

# WebMemo



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## Doing Health Care Reform Right: The Empowering Patients First Act

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Congress is in the final phase of debating one of the most consequential issues before the nation: reform of the health care system. Congressional decisions on health care will directly affect the lives of 300 million Americans.

Congressman Tom Price (R-GA), chairman of the Republican Study Committee and a practicing physician for nearly 25 years before coming to Congress, has offered a clear alternative to the massive 1,990-page health bill (H.R. 3962) proposed by the House Democratic leadership: the Empowering Patients First Act (H.R. 3400). The Price bill could accomplish needed reforms while minimizing Washington's role in health care.

**Increasing Affordability.** The Price bill would make health care more affordable by reforming the tax treatment of insurance, an area of health care reform where there is a broad consensus.

Currently, federal tax policy distorts the health insurance market, inflates costs, and penalizes individuals and families who do not or cannot get health insurance through their workplace, contributing to the un-insurance of millions of Americans. H.R. 3400 would allow all Americans to use pre-tax dollars to purchase health insurance, regardless of employment status.

The federal income tax deduction would be available to Americans who buy coverage outside of their place of work. Health care tax credits would be given to low-income individuals to buy private insurance. Americans making less than 200 percent of the federal poverty level (FPL)—\$44,100 for a

family of four—would receive the full tax credit (\$2,000 for an individual and up to \$5,000 for a family); those between 200 percent of FPL and 300 percent of FPL (\$66,150 for a family of four) would receive credits on a sliding scale.

Persons enrolled in the substandard Medicaid program would have the freedom to opt out, get a credit, and choose superior private health insurance instead. The bill would thus establish direct ownership of health insurance policies by patients and consumers—the normal features of auto, life, and homeowners' insurance.

While the congressional leadership's bill resorts to imposing higher taxes to punish Americans for failing to purchase a Washington-defined health benefits package, Price's bill would create positive incentives for Americans to buy the health insurance of their choice. By making it more affordable to purchase coverage, many more Americans would become insured, with far fewer dependent on taxpayer-financed programs or hospital emergency rooms for routine medical care.

**Promoting Choice and Competition.** H.R. 3400 would intensify consumer choice and guarantee more vigorous competition among health insurers.

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/HealthCare/wm2682.qfm](http://www.heritage.org/Research/HealthCare/wm2682.qfm)

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The bill would allow employers to offer health benefits through a defined contribution. Employers would have more flexibility in benefit options, and individuals and families would be able to pick health plans that best suit their needs. Couples could pool their employers' contributions together to buy insurance, and workers would no longer have to worry about switching coverage due to a job change. This new flexibility for employers and employees is in sharp contrast to the House Democratic leadership's mandate on individuals to obtain, and employers to provide, a particular benefits package prescribed by the federal government.

The Price bill would allow individual membership associations to offer group insurance to their members. Plans offered by churches, alumni associations, and other civic groups would give individuals more affordable (and portable) options as an alternative to traditional employer-sponsored health insurance plans.

The bill would also allow Americans to buy health insurance in any state in the union and would enable states to create health transparency portals similar to state health insurance exchanges, like the one recently established in Utah. These portals could be tailored to fit states' unique circumstances but would generally be used by patients to access prices and other quality information on health plans and providers.

**Expanding Coverage.** H.R. 3400 would encourage employers to auto-enroll their employees in basic health insurance plans. But unlike the individual mandate proposed in the Democratic leadership's plan, the Price bill would allow individuals to opt out if they do not want or like the coverage, just as they do in many private pension programs today.

The bill would create incentives for small businesses to adopt this auto-enrollment approach to expanding coverage. Under an auto-enrollment system, an employee who does not wish to carry his employer's insurance plan could easily opt out. Other examples of auto-enrollment, such as 401(k) plans, prove that this method could significantly increase participation and substantially reduce the number of uninsured.

The Price bill would also give states incentives to operate high-risk pools or other mechanisms to

guarantee that Americans with pre-existing conditions could access affordable private health insurance plans. The federal government would provide assistance, in the form of block grants, to states that help persons with high health care costs secure private coverage. The bill would tie the availability of federal tax credits to having such a risk-pooling mechanism in place.

**Entitlement Reform.** The House Democratic leadership's bill would actually make the entitlement problem in this country worse by expanding eligibility for Medicaid, literally adding 15 to 20 million individuals to the public assistance rolls while crowding out existing private coverage.

H.R. 3400 would instead give those in Medicaid the option to move off the rolls. States would be required to offer vouchers for the purchase of private insurance as an alternative to Medicaid and SCHIP. If low-income persons were to choose a private health care plan below what the state would have otherwise paid for Medicaid, the state and federal government would be able to recoup the savings (unless the individual had a health savings account).

In addition to reforming the broken Medicare physician payment system, the Price bill would reinstate the Medicare trigger and require the President to offer a proposal to contain the growth in Medicare spending if more than 45 percent of the program's costs are expected to come from general revenues in two consecutive years.

**Fiscally Responsible Financing.** While the Democrats in the House propose to pay for their health reform agenda—which includes an expansion in public programs and hundreds of billions of dollars in new taxpayer subsidies—by cutting Medicare benefits and taxing Americans of all incomes, Congressman Price has a plan that would expand private coverage and is paid for in a fiscally responsible way.

The Price bill would deliver real savings in health care sector, and it would enforce spending restraints in the federal budget by reining in non-defense discretionary spending. The plan would repeal the frivolous spending authorized under the stimulus bill, though it would leave the package's tax relief and unemployment benefits untouched.

Lastly, Price's plan relies on the sound principle that as the number of uninsured falls, uncompensated care funds previously going to hospitals for treating the uninsured could be gradually redirected to offset the cost of expanding coverage.

**A Clear, Conservative Alternative.** The President has said that he is open to new and different ideas to reform health care, and has properly said that no political party has a monopoly on wisdom or good ideas. Congressman Price has offered a clear alternative to the health care bill proposed by Democrats in the House.

H.R. 3400 would achieve significant, positive health system change without expanding the size of

the federal government or raising taxes as the Democratic leadership's bills do. It would maximize choice and competition and expand personal freedom. It would be compatible with Americans' core values and enhance—not reduce—the role of personal responsibility. It would foster key principles that are at the foundation of the American political tradition. It should play a more prominent role in the health care discussion.

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