



October 24, 2008

Memorandum to Interested Parties

From: Center for American Progress Action Fund

Subject: The Financing of the McCain Health Care Plan

Sen. John McCain (R-AZ) is running for president on an ambitious proposal to restructure the U.S. health care system. According to the campaign's own public statements, the plan includes \$3.6 trillion in tax credits over the next 10 years and up to \$20 billion a year to create "guaranteed access" plans, which McCain claims will promote access to insurance for people with pre-existing conditions.

The McCain campaign claims to spend close to \$4 trillion on its health care plan while raising taxes on only "a very, very small percentage of people," offering seniors "exactly the same" Medicare benefits, and without increasing the deficit. Without some additional, as-yet-unspecified source of huge amounts of revenue, these goals are impossible.

Nonetheless, some "fact-checking" organizations have accepted these claims at face value. In the meantime, the McCain campaign has evaded scrutiny of these claims by simultaneously refusing to estimate the cost of its proposal or detail the source of the revenue, while disputing independent cost estimates.

That's why the Center for American Progress Action Fund today poses five unanswered questions to Sen. McCain and his top advisors, then traces the evolution of McCain's position on health care financing and explains that Sen. McCain's health care savings are not the same as those outlined by his rival for the presidency, Sen. Barack Obama (D-IL).

Five Unanswered Questions for Sen. McCain

1. The McCain campaign claims that their health care plan keeps the payroll tax exemption for health insurance benefits. According to the Tax Policy Center, this leaves a \$1.3 trillion budget shortfall over 10 years. The McCain campaign now disputes this independent estimate of the size of needed cuts while refusing to provide its own figures that could be subject to scrutiny. ***What does the McCain campaign believe is the cost of its own health care tax credits?***

2. The McCain campaign claims that their health care plan is budget neutral and will be paid for by Medicare and Medicaid “savings.” But the campaign has not offered specific steps or resources to reduce Medicare and Medicaid spending or explained how much they expect them to save, making it impossible to subject these claims to independent analysis. ***Can Sen. McCain provide a detailed explanation of how he will generate hundreds of billions of dollars and hold Medicare and Medicaid growth below inflation without reducing coverage?***

3. The McCain campaign says that to pay for its huge tax cuts McCain would cut \$160 billion a year from entitlement spending on health care, farm subsidies, and ethanol subsidies. The vast majority of these cuts would have to come from Medicare and Medicaid even if McCain were willing to eliminate farm and ethanol subsidies entirely: they total only about \$13 billion and \$3 billion, respectively. ***Does McCain still plan to use Medicaid and Medicare savings to pay for his tax cuts, in addition to his health care plan?*** If so, the cuts to Medicare and Medicaid could be much larger than \$1.3 trillion.

4. McCain says he will also create “guaranteed access plans,” which he claims will cover the chronically ill and uninsured that are left out by the rest of his health care plan. The McCain campaign says the plans will cost up to \$20 billion a year; independent analysts put the cost as high as \$100 billion. McCain has never said how he would pay for these pools. Early reports indicated that he might “divert some Medicaid funds.” ***How will McCain pay for his “Guaranteed Access Plans” for the chronically ill and uninsured?***

5. The Center for American Progress Action Fund estimates that McCain’s plan to shift coverage from the group health insurance market to the individual market could generate as much as \$20 billion in new administrative costs. Since McCain’s plan seeks to shift enrollment from the employer-based group insurance market to the individual market, insurers would have to spend much more money marketing and processing individual plans and waste premium dollars on the medical review and legal costs of underwriting and rescission. ***How will McCain pay for the new administrative costs generated by his health care plan?***

The Evolution of the Financing of McCain’s Health Plan

The McCain campaign has repeatedly asserted that its health care plan is budget neutral. As McCain’s running mate, Gov. Sarah Palin explained during the vice presidential debate, the McCain health care plan “doesn’t cost the government anything.” Yet, as McCain has revised his plan over the course of the year, the changes have raised new questions about financing.

Policy change regarding pre-existing conditions

First, in April, critics of the McCain plan, including [Elizabeth Edwards](#), pointed out that it would leave out many Americans suffering from pre-existing conditions. In response, the McCain campaign added a new proposal to create “Guaranteed Access Plans” with an [estimated cost of \\$7 billion](#) to \$10 billion a year. Over the course of the campaign, the potential cost of this proposal according to the McCain campaign has risen to [\\$20 billion](#) and independent estimates place the cost as high as [\\$100 billion](#). The McCain campaign has never explained how they will pay for these “Guaranteed Access Plans.”

Policy change regarding the McCain tax increase

The McCain campaign has stated that McCain’s proposed health care tax credits (\$2,500 for individuals and \$5,000 for families) would cost an estimated \$3.6 trillion over 10 years. While the McCain campaign never definitively said that health benefits would not be exempt from payroll taxes, [they did estimate](#) that subjecting health benefits to taxation would raise \$3.6 trillion over 10 years, a figure apparently based on a [congressional estimate](#) that includes higher payroll taxes. Thus, based on McCain campaign statements, the Center for American Progress Action Fund published “[John McCain’s Radical Prescription for Health Care](#),” in July 2008, a report explaining that Sen. McCain would impose a tax increase of \$1,100 a year on the average American family—and that absent the tax increase there would be a \$1.3 trillion budget shortfall over 10 years.

After the report’s findings began to gain attention, the McCain campaign said that workers’ health benefits would be subjected to income—but not payroll—taxes. According to the Tax Policy Center, this would leave a [\\$1.3 trillion budget shortfall](#) over 10 years. The McCain campaign disputes this figure without proposing an alternative, and simply says the plan will maintain the payroll exemption for health insurance and the cost of the credits will be covered by Medicare and Medicaid “savings.”

Unanswered questions on financing

The McCain campaign has identified “[places to go](#)” for additional savings, such as chronic care management and information technology. But McCain has not offered specific steps or resources to encourage the adoption of these reforms or estimated their expected savings. There is little reason to believe that these steps could generate over \$100 billion a year in the short term.

The campaign has also overstated the potential for pain-free Medicare and Medicaid “savings” that are not really “cuts.” The campaign, for example, claimed that cutting subsidies to insurers through Medicare Advantage would save [\\$1 trillion](#) over 10 years. That’s more

than six times the savings of \$149 billion that the Congressional Budget Office believes is possible, and it's a proposal McCain opposed.

Based on the \$1.3 trillion figure—the best available estimate—we concluded that McCain's spending on Medicare and Medicaid would not keep pace with expected inflation. This means that his measures—no matter how often described as “cost-containment”—would entail painful cuts to benefits, eligibility, or both.

Indeed, a proportionate Medicare share of the spending reduction—estimated at \$882 billion over 10 years—exceeds the total amount that Medicare is anticipated by CBO to spend on physicians through the Medicare physician fee schedule by roughly \$340 billion. And it exceeds the total amount Medicare will collect in Part A and Part B premiums by \$190 billion over the same time period. It is simply not plausible to argue that waste and inefficiency in Medicare exceed the amount that the program spends on doctors or premium collections.

Sen. Obama's Health Care Savings Are Not the Same

Some observers argue that the McCain campaign's statements are no less credible than Sen. Barack Obama's promises to reduce waste in Medicare. It's true that some independent observers have expressed skepticism about Obama's ability to realize these savings, but the comparison between the Medicare plans of Sens. McCain and Obama is a false equivalence.

First, Obama has a specific plan. He has endorsed specific steps to reduce health care spending (eliminating Medicare overpayments to private plans) and provided estimates of the savings they would achieve. As a result, he has a plan that serves as a basis for independent analysis.

Second, Obama's savings targets are more reasonable—about a third of the McCain target. He proposes to reduce Medicare spending by \$40 billion a year. As described above, McCain needs substantially larger savings to pay for his health care tax credits.

Third, Obama has a more plausible claim to realizing Medicare savings without reducing benefits, based on the details on his web site and in a memorandum from his health advisors. In some areas—such as increasing the use of generic drugs within Medicare—the two candidates are likely to achieve similar outcomes.

In an extended study of this issue, the Center for American Progress Action Fund previously concluded that Obama is likely to eliminate more inefficiency. Specifically:

- Obama will save \$15 billion a year by eliminating excess subsidies to insurance companies under the Medicare Advantage program, a figure validated by the Congressional Budget Office. McCain voted against cutting these subsidies in July.

- Obama plans to save money by investing \$50 billion over five years in information technology. While McCain also calls for a greater use of information technology, he does not provide any resources for it or otherwise address the obstacles that have prevented its use to date.
- Obama plans to reduce insurance industry overhead through a greater use of group insurers. In contrast, McCain will encourage more individuals to purchase insurance on their own, raising administrative costs.
- Both Obama and McCain plan to improve the management of chronic disease. While both campaigns have made similar proposals, independent analysts have argued that these efforts are more effective within a universal health care system. Broadly expanding coverage is a “precondition for effective measures to limit overall health care spending,” as Brookings economist Henry Aaron has explained.

The McCain campaign has its own areas where it is likely to reduce spending more than Obama, but these areas are relatively small. The McCain campaign, for example, estimates that imposing prescription drug premiums for high-income seniors would save between \$1 billion and \$2 billion a year. Savings from medical malpractice reform are disputed, but the campaign claims less than \$1 billion a year.

The McCain campaign has not made a serious effort to quantify the cost of their health care plan or to explain how it will be paid for. Sen. McCain owes the American people some answers and some details to back them up.