

# ANALYSIS OF McCAIN'S HEALTH CARE ANNOUNCEMENT

## Center for American Progress Action Fund

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While John McCain's health care plan is often described as modest and incremental, in fact it makes far-reaching changes to our health care system. He would replace the current tax breaks for employer-sponsored health insurance with an across-the-board tax credit of \$2,500 for individuals and \$5,000 for families. McCain would deregulate private health insurance by creating a "national market," letting insurers locate themselves in states with minimal regulations and preventing states from being able to protect their own citizens.

As a result, the McCain plan would radically change the health insurance market, asking Americans buy health care plans on their own with few regulations or consumer protections. There are praiseworthy elements in McCain's plan, such as making tax benefits for health premiums more progressive than they are today, recognizing the need for health coverage independent of work, and emphasizing chronic care. However, on balance, the plan is likely to make the health system worse than it is today.

**1. The McCain Plan Would Cause Millions To Lose their Health Benefits:** Most Americans – 158 million people – receive their health care through their job.<sup>1</sup> The McCain plan eliminates the tax exclusion for employer-provided health insurance coverage so workers would pay taxes on the value of their health benefits.

By equalizing the tax treatment of employer and individual plans, it makes individual plans more attractive than they are today. Business owners would no longer need to cover their workers to get tax benefits for their own coverage. Healthy workers would also be able to purchase cut-rate insurance on their own. The departure of healthy workers would drive up the average health costs of the remaining workers, leading more workers to opt out. The entire employer health insurance system could unravel, ending this as an option for Americans who prefer it.

**2. It Expands the Dysfunctional Individual Insurance Market:** The McCain plan shifts workers to the individual insurance market, which often fails to prevent insurers from refusing to cover pre-existing illnesses like cancer, denying coverage outright, or engaging in other discriminatory practices. The purpose of insurance is to share risks across a community, but insurers competing in the individual market often find it easier to cut premiums by covering only healthy people.

The McCain plan would weaken the individual market's consumer protections further, allowing insurers to choose which state's rules they prefer. States would be unable to regulate the health insurance received by their own citizens.

**3. 56 Million Chronically Ill Adults Are Particularly At Risk:** People with chronic diseases – who need insurance most -- are particularly at risk from McCain's plan. Employers do not charge these workers higher premiums, but insurers selling individual policies usually do – if they cover them at all. There are 56 million non-elderly adults with employer-sponsor health

insurance who have at least one of twelve chronic illnesses (this figure does not include children).<sup>2</sup> Employers insure 62 percent of all adults with chronic illness, including:

- 21.2 million people with hypertension;
- 18.5 million people with arthritis;
- 7.8 million people with asthma;
- 6.3 million people with diabetes;
- 5.5 million people with cancer; and
- 4.5 million people who experience disruptive anxiety or depression.

**4. McCain’s High-Risk Coverage Pools Will Be Inadequate:** Today, McCain proposing spending \$7 billion a year to subsidize high-risk pools for people who could not obtain health insurance elsewhere. While Democrats’ plans call for creating access for everyone to be able to purchase the health insurance they want, the McCain plan would limit the choice of people with preexisting conditions to a national high-risk pool. To develop his plan, McCain said that he would draw on the experiences of the more than 30 states with experience in high risk pools. The experience from the states is one of high costs and limited benefits.

- *Most high risk pools impose pre-existing condition exclusions on potential enrollees.* Thirty states use preexisting condition exclusions to limit enrollment into their high-risk pools. Twenty-five states exclude coverage for longer than 6 months, including eight states that impose this coverage exclusion for 12-month period
- *Coverage through high risk pools is costly.* Roughly half of the state high risk pools have deductibles of \$1,000, putting pressure on those with chronic diseases. For example, individuals in the Texas high risk pool would face a minimum deductible of \$1,000 and pay \$808 per month for this coverage. Typically, premiums for the products with the lowest-possible cost-sharing are at least twice as high – and sometimes much higher – than the tax credit Senator McCain proposes.
- *Coverage in high risk pools is inadequate for people with very high health care costs.* In many cases, high risk pools impose a lifetime benefit maximum. While most large employers offer coverage with unlimited benefits or a maximum of more than \$2 million, high risk pools in 17 states cap health care expenditures at half (or less) of what employer plans allow.

The history of high risk pools is one of either inadequate coverage or high costs. In fact, looking at today’s high-risk pools, only 200,000 Americans are covered by state high risk pools, with health expenditures of \$1.6 billion. This means that a similar national program funded at \$7 billion per year would cover only 875,000 people. Even if participants had to pay half of their own premiums, as is generally the case today in state high risk pools, less than 2 million Americans would be covered. This is far short of the number of Americans with pre-existing conditions that cannot access health coverage today.

**5. The McCain Plan Gives Too Little to Low-Income and Sick Families:** Despite making tax breaks more progressive, the McCain plan does not go nearly far enough to make insurance

affordable. With average family premiums exceeding \$12,000, a \$5,000 per family tax credit is simply insufficient. This would be especially true in high-cost areas and for people with high-cost diseases. McCain would also undermine the guarantee of affordable coverage for millions of low-income children and families currently enrolled in Medicaid. He would encourage states to experiment with replacing Medicaid coverage with private insurance, or providing alternative forms of access to care.

**6. Raises Health Care Costs.** McCain's plan relies on insurance competition to lower costs, but it is more likely to lead insurers to avoid risk rather than lowering costs. Shifting millions of households into the individual market would raise administrative costs. In addition, the savings from prevention, chronic disease management, and reduced cost shifting cannot be achieved in a gap-ridden coverage system. That's why – as Brookings scholar Henry Aaron has pointed out – universal coverage is a necessary first step to bringing costs under control.

**7. It May Raise Taxes on Average Families Buying Health Insurance:** Current health care tax benefits grow with premiums (expected to be about 6 percent a year).<sup>3</sup> The McCain campaign has not released many details of its health care plan, including how it would adjust the health care credits over time. However, it is modeled off a Bush Administration proposal that plan capped the growth of credits at the rate of inflation (about 2 percent a year).<sup>4</sup>

The difference between 6 percent growth and 2 percent growth is very significant. It adds up to a 30 percent cut after 10 years and a 50 percent cut after 20 years. And it is why the Bush proposal initially appears to be a tax cut but quickly turns into a tax increase: the Congressional Budget Office estimated that it cost \$18 billion in its first year but raised \$118 billion in its tenth year.<sup>5</sup> While conservatives normally do not champion tax increases, in the area of health care they hold the misguided belief that our system will be more efficient if we shift more costs onto families.

## ENDNOTES

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<sup>1</sup> Kaiser Family Foundation, "Employer Health Benefits 2007 Annual Survey," September 11, 2007, available at <http://www.kff.org/insurance/7672/upload/76723.pdf>.

<sup>2</sup> Jeanne Lambrew, "People with Chronic Disease at Risk of Losing Health Coverage," Center for American Progress Action Fund, April 29, 2008, available at [http://www.americanprogressaction.org/issues/2008/chronic\\_disease.html](http://www.americanprogressaction.org/issues/2008/chronic_disease.html). These conditions include: heart disease, diabetes, arthritis, cancer, stroke, emphysema, hypertension, asthma, bronchitis, liver condition, migraine, and anxiety/depression. This definition was used in a recent report by the Urban Institute and University of Maryland at Baltimore County, *Uninsured Americans with Chronic Health Condition: Key Findings from the National Health Interview Survey*. (Princeton, NJ: The Robert Wood Johnson Foundation, May 2005). Percentages were applied to Census Bureau population estimates for 2006.

<sup>3</sup> Centers for Medicare and Medicaid Services, "National Health Expenditure Projections 2007-2017," available at [http://www.cms.hhs.gov/NationalHealthExpendData/03\\_NationalHealthAccountsProjected.asp#TopOfPage](http://www.cms.hhs.gov/NationalHealthExpendData/03_NationalHealthAccountsProjected.asp#TopOfPage).

<sup>4</sup> U.S. Department of the Treasury, "General Explanations of the Administration's Fiscal Year 2008 Revenue Proposals," February 2007, available at <http://www.treas.gov/offices/tax-policy/library/bluebk07.pdf>; U.S. Department of the Treasury, "General Explanations of the Administration's Fiscal Year 2009 Revenue Proposals," February 2008, available at <http://www.treas.gov/offices/tax-policy/library/bluebk08.pdf>; The White House, "Press Briefing on Health Care by Senior Administration Officials, June 27, 2007, available at <http://www.whitehouse.gov/news/releases/2007/06/20070627-16.html> (discussing how Bush's proposal, which was structured as a tax deduction, could be converted into a tax credit worth \$4,500 for families and \$2,250 for individuals).

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<sup>5</sup> Congressional Budget Office, “An Analysis of the President’s Budgetary Proposals for Fiscal Year 2008,” March 2007, page 59, available at <http://www.cbo.gov/ftpdocs/78xx/doc7878/03-21-PresidentsBudget.pdf>. The Treasury estimated that the proposal would cost \$32 billion in the first year and raise \$54 billion in the tenth year.