

# Health & Benefits Perspective

October 2008



## Making sense of the health care debate in the 2008 presidential election

By Blaine Bos, Linda Havlin and Geoff Manville

### Introduction

Although concerns over the national economic condition have overshadowed health care issues in the weeks preceding the 2008 presidential elections, health care reform remains a top domestic policy issue for voters and the presidential candidates. With health care costs rising and the number of uninsured Americans potentially increasing because of the economic crisis, there is a growing consensus that the US health system needs reforming. The challenge of doing so in the current fiscal crisis adds a new dimension to both the emotional and the fiscal challenges of passing a solution. As the debate continues to sharpen and the party nominees diverge greatly on this issue, one thing is clear: both candidates agree that the health care system needs major changes.

During their respective party conventions in August, both candidates focused on the need for a clearly defined party platform. Democratic candidate Barack Obama pledged to fight for universal coverage and said the time was ripe to keep the promise of universal health care for all Americans. His pledge echoed calls from Sens. Hillary Rodham Clinton and Ted Kennedy, and the party platform made the case for universal health care a political and moral imperative. Republican rival John McCain emphasized affordability, restructuring of the tax incentives, and portability. He cast the health care issue in the context of general voter economic anxiety. Although health care received minor focus in speeches due to the truncated convention, McCain and the GOP platform have demonstrated their interest in advancing reforms. What emerged from the conventions are two very different platforms for change.

The health care issue surfaced in the presidential candidates' first nationally televised debate in September. Obama and McCain both acknowledged the need for health care reform, but sparred over their approach. While this

*“Polls show that health care issues are feeding into voter concerns, particularly as many Americans struggle to pay escalating premiums and face loss of jobs amid the economic downturn.”*

perspective will examine the key differences between the candidates' health care proposals, the primary difference between Obama, who wants to ensure “that we have a health care system that allows for everyone to have basic coverage”, and McCain, who wants “the families to make decisions between themselves and their doctors”, is how they seek to accomplish their unique goals. While Obama envisions a greater governmental role in fixing the health care system, McCain wants “to make sure we’re not handing the health care system over to the federal government.”

Between the first and second presidential debates, we have seen the issue heat up on the campaign trail and in formal advertising. Obama has begun to question whether the McCain plan would really improve access and perhaps work to the detriment of the middle class who would “watch the system they rely on begin to unravel before their eyes.” The McCain campaign counters that the mandated pay-or-play aspects of the Obama plan are symptomatic of a big government-run solution. (*New York Times*, October 7, 2008).

### **How the party conventions shaped the candidates' reform agendas**

Although health care reform has surfaced in all recent presidential campaigns, it has failed to be a centerpiece accomplishment of any administration. For instance, in 2004, as the general election geared up, the war in Iraq became a top concern and neither Bush nor the Congress were perceived as having the mandate to pursue any major health care issue. The next administration faces the dilemma of whether economic relief can be achieved in concert with health reform.

Polls show that health care issues are feeding into voter concerns, particularly as many Americans struggle to pay escalating premiums and face loss of jobs amid the economic downturn. The actual number of uninsured declined between 2006 and 2007, but the visibility and emotional concerns about leaving people without coverage has never been higher. Media coverage and the film industry have brought the inequities to light. Sen. Kennedy reinforced the disparity when noting that he had access to the best care – a benefit that others don't have. Some states have successfully reduced the uninsured by improving access to Medicaid, special programs for children and local health reform initiatives. Even the best efforts, such as Massachusetts' reform, still leave a gap. The real fear at this point is that the numbers will escalate due to potential job losses.

The economic downturn draws attention to a fundamental issue of what is affordable and what is an acceptable level of coverage. As people lose jobs, they also lose health insurance and face the choice of taking high-cost COBRA coverage or going without. So often the debate focuses on what people would like to have as an ideal benefit package and turns a deaf ear to the affordability issues facing individuals who are trying to buy coverage on the open market. If individuals have to pay all or some of the premium cost, then we need to ask whether they should be allowed to decide what level of financial protection meets their needs.





## Who are some of the influencing groups?

The primary and caucus season played a huge role in heating up the debate on health care reform. Congressional members have offered a broad range of reform plans:

- Clinton focused on universal coverage.
- Former GOP candidate Mitt Romney and other governors pressed for state-level reform.
- Sen. Ron Wyden's (D-Oregon) proposal, which would impose an individual mandate for coverage from plans approved by state-based agencies, gained bipartisan support and employer groups crafted their positions.

We have also seen cooperation among formerly disparate groups. The Business Roundtable joined with the American Association of Retired Persons and the Service Employees International Union to urge action in a group calling itself Divided We Fail. The National Coalition on Benefits stressed a strong ERISA framework. Other groups prepared platforms with these key themes:

- Individuals take on more responsibility for coverage
- Level "up" tax treatment for those without employer coverage
- Improve employer-based system through cost, quality improvements

As calls for health reform continue to grow and media and policymakers continue to elevate health reform issues, it is highly likely that broad-based federal reform will be at the forefront of next year's policy debate, but enactment is not guaranteed.

## Impact on employer programs

Regardless of how health care reform will be implemented, employers need to pay close attention to the health care debate and should help policymakers keep a broad perspective. Many Americans receive health insurance through employer-provided plans, but rising health care costs and premiums hinder many companies from offering comprehensive coverage. Some employers, as a result, are passing more costs to their employees, restricting eligibility to new hires and part-timers, and terminating their retiree medical coverage.

Employers need to take an active role in the health care debate and are pushing policy issues. They largely favor building on the employer system, but they are hesitant to move ahead with reforms that could cause more cost and administrative challenges.

*"As calls for health reform continue to grow and media and policymakers continue to elevate health reform issues, it is highly likely that broad-based federal reform will be at the forefront of next year's policy debate, but enactment is not guaranteed."*

## Candidates' platform for change

The Democratic and Republican candidates take very different approaches on health care reform, with McCain emphasizing tax incentives for obtaining insurance through the individual market and Obama wanting to build on existing private and public group insurance with the government sharing responsibility for financing coverage.

Obama and McCain pre-convention – key differentiators		
Major issue	Obama	McCain
Universal coverage goal	Yes	No
Mandate employer “pay-or-play”	Yes	No
Change tax treatment of premiums/expenses	No specific provision	Yes
Individual mandate	Children only, not adults	None
Market reform <ul style="list-style-type: none"> <li>■ Change insurance market</li> <li>■ National plan</li> </ul>	<ul style="list-style-type: none"> <li>■ National Health Insurance Exchange</li> <li>■ Create federal insurance plan for small business and individuals</li> </ul>	<ul style="list-style-type: none"> <li>■ Establish standards for association plan</li> <li>■ N/A</li> </ul>
Other quality measures	Include measures for transparency, investment in Health Information Technology (HIT), drug re-importation and malpractice reform	Same or similar

Here's a look at some of the key differences in the candidates' approaches to health care reform:

### The McCain platform

McCain has no mandate for universal coverage and has called for a market-based plan that he said would make it easier for people to get health insurance on their own. The plan shifts responsibility from employers to individuals and gives states flexibility to experiment with their own reforms. He has proposed to increase insurance coverage through the individual insurance market with new tax incentives and deregulation of state markets.

- **Employers' role.** No mandate for employers to provide health insurance coverage to employees.
- **Catastrophic costs.** No change.
- **Changes to excludability or deductibility of premiums and expenses.** Proposes taxing individuals on employer-sponsored health insurance. Favors granting \$2,500 refundable tax credit for individuals and \$5,000 for families to make health insurance more affordable. Proposes an offset tax on employer-sponsored coverage and expanded health savings accounts.
- **Centralized health coverage purchasing.** Proposes standards and certifications for association health plans for small business and the self-employed.
- **State and federal program reforms.** Gives states flexibility to experiment with reforms. Develops safety protocols to permit reimportation for drugs and promote medical homes.

*“Should there be a single national solution or a mix of public and private options?”*

### **The Obama platform**

Obama has proposed plans for universal coverage that would maintain and build on the current mixed private and public insurance system. He favors mandatory coverage for children, but has no mandate for adults. He would finance the program by raising taxes on wealthier families and would impose a payroll tax on employers not offering meaningful coverage or contributions.

- **Employers' role.** Proposes that employers (except small employers) that do not offer or meaningfully contribute to quality coverage must pay a percentage of payroll toward the cost of the new national public plan. Small employers may receive refundable tax credits of up to 50 percent of premiums paid.
- **Catastrophic costs.** Would reimburse employer plans for a portion of catastrophic costs exceeding a threshold if the reimbursement is used to reduce workers' premium costs.
- **Changes to excludability or deductibility of premiums and expenses.** No tax changes.
- **Centralized health coverage purchasing.** Proposes creating a federal health plan that would be available to small employers, the self-employed and to individuals without access to employer-sponsored, Medicare, Medicaid or SCHIP coverage. Also proposes creating a National Health Insurance Exchange to offer approved private insurance plans and the public plan.
- **State and federal program reforms.** Allows states to experiment with health reforms that meet standards of the new national plan. Would foster transparency by requiring hospitals and providers to collect and publicly report data on quality, health IT, medical errors and other matters and require reporting of preventable errors and promote other patient safety initiatives. Proposes to implement malpractice reforms, allow drug reimportation, support disease management and coordinated care programs, and promotes pay for performance.

### **The politics of health care reform**

Some of the key elements of reform that need to be explored throughout the next year include:

- Should there be a single national solution or a mix of public and private options?
- Should the program include incentive payments for providers rather than fixed or flat fees?
- Should individuals be allowed to purchase different levels of coverage?
- Should the government be investing in health IT and the technology infrastructure?
- Should there be more cost sharing on some types of care (for example, prescriptions)?



For more information, please contact your Mercer consultant.

This *Perspective* is for information only and does not constitute legal advice; consult with legal and tax advisers before applying this information to your situation.

Whether at the federal or state level, health reform affects employers in many ways, including cost-management strategies; administrative and reporting requirements; design and cost-sharing flexibility; access to and use of data on provider quality and efficiency; and talent attraction and retention. In the absence of federal action, a patchwork of state solutions may emerge to address declines in employer-sponsored coverage. Complying with varying state requirements – such as eligibility, contributions, design, incentives and communication – could become very complex.

*Blaine Bos is a worldwide partner and chief strategist for health care reform for Mercer's health and benefits business.*

*Linda Havlin is a worldwide partner and global leader for knowledge management and research for Mercer's health and benefits business.*

*Geoff Manville is a principal and leads government relations for Mercer's Washington Resource Group.*

