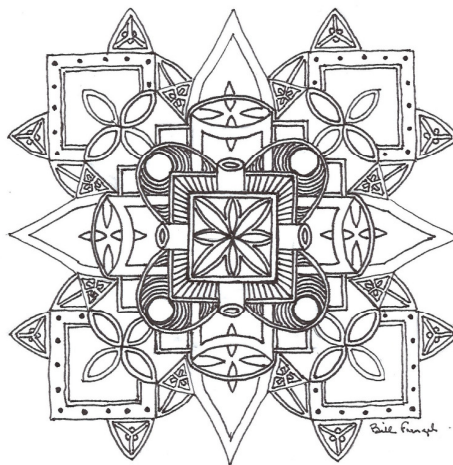




Committee for a Responsible Federal Budget

Guide to Health Care: The 2008 Presidential Election



US Budget Watch

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US Budget Watch

US Budget Watch is a project created to increase awareness of the important fiscal issues facing the country through and beyond the election. The project seeks to bring attention to the presidential candidates' tax and spending policies, to help the public become informed about these issues, and to track the new president's fiscal policies after the election. This guide is not intended to recommend voting for or against any particular candidate, nor does it reflect an assessment of the overall merits of any specific policy proposal.

US Budget Watch is a project of the Committee for a Responsible Federal Budget, which is a non-profit organization committed to educating the public about issues that have a significant fiscal policy impact. The Committee is a bipartisan group of leading budget experts including many of the past chairmen of the House and Senate Budget Committees, directors of the Congressional Budget Office and Office of Management and Budget, and members of the Federal Reserve Board.

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Committee for a Responsible Federal Budget
1630 Connecticut Avenue, 7th Floor
Washington D.C. 20009
www.USBudgetWatch.org
www.crfb.org

Cover artwork by the Honorable Bill Frenzel



SUMMARY

Senator McCain's Health Care Plan

Provisions	Low-Cost (2013)	High-Cost (2013)
Create a Refundable Health Insurance Tax Credit	-\$336	-\$416
Eliminate Tax Exclusion for Employer Provided Health Insurance	+\$200	+\$200
Expand Health Savings Accounts	\$0	-\$9
Establish Guaranteed Access Plans	-\$8	-\$22
Reduce Overall Health Care Costs	+\$41	+\$18
Cut Medicare and Medicaid Costs	+\$12	+\$6
Find Savings to Finance Health Plan	+\$48	\$0
Total Cost (in billions)	-\$43	-\$223

Senator Obama's Health Care Plan

Provisions	Low-Cost (2013)	High-Cost (2013)
Expand Health Care Coverage	-\$115	-\$144
Close "Doughnut Hole" for Medicare Part D	-\$43	-\$43
Find Savings to Finance Part D Reform	+\$43	+\$43
Reduce Overall Health Care Costs	+\$41	+\$24
Cut Medicare and Medicaid Costs	+\$22	+\$14
Total Cost (in billions)	-\$52	-\$106



GUIDE TO HEALTH CARE: THE 2008 PRESIDENTIAL ELECTION

Background

One of the most pressing issues facing policymakers in the United State is rising health care costs. Cost growth is putting ongoing stress on the budgets of families, employers, and governments. The U.S. already spends \$2.2 trillion a year - 16 percent of GDP - for health care. Nearly a third of this comes from the federal government.

Health expenditures are projected to nearly double to \$4.3 trillion in a decade, at which point they will represent nearly one-fifth of the economy. According to the Congressional Budget Office, by 2030 they could consume a third, and by 2080 nearly half of GDP.¹

As health care costs grow, there will be considerable pressure on the federal government's budget. Medicare, which offers retired Americans hospital insurance (Part A), physicians' services insurance (Part B), and a prescription drug plan (Part D), is expected to grow faster than any other single part of the budget as health care costs rise and the population ages. Likewise, Medicaid, which offers insurance for poorer Americans jointly with the states, and the State Children's Health Insurance Program (SCHIP), which works with states to insure children in low-income families who aren't eligible for Medicaid, will see their costs go up. Together, these three programs are expected to rise from 4.2 percent of GDP today to 8.1 percent in 2030 and 18.5 percent in 2082. That would be above the historical average of tax revenue raised to finance *all* government spending.²

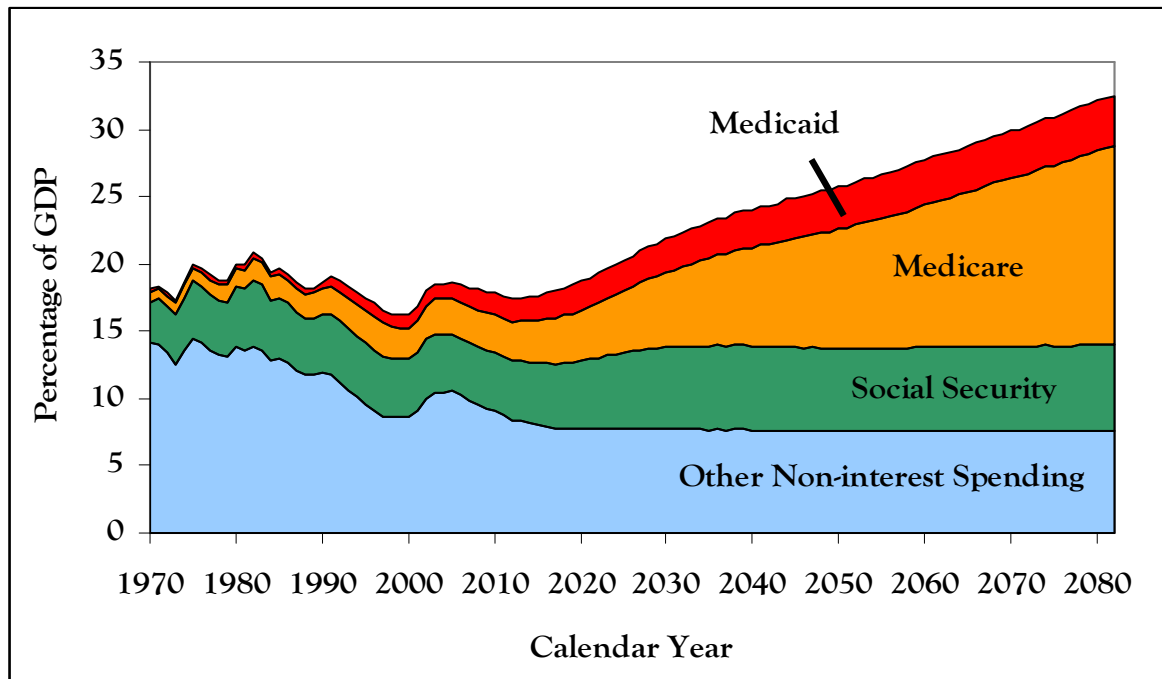
The rising cost of private insurance also affects the government's finances because compensation paid in the form of health insurance is not subject to taxation. As health insurance grows as a share of compensation, this "employer exclusion" costs the government more in lost revenues. In 1993, the exclusion resulted in \$46 billion in forgone revenue from the income tax. Last year, that number was \$106 billion. By 2011 it will be \$145 billion.³

¹ Congressional Budget Office (CBO), <http://www.cbo.gov/doc.cfm?index=8758&type=2>, Figure 4.

² CBO, <http://www.cbo.gov/doc.cfm?index=8877&type=2>.

³ Joint Committee on Taxation, <http://www.house.gov/jct/s-3-07.pdf>, <http://www.house.gov/jct/s-8-92.pdf>.

Federal Spending as a Percentage of GDP



Source: Congressional Budget Office, <http://www.cbo.gov/doc.cfm?index=8877&type=2> (Figures 1-1, 2-1, and 2-2)

Despite the amount the federal government spends on health care, there are nearly 46 million Americans without insurance and rising costs threaten to grow the rolls of the uninsured. Furthermore, there are many areas of our health care system where the quality lags behind other nations even as we pay a higher price.

The three inter-related issues – cost, coverage, and quality – dominate the health care debate. While there is little agreement about how it should be done, most Americans agree that something is needed to improve the current system.

Senators McCain and Obama have each proposed a set of reforms to the current health care system. But even accounting for the savings that could be achieved in Medicare, Medicaid, SCHIP, and the employer exclusion, both plans would come at a considerable cost to the U.S. Treasury.

Methodology

Although both candidates have put forward detailed health care reform plans, neither has offered sufficient specificity to fully model the cost of his plan. This is especially true with regard to their proposed health care savings. In many cases, for example, the candidates often say that they would “encourage” certain behavior, or “promote” a given initiative. In these cases, the specifics of *how* and *how much* a candidate would pursue a given policy greatly impacts how much that policy would cost or save. Moreover, given the complexity of the U.S. health care system, there is wide disagreement among experts about the potential costs and savings associated with particular policies.

In order to provide the reader with the best information possible, US Budget Watch offers a low-cost estimate and a high-cost estimate for each major policy proposed by the McCain and Obama campaigns. High-cost estimates come primarily from the widely respected Lewin Group, which modeled stylized versions of both candidates’ health care plans. The Lewin Group uses conservative estimates for the savings in the plans, especially when the candidate fails to specifically commit to invest resources in a given savings initiative.

Low-cost estimates come from a variety of sources, including the campaigns, the Commonwealth Fund, the Tax Policy Center, the Congressional Budget Office, the Lewin Group, and others. For these estimates, we take the low-end costs (or high-end savings) from reputable sources. We assume that the candidates would pursue each of their cost-savings initiatives to the greatest extent possible, and we assume they would be willing to pursue policies to generate the savings and offsets they have stated they would find.

Campaign Proposals

Senator McCain⁴

Senator McCain has put forth a health care plan designed to increase 1) affordability, 2) access and choice, 3) portability and security, and 4) quality. Specifically, he would make health insurance more affordable by slowing the overall growth of health care costs and he would change the way the tax code is used in providing health care benefits. In an article written for the fall edition of *Contingencies*, Senator McCain explained what he believed to be the key problems of the current health care system:

“The problem, my friends, with the U.S. health care system is not that Americans don’t have fine doctors, medical technology, and treatments. The state of our medical science is the envy of the world. The problem is not that most Americans lack adequate health insurance. The vast majority of Americans have private insurance, and our government spends billions each year to provide even more. The biggest problem with the American health care system is that it costs too much, and the way inflationary pressures are actually built into it.”⁵

McCain has argued this his plan would reign in health costs, improve choice in the private market, transform medical practice, and encourage personal responsibility. Most analyses show that Senator McCain’s plan would reduce overall health care costs in the economy while at the same time modestly expanding coverage. However, at least in the short-term, his plan would considerably increase the costs to the federal government. Over a long time horizon, Senator McCain’s plan would yield savings to the government because of the way his health care tax credit is indexed.

Create a Refundable Health Insurance Tax Credit **-\$336 billion⁶ to -\$416 billion⁷**
Senator McCain would offer a \$2,500 tax credit for individuals (\$5,000 for families) with health insurance. The credit would be refundable, so people could receive the credit regardless of their income tax liability. The money would be sent directly to insurance providers; however, those who pay less for health insurance than the size of the credit could deposit the remainder into a Health Savings Account. The credit would likely be indexed to inflation, so that it would grow far more slowly than overall health care costs.

⁴ McCain Campaign and The Lewin Group (Lewin), <http://www.johnmccain.com/content/default.aspx?guid=8475c713-a541-4b97-a2aa-800e35da37bb> and http://www.lewin.com/content/Files/The_Lewin_Group_McCain-Obama_Health_Reform_Analysis_Revised_10-15-08.pdf.

⁵ John McCain in *Contingencies*, <http://www.contingencies.org/septoct08/mccain.pdf>.

⁶ US Budget Watch calculations from Tax Policy Center (TPC) and Lewin, http://www.taxpolicycenter.org/UploadedPDF/411749_updated_candidates.pdf and http://www.lewin.com/dyn/healthpolicies_3, p 23.

⁷ Lewin, http://www.lewin.com/dyn/healthpolicies_3, p 23.

As a result, the net costs of the policy (cost of the new refundable credit minus savings from eliminating the tax exclusion for employer provided health insurance) would decline over time.

Eliminate Tax Exclusion for Employer Provided Health Insurance +\$200 billion⁸

Senator McCain would reform the current tax treatment of employer-provided health insurance. Under current law, compensation received in the form of health insurance is not taxed. This exclusion cost the federal government over \$100 billion last year in lost income tax revenues and the losses will grow considerably over time.

Senator McCain would eliminate this exclusion and replace it with a tax credit (described above). Employer provided health insurance would be counted as income for purposes of the individual income tax. As under current law, this compensation would not be subject to the payroll tax. At the same time, employers would continue to be allowed to deduct the costs of providing health care. In addition to raising revenue directly, eliminating this exclusion would encourage individuals and employers to purchase cheaper health insurance, which would result in further savings.

Expand Health Savings Accounts \$0⁹ to -\$9 billion¹⁰

Senator McCain would expand Health Savings Accounts (HSAs), which allow individuals who purchase high deductible health insurance plans to save tax-free for medical expenses. Under current law, people with individual health insurance plans that have deductibles of at least \$1,100 (indexed for inflation) and total out-of-pocket expenses (deductibles and co-payments) of less than \$5,600 are eligible for HSAs. Individuals (or their employers) can contribute up to \$2,900 (indexed for inflation) and can deduct this money from their taxable income. Money from the accounts can then be used to pay for qualified medical expenses tax free or withdrawn from the account upon death or retirement. It is unclear how Senator McCain would expand HSAs, besides allowing individuals to deposit money from McCain's health care tax credit into these accounts. He might also increase the amount of money that can be contributed to HSAs and/or ease the eligibility standards for enrolling.

⁸ Lewin, http://www.lewin.com/dyn/healthpolicies_3, p 23.

⁹ Assumes expansion comes only from allowing the deposit of excess money from the health care tax credit.

¹⁰ Office of Management & Budget (OMB), <http://www.whitehouse.gov/omb/budget/fy2007/tables.html>, table S7.

Establish “Guaranteed Access Plans”

-\$8 billion¹¹ to -\$22 billion¹²

To address the problem of some individuals being unable to obtain coverage on the individual market, Senator McCain has proposed expanding and strengthening high-risk pools. He would work with state governors to establish “Guaranteed Access Plans” (GAPs) that could be administered either publicly or privately, and would work to cover the traditionally uninsurable.

The McCain campaign has suggested it would spend between \$7 and \$10 billion a year to fund these GAPs, although most estimates suggest that successful high-risk pools would cost considerably more. Additional funding for these GAPs could come from a fee on insurance companies and/or from the states. McCain would also build on existing Health Insurance Portability and Accountability Act (HIPAA) protections for people with pre-existing conditions to help make sure that high-risk individuals were able to buy insurance.

Reduce Overall Health Care Costs

+\$41 billion¹³ to +\$18 billion¹⁴

Senator McCain has proposed a number of measures to slow the growth of health care costs, which would in turn reduce the costs of Medicare and Medicaid. The amount of savings Senator McCain would achieve is highly uncertain both because it is unclear how thoroughly he would pursue these cost savings measures, and because analysts disagree about how much might be saved from any measures taken. Senator McCain’s plan would:

- *Legalize Re-importation of Prescription Drugs:* Senator McCain would repeal regulations that do not allow Americans to import cheaper drugs from other countries even when they were produced in the United States. He would allow these drugs to be re-imported as long as they were certified as safe. Additionally, McCain would change current rules to allow less expensive generic drugs to come to market faster.
- *Promote Coordinated Care and Disease Management:* Senator McCain supports more coordinated care as a way to generate savings. Efforts to coordinate care would come first in Medicare and Medicaid, and would then extend to the private sector. He also supports increasing federal research on curing and treating chronic diseases so that providers will be able to intervene earlier, promote better prevention, and use new treatment models, all of which could reduce costs.

¹¹ McCain campaign number.

¹² Lewin, http://www.lewin.com/dyn/healthpolicies_3, p 23.

¹³ US Budget Watch calculations from Lewin, Commonwealth Fund, and CBO, http://www.commonwealthfund.org/publications/publications_show.htm?doc_id=620087, Exhibit E-2, http://www.lewin.com/dyn/healthpolicies_3, p 23, <http://www.cbo.gov/ftpdocs/87xx/doc8729/hr380Ltr.pdf>, and <http://www.cbo.gov/ftpdocs/40xx/doc4098/hr5ec.pdf>, 2.

¹⁴ Lewin, http://www.lewin.com/dyn/healthpolicies_3, p 23.

- *Deploy New Health IT:* Senator McCain supports greater use of health information technology to improve disease management and to promote more efficient delivery of health care. He also supports technology to help doctors practice across state lines.
- *Improve Healthy Living Incentives:* Senator McCain supports the promotion of healthier living with the specific goal of to reducing obesity and tobacco use. Although he has emphasized the importance of individual responsibility, he has also argued the government can help by providing healthy food options to schools through the school nutrition program, continuing to provide grants for physical education, and promoting the availability of smoking cessation programs.¹⁵
- *Pass Tort Reform.* Senator McCain has argued that high medical malpractice insurance rates drive up the cost of medicine, and has proposed enacting measures which would prevent frivolous lawsuits. He has not specified whether or not he would support a cap on non-economic damages, but has said that reform should eliminate “lawsuits directed at doctors who follow clinical guidelines and adhere to safety protocols.”
- *Allow Individuals to Buy Insurance Across State Lines.* Senator McCain supports permitting the sale of health insurance across state lines, which he argues would encourage competition among insurance companies. According to the Lewin Group, this change would have the effect of pre-empting state mandates and regulations, thereby reducing costs for many individuals, though others argue the change would drive up costs for older or sicker participants.
- *Increase Transparency.* The McCain campaign has suggested that lack of information has driven up health care costs and reduced quality. The Senator proposes helping the public to receive more information on treatment options, doctors’ records, medical outcomes, quality of care, cost, and price.
- *Develop National Effectiveness Standards.* To facilitate cheaper and more efficient allocation of health care, Senator McCain would help foster the development of national standards for measuring and recording treatments and outcomes, as well as for influencing treatment decisions.

¹⁵ Washington Post, <http://www.washingtonpost.com/wp-dyn/content/article/2008/05/18/AR2008051801391.html>.

Cut Medicare and Medicaid Costs

+\$12 billion¹⁶ to +\$6 billion¹⁷

In addition to proposing several measures to reduce the economy-wide cost of health care, Senator McCain would enact policies specifically designed to reduce the costs of Medicare and Medicaid. First, he would increase Medicare Part D premiums for wealthier seniors, rather than charging all enrollees the same premium, as under current law. Secondly, Senator McCain has promised to cut fraud and waste in the Medicare and Medicaid systems by reducing some of the \$24 billion in improper payments made each year,¹⁸ and making sure that Medicare and Medicaid do not “pay for preventable medical errors or mismanagement.” Additionally, McCain would give states flexibility to use their Medicaid funding to experiment with cost-cutting measures. And finally, Senator McCain would reform the current payment systems for Medicare and Medicaid so that they compensate providers for diagnosis, prevention, and care coordination, rather than volume of care.

Find Savings to Finance Health Plan¹⁹

+\$48 billion²⁰ to +\$0 billion

Senator McCain’s campaign has said he would find additional savings in order to make his health care tax credit budget neutral. Given the considerable upfront costs of his tax credit, it is highly improbable that this could occur by 2013. Because Senator McCain’s health care tax credit would grow slower than health care costs (and therefore the employer exclusion) though, he could find enough savings to finance his plan over time.

¹⁶ US Budget Watch calculations from Commonwealth Fund, Lewin Group, New York Times, and Office of Management and Budget,

http://www.commonwealthfund.org/publications/publications_show.htm?doc_id=620087, Exhibit E-2,

http://www.lewin.com/dyn/healthpolicies_3, p 23-25 and p.28,

<http://thecaucus.blogs.nytimes.com/2008/04/14/mccain-to-propose-changes-in-medicare-drug-program/>,

and <http://www.whitehouse.gov/omb/budget/fy2009/pdf/savings.pdf>, p. 153 and 159.

¹⁷ Authors’ calculations from New York Times and Office of Management and Budget,

<http://www.whitehouse.gov/omb/budget/fy2009/pdf/savings.pdf>, p. 153 and 159 and

<http://thecaucus.blogs.nytimes.com/2008/04/14/mccain-to-propose-changes-in-medicare-drug-program/>.

Assumes budget neutrality for tax credit.

¹⁸ <http://online.wsj.com/article/SB122315505846605217.html#printMode>;

<http://www.cnsnews.com/public/Content/Article.aspx?rsrid=24125>;

¹⁹ Wall Street Journal, <http://online.wsj.com/article/SB122315505846605217.html>.

²⁰ US Budget Watch calculations from Commonwealth Fund and Lewin

http://www.commonwealthfund.org/publications/publications_show.htm?doc_id=620087, Exhibit E-2 and

http://www.lewin.com/dyn/healthpolicies_3, p 23-25 and p.28.

Were he to pursue this goal, there are a number of areas where plausible savings could be achieved. In the past, Senator McCain has supported allowing the government to negotiate Medicare Part D drug prices directly with drug companies rather than having private insurance companies negotiate on their own. Additionally, Senator McCain's campaign has suggested that he might support cutting excess subsidies to Medicare's private plan, Medicare Advantage.²¹ Lastly, by eliminating the employer exclusion, Senator McCain's plan would generate considerable revenue for state and local governments. This might allow him to reduce Medicaid payments to states without hurting Medicaid recipients.

²¹ New York Times and Office of Senator McCain,
<http://www.nytimes.com/2008/10/19/us/politics/19health.html?ref=health> and
http://mccain.senate.gov/public/index.cfm?FuseAction=PressOffice.PressReleases&ContentRecord_id=980980e5-c3c5-441d-a909-ff3b10e03b96&Region_id=&Issue_id=766fba58-c762-4e68-bf3d-99163108bb35.

Senator Obama²²

Senator Obama has put forth a comprehensive plan designed to accomplish the four goals of 1) expanding coverage, 2) reducing costs, 3) improving quality, and 4) investing in efforts to promote prevention and public health. His main focus is to expand coverage through a number of measures while controlling costs. In an edition of *Contingencies*, Obama wrote that:

“We have an important opportunity to improve the U.S. health care system. We have some of the world’s most technologically advanced and innovative medical care, but our system faces serious challenges. Forty-seven million Americans lack any type of health insurance, and another 16 million are underinsured. Health care costs are escalating at an unsustainable rate—a trend that could worsen as our population ages. Although Americans invest almost twice as much in health as citizens of other industrialized countries, we are no healthier as a result. Furthermore, too many Americans go without high-value preventive services, and incentives are not aligned for providers to properly manage patients with epidemic chronic illnesses, like diabetes or asthma. Tackling these issues requires a comprehensive strategy.”²³

Most studies show that his plan would greatly increase health care coverage (although it would not cover all of the uninsured), while reducing overall health care costs. At the same time, his plan would considerably increase the costs to the federal government. The campaign has proposed offsetting some of the costs by allowing the 2001/2003 earned income tax cuts to expire for those families making over \$250,000 a year and retaining the estate tax at its 2009 level. However, since these tax cuts are scheduled to expire under current law and Senator Obama would not offset the cost of renewing them, this policy does not represent real new savings.

Expand Health Care Coverage **-\$115 billion²⁴ to -\$144 billion²⁵**

Senator Obama has proposed a number of measures with budgetary implications that are designed to expand health care coverage. These include:

²² Obama Campaign and Lewin, [http://www.barackobama.com/pdf/issues/Health careFullPlan.pdf](http://www.barackobama.com/pdf/issues/Health%20careFullPlan.pdf), http://www.lewin.com/content/Files/The_Lewin_Group_McCain-Obama_Health_Reform_Analysis_Revised_10-15-08.pdf.

²³ Barack Obama in *Contingencies*, <http://www.contingencies.org/septoct08/obama.pdf> .

²⁴ Obama campaign number.

²⁵ Lewin Group, http://www.lewin.com/dyn/healthpolicies_3, p. 24.

²⁶ Authors’ calculations from campaign numbers and Lewin Group, http://www.lewin.com/dyn/healthpolicies_3, p. 24.

²⁷ Lewin Group, http://www.lewin.com/dyn/healthpolicies_3, p. 24.

- *Institute Pay-or-Play Rules for Employers.* Under Senator Obama’s plan, all large employers would be required either to “offer meaningful coverage or make a meaningful contribution to the cost of quality health care for their employees,” or else pay a payroll tax that the government could then use to expand coverage. Senator Obama has not yet defined what constitutes a large employer, but has made it clear that small businesses would be exempt from this requirement. And while his plan does not set a specific payroll tax rate, estimates and similar plans suggest it would likely be around 6 percent of payroll.²⁸ Presumably, companies who could cover their employees for less than the cost of this payroll tax would begin offering coverage, while companies who would have to pay more would opt into the payroll tax.
- *Provide Subsidies for Employer-Provided Health Care.* To reduce costs for employers who offer health insurance, Senator Obama would subsidize health plans for the payment of “catastrophic costs.” Although the campaign has not outlined what would be considered catastrophic, the Lewin Group estimates that, to stick within the campaign’s targets, this plan could cover around 75 percent of costs above \$140,000 for a each enrollee. This “re-insurance” plan would remove some costs from the insurance companies and/or self-insurance employers and place them onto the government. Additionally, re-insurance reduces the risk faced by insurers because they would no longer be liable for the full cost of an individual with high medical costs. Senator Obama’s campaign estimates this provision could reduce health insurance costs by roughly four percent.²⁹

In addition, small businesses would receive a refundable tax credit worth half the value of the premiums paid by the employer (on behalf of employees) as long as the business offers a “quality health plan to all of their employees” and covers a “meaningful share” of the cost of the premiums to help subsidize coverage. The campaign has said they would devote \$6 billion in the first year for this provision, which would be enough to provide subsidies to small business on behalf of 4 million people, according to the Lewin Group.

- *Create a National Health Insurance Exchange with Subsidies.* For those not offered health insurance through their employers, Senator Obama would create a National Health Insurance Exchange from which they could purchase a plan. The campaign suggests that this exchange would offer transparency for buyers and promote competition among insurers. Furthermore, enrollment would be easy, paperwork would be simplified, and insurance plans would be fully portable.

²⁸ Lewin, http://www.lewin.com/content/Files/The_Lewin_Group_McCain-Obama_Health_Reform_Analysis_Revised_10-15-08.pdf.

²⁹ New York Times, <http://www.nytimes.com/packages/pdf/politics/finalcostsmemo.pdf>.

The exchange would include a number of private insurers who agree to offer plans similar to the Federal Employees Health Benefits Program (FEHBP), charge “fair premiums” and minimal co-pays for preventative care, and cover Americans with pre-existing conditions. It would also include a new public plan that the campaign has said would be similar to Medicare, though few details have been offered.³⁰

Many of those purchasing insurance from the exchange would receive a subsidy to help pay for premiums. Although the campaign has not provided the details, it has said that the subsidy would take the form of an “income-based sliding scale tax credit.” In other words, higher earners would receive smaller (or no) subsidies than lower-earners.

- *Mandate Coverage for Children and Expand Medicaid and SCHIP.* Senator Obama would require that all children have some type of health care coverage. In order to make this more tenable, and to expand adult coverage, Senator Obama would expand eligibility standards for Medicaid and the State Children’s Health Insurance Program (SCHIP).

Close the “Doughnut Hole” in Medicare Part D³¹ -\$43 billion³²

Under the standard Medicare prescription drug program, the government covers 75 percent of the cost of prescription drugs up to \$2,510, does not cover any costs until total prescription drug spending reaches \$5,726, and then covers 95 percent of costs. Closing the gap completely, by offering a 75 percent subsidy for costs between \$2,510 and \$5,726, would cost roughly \$43 billion per year. Senator Obama would close this coverage gap as part of a spending neutral-reform of Medicare (see below). To the extent these savings could not be found, Senator Obama would scale back his plan and only partially close the “doughnut hole.”

Find Savings to Finance Part D Reform +\$43 billion³³

In order to finance his plan to close the “doughnut hole,” Senator Obama would pass a number of measures to reduce prescription drugs prices and otherwise reduce Medicare costs. First, he would repeal regulations that do not allow Americans to import cheaper drugs from other countries even when they were produced in the United States, and allow these drugs to be re-imported as long as they were certified as safe. Secondly, he would allow the government to use its buying power to negotiation Medicare Part D drug prices directly, rather than having individual insurers negotiate prices. These two provisions,

³⁰ LA Times, <http://www.latimes.com/features/health/la-he-candidates-healthcare-intro13-2008oct13,0,7066440.story?track=rss>.

³¹ Obama campaign number based on principle of revenue neutrality.

³² CBO, <http://www.cbo.gov/ftpdocs/60xx/doc6075/02-15-BudgetOptions.pdf>.

³³ Based on campaign pledge of spending-neutrality.

- *Develop National Effectiveness Standards.* Senator Obama would establish an independent institute to guide reviews and research on comparative effectiveness. Information from this research could be used to deliver medical care more efficiently, and realign payment incentives where appropriate.
- *Reform Medical Malpractice Insurance.* Senator Obama would reduce the costs of medical malpractice insurance by strengthening antitrust laws to prevent insurers from overcharging physicians. Additionally, he would “promote new models” for addressing and reducing physicians errors to reduce the need for malpractice suits.
- *Increase Competition Among Insurance Companies.* Senator Obama has argued that lack of competition within the insurance industry has led to overpricing, with surplus revenues spent on excessive overhead expenses and executive pay as well as significant profits. In addition to setting up the National Health Insurance Exchange to increase competition, Senator Obama would regulate insurance companies in non-competitive markets by preventing unjustified price increases and requiring a reasonable share of premiums to go toward patient care.

Cut Medicare and Medicaid Costs³⁸

+\$22 billion³⁹ to +14 billion⁴⁰

In addition to proposing several measures that would reduce the economy-wide cost of health care, Senator Obama would enact policies specifically designed to reduce the costs of Medicare and Medicaid. First, he would eliminate excess subsidies for Medicare Advantage, whereby Medicare’s private plans receive more funding per person than does traditional Medicare. Secondly, Senator Obama would reform the Medicare and Medicaid payments systems – as well as that of other public and semi-public plans – so that medical providers are paid in part based on performance rather than strictly volume of service. Finally, Senator Obama expects that his health care plan would yield considerable savings from Disproportionate Share Hospital (DSH) payments, which currently subsidizes hospitals that serve a disproportionate number of low-income patients with special needs.

³⁸ Obama Campaign, <http://www.barackobama.com/issues/healthcare/>; and <http://www.barackobama.com/issues/socialsecurity/>.

³⁹ Authors’ calculations from Commonwealth Fund, Lewin, and Center for Medicare and Medicaid Services. http://www.commonwealthfund.org/publications/publications_show.htm?doc_id=620087, Exhibit E-2, http://www.lewin.com/dyn/healthpolicies_3, p 25, and http://www.cms.hhs.gov/actuarialstudies/03_medicaidreport.asp

⁴⁰ Lewin Group, http://www.lewin.com/dyn/healthpolicies_3, p 25.