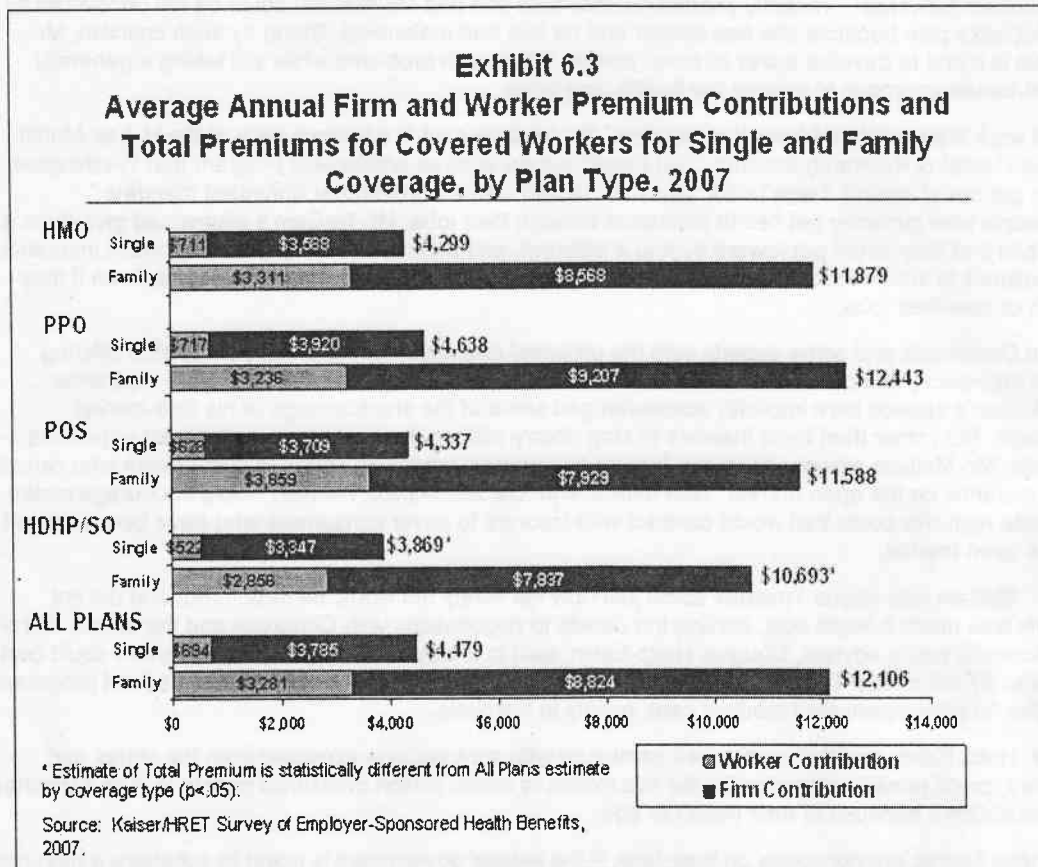


McCain health care plan

McCain gave a speech on his health care plan yesterday which said very little. In this NY Times article, McCain's economic advisor Holtz-Eakin makes it clear that their political strategy is to avoid getting tied down on any details, so that the glaring flaws in the plan won't be quite so obvious.

Let's start with the one hard proposal McCain has made: **he would tax employer-sponsored health insurance and create new tax credits — \$5000 for a family and \$2500 for an individual — for people who buy their own insurance.** As Holtz-Eakin made clear in the talk I attended last month, this means that workers would have to pay taxes on the value of health benefits they received from employers. This is explicitly an attempt to kill the existing system of employer-provided care by dramatically increasing taxes on workers.

How would this work out for the typical worker? Consider this information from the most recent Kaiser Family Foundation study of health care costs:



In 2007, for a family the average total premium for a health care plan was \$12,106, with \$8824 paid by the employer. Let's say the McCain plan is enacted. What would happen to that average family if the employer continued to provide coverage (Scenario 1)? For a married couple filing jointly with income \$63K-128K, the marginal tax rate is 25%, so they would face a **tax increase of \$2406** (25% of \$8824).

But of course the intent of the McCain plan is to kill the employer-provided system. So let's say the McCain program is adopted and your employer drops your family's coverage (Scenario 2). What would happen? You would now have to foot the complete \$12,106 bill for coverage, a \$8825 increase over the employee-portion you're currently paying. This would be offset by a \$5000 tax credit. **So net, you would end up paying \$3325 (\$8825-\$5000) more for your health care.**

So, remarkably, McCain has managed to design a heads-you-lose, tails-you-lose program. Either your employer keeps your coverage, in which case you face a huge tax increase. Or your employer drops your coverage, and you face an even more massive increase in your out-of-pocket health-care costs.

McCain health care plan continued

The best-case scenario would be that employers who dropped coverage would then increase wages, compensating workers for the jump in what they have to pay for health care. In the long-run, there's a fair case to be made that this would happen, but as Keynes famously remarked, "In the long run, we're all dead," and the transition period would be extremely painful.

Strangely, although the plan is plainly an attempt to deep-six the employer-provided system, according to the NY Time article, "Mr. Holtz-Eakin said he believed that many employers would still offer health insurance to try to attract the best workers ..." If that's right, these workers would face a huge jump in their tax bill (see Scenario 1 above).

None of this gets to the key problem in McCain's plan: on the individual market, people with pre-existing conditions would be denied coverage. Here's the relevant part of the Times article: *Mr. McCain had previously described aspects of his health care plan but on Tuesday offered new details on how to cover people with existing health problems, in a nod to the growing concerns about the difficulties that many sick, older and low-income people have getting insurance.*

Elizabeth Edwards ... recently pointed out that both she and Mr. McCain could be left uncovered by Mr. McCain's plan because she has cancer and he has had melanoma. Stung by such criticism, Mr. McCain is trying to develop a way to cover people with health problems while still taking a generally market-based approach to solving the health care crisis.

"I'll work tirelessly to address the problem," Mr. McCain said in a speech here at the H. Lee Moffitt Cancer Center & Research Institute. "But I won't create another entitlement program that Washington will let get out of control. I won't do it. Nor will I saddle states with another unfunded mandate." For people who currently get health insurance through their jobs, Mr. McCain's plan would give them a tax credit that they could put toward buying a different, and potentially less expensive, health insurance plan tailored to their needs — and allow them to keep that health plan, and their doctors, even if they switch or lose their jobs.

But Democrats and some experts said the proposal might lead some employers to stop offering health insurance, and questioned whether the tax credit would cover the cost of private insurance Mr. McCain's speech here implicitly acknowledged some of the shortcomings of his free-market approach. But rather than force insurers to stop cherry-picking the healthiest — and least expensive — patients, Mr. McCain proposed that the federal government work with states to cover those who cannot find insurance on the open market. With federal financial assistance, his plan would encourage states to create high-risk pools that would contract with insurers to cover consumers who have been rejected on the open market.

Mr. McCain was vague Tuesday about just how his safety net would be structured, and did not specify how much it might cost, leaving the details to negotiations with Congress and the states. But his top domestic policy adviser, Douglas Holtz-Eakin, said in an interview that the federal share could cost between \$7 billion and \$10 billion — money he said could be redirected from existing federal programs that pay for uncompensated medical care, mainly in hospitals.

Mr. Holtz-Eakin said that sum, when combined with contributions expected from the states and insurers, could provide coverage for the five million to seven million uninsured people that he estimates cannot obtain it because of their health or age.

These figures are nonsense on their face. If the federal government is going to subsidize a high-risk pool of 5-7 million people with \$7-10 billion a year, the proposed subsidy is \$1400 year. There is no way to this is going to be anywhere close to covering the extra insurance costs for a group that consists of old and sick people. Although McCain intentionally leaves out the details, the only place these extra funds could come from is from the states. In other words, although McCain says, "Nor will I saddle states with another unfunded mandate," this is exactly what his plan would do.

Additionally, the 5-7 million is surely a vast underestimate of the number of people who would not be able to obtain health insurance in McCain-land. Anyone old, sick, or with a prior condition--a number that would easily be in the several tens of millions--would not be able to obtain insurance at anything other than obscene rates. Faced with no restrictions, insurers would cherry pick only the low-risk customers.

Overall, the McCain plan would raise taxes on workers in an effort to eviscerate the current health care system in the name of free market idolatry. To the extent it fails to completely destroy the existing system — as McCain's advisor anticipates — it would saddle the average family with \$2400 in extra taxes to penalize them for having employer-sponsored care. And if the McCain plan succeeded in killing the current system, it would leave tens of millions unable to buy any care, until he comes up with some new safety net, details to be provided later, i.e. never.