Chapel Hill. "No question incrementalism helped a lot of children. . . . But all the other problems we had got worse -- more uninsured, higher spending, and more questions about health care. What we've learned is that more incrementalism doesn't help."

Taking such steps would almost certainly prompt an angry backlash from liberal Democrats, who want to use their majorities in the House and Senate and control of the White House to push for the biggest bill possible this year -- one that would include a public insurance option, coverage for up to 95 percent of those currently uninsured, and generous premium subsidies for low-income families.

Dean A. Rosen, who was chief health care advisor to former Senate Majority Leader Bill Frist, R-Tenn., said, "My sense is it's going to be challenging politically and substantively to pass a bill that costs less than \$300 billion."

Some experts also caution that trying to scale back the existing proposals on Capitol Hill might trigger unexpected or unintended consequences. Michael Tanner, a senior fellow at the libertarian Cato Institute, noted that portions of the plan are interlinked and that major changes or elimination of key provisions can have an undesirable ripple effect. "If you try to do insurance reform but you have no individual mandate to buy insurance, [the bill] falls apart," he said.

To be sure, it may take weeks for Democrats and Obama to reach consensus on what elements will be included in a health care bill, and perhaps even longer to secure enough votes for passage.

"There is no good option here," said Robert Laszewski, president of Health Policy and Strategy Associates, an Alexandria, Va., consulting firm. "Either [Democrats] do, 'Damn the torpedoes' and maybe lose the 2010 elections or they do the more modest kind of thing, in which case liberals will feel they bungled the greatest opportunity for health reform in 10 years."

The Middle Ground

A scaled-back health overhaul approach could include subsidies to help individuals purchase coverage, an expansion of the Medicaid program and require the government to cover expenses for the highest-cost medical cases.

While Baucus' proposal to allow individuals over 55 to buy into the Medicare program has gained little traction since he suggested it in a policy paper last November, it could resurface in a compromise package as a way to help older workers who have lost their jobs and their health insurance in the economic downturn.

Subsidies to help low-income people buy coverage could be scaled back from the 400 percent of poverty, or about \$88,000 for a family of four, now included in the House Democrats' package and legislation approved by the Senate Health, Education, Labor and Pensions Committee to 300 percent of the poverty level, or about \$66,000 for a family of four.

Medicaid eligibility might be expanded to provide coverage to millions of uninsured poor adults who do not now qualify for the program.

Other ideas include targeting a mandate for health insurance coverage to a specific group, such as individuals age 25 or younger, or pegging it to income levels. Small businesses could receive tax incentives to spur coverage, an idea supported by many Republicans.

To reduce insurers' expenses for the most expensive care, the government could cover catastrophic costs over a certain dollar amount, which could keep health insurance premiums down for everyone else.

Congress could also fund health insurance exchanges on the state or regional level, similar to programs ongoing in Massachusetts and other states.

A Bare-Bones Package

This smaller package might focus on three areas: expanding Medicaid, creating state and regional health insurance exchanges and

mandating that all children have health care coverage.

While this option, which could cost \$200 billion to \$300 billion, might attract at “handful” of Republican votes, “it’s nothing anybody on the left would recognize as universal coverage,” Tanner said.

One benefit of a smaller plan is that less money would be needed to finance it, so there would be fewer reductions in Medicare spending or the need to raise taxes to pay for a health care overhaul. By contrast, to finance its current \$1 trillion package, House Democrats would place a surtax on individuals earning more than \$280,000 and couples making above \$350,000 a year, although those levels may be raised.

There are other potential problems with a dramatically scaled-back approach. If premium subsidies are dropped to make the bill more affordable, fewer people will be covered. Without a requirement that everyone purchase coverage, insurers would not make good on their pledge to cover everyone with pre-existing medical conditions. Hospitals, which agreed to \$155 billion in cuts over the next decade in return for fewer uninsured patients, may want to revisit that deal.

This less ambitious option would do little to control the growth of health costs, “because you are increasing demand by expanding the Medicaid component but aren’t able to do any of the broader cost control efforts,” Reischauer said.

KHN’s Julie Appleby contributed to this report.

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