

**A SUMMARY OF THE OBAMA AND MCCAIN HEALTH REFORM PLANS**

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**Executive Summary**

Senator Barack Obama’s health reform plan seeks to strengthen employer-based coverage while expanding public insurance to cover more of the uninsured. Further, he wants to establish a health insurance exchange offering affordable insurance options (including a national public plan), which includes income-based subsidies and increased regulation of the insurance market. Key features of his plan include:

- Guaranteed eligibility for health insurance
- National Health Insurance Exchange to increase portability and improve the quality of coverage
- Play or pay for employers (except small businesses)—provide insurance or pay a fee
- Tax credits for small businesses
- Reinsurance for employers to protect from high insurance claims from sick employees
- Mandate to cover all kids
- Expand Medicaid and SCHIP to help cover more kids and parents
- Let dependents keep their parents’ health insurance until age 25
- Let states experiment with providing insurance as long as they meet basic standards
- Cut costs using health information technology, transparency of costs and quality (so consumers choose the best value for care), improving quality and reducing medical errors and waste, increasing competition in the insurance and drug markets, and improving prevention, disease management, and public health

Senator Obama’s plan is estimated to cost \$1.17 trillion over the next decade and to reduce the number of the uninsured by 26.6 million. The main criticism of his plan is that it moves the country towards “socialized medicine” by introducing a public plan. Critics further argue that enough is not done to cut costs.

Senator John McCain’s health reform plan seeks to give individuals and families refundable tax credits with which to purchase coverage in the individual market. He hopes to strengthen competition through the deregulation of the insurance market. Key features of his plan include:

- Refundable tax credit of \$2,500 (individual) / \$5,000 (families) to use towards purchasing health care
- Employer contributions to health plans would be taxed as income to employees
- Consumer choice of insurance plans nationwide
- Increased competition among insurers who must now compete nationwide
- Expansion of Health Savings Accounts
- Expansion of state-based high-risk pools (Guaranteed Access Plans, or GAPS) to cover the “uninsurable”
- Cut costs using health information technology, transparency of costs and quality (so consumers choose the best value for care), improving quality and reducing medical errors and waste, increasing competition in the insurance and drug markets, and improving prevention, disease management, and public health

Senator McCain’s plan is estimated to cost \$2.05 trillion over the next decade and to reduce the number of the uninsured by 21.1 million. The main criticism of his plan is that it could have employer-based insurance by pushing people into the individual market, which is currently less efficient than the group-based market. Critics further argue that enough is not done to cut costs, and this plan covers fewer of the uninsured than Obama’s at a higher cost.

A promising alternative to both plans that has secured support on both sides of the aisle is the Healthy Americans Act (S. 334) by Senators Ron Wyden (D-OR) and Bob Bennett (R-UT).

**OBAMA’S PLAN: AFFORDABLE, ACCESSIBLE HEALTH CARE TO ALL**

**Summary:** Strengthen employer-based coverage, expand public insurance (Medicaid and SCHIP), and create an insurance exchange with consumer protections and income-based subsidies, including strengthened federal regulation of the insurance market

1) Guaranteed issue/eligibility for all Americans<sup>1</sup>

- Comment: This is a market reform that would require insurers to insure you even if you have a preexisting condition. Currently, insurers can deny you individual coverage if you have a preexisting condition. If implemented, this could help improve the health of those who are significantly ill by giving them access to coverage (if affordable) and therefore continuous care. However, this would increase costs for insurers because these sicker enrollees would seek more care than healthier enrollees; insurers may subsequently pass on these costs to consumers enrolled in their plans in the form of increased premiums.
- Comment: Guaranteed issue also improves portability. With guaranteed issue, you no longer can be denied coverage, which means you can have continuous coverage without waiting for the next job to come along.

2) National Health Insurance Exchange (Exchange) with affordable insurance options including a new public plan and many approved private plans (for those without access to private or public coverage and for small businesses without their own plan

- Income-based sliding scale tax credits for families and community rating
- Plan benefits as comprehensive as the Federal Employees Health Benefits (FEHB) program
  - BC/BS Option: \$600 deductible; \$15 copayments
- Monitor premium increases and make plan differences transparent
- Require participating hospitals and providers to collect and report data on quality and meet HIT and administrative standards
- Comment: The Exchange would operate like a risk pool, helping individuals and small businesses through a larger administrative body with greater leverage to negotiate and monitor costs and benefits and provide plan comparisons for consumers. Without an individual mandate, much like today, those who are most likely to purchase insurance are those who need it—the sick. This could leave a large portion of the healthy outside of the pool, leading to higher costs for those with insurance and their insurers.
- Comment: Depending on the value of the subsidies and the cost of the insurance plans, using such an arguably “high” standard as the FEHB program could increase costs considerably. Some argue that, to cut costs, a lower standard for “basic” coverage should be used to sustain coverage over time.

3) “Play or pay” for large employers (exemption for small businesses)

- This means that large employers must either provide insurance for their employees (“play”) or pay a tax to fund coverage for these employees.
- Comment: Depending upon the difference between the cost required to “play” (provide insurance to employees) or “pay” (pay a tax in place of not providing benefits), some employers may drop coverage and pay the tax—although many employers choose to provide benefits to increase recruitment and retention. The continued and increasing costs to provide coverage are presumed to be paid in one way or another by employees in the form of reduced wages, benefits, or employment.<sup>2</sup>

4) Tax credits for small businesses that cannot afford insurance up to 50% of the cost of premiums

<sup>1</sup> This policy applies for insurers within and outside Obama’s National Insurance Exchange.

<sup>2</sup> Antos, J., G. Wilensky, and H. Kuttner. (2008). The Obama plan: more regulation, unsustainable spending. *Health Affairs, Web Exclusive*: w462-w471.

- Comment: Although Obama’s proposal requires “pay or play”, it exempts small businesses and encourages them to offer coverage by offering a tax credit for this purpose.
- 5) Reinsurance: Reimbursements to employers for a portion of catastrophic costs
  - 6) Mandate for children<sup>3</sup>
  - 7) Expand Medicaid and SCHIP to include higher income levels
  - 8) Allow dependents to keep parents’ coverage until age 25
  - 9) Allow flexibility for state plans, as long as they meet minimum standards of national plan
  - 10) Cut costs
    - Invest in HIT
    - Improve prevention, disease management and coordinated care
      - Require that the new public plan, Medicare and FEHBP use disease management programs
    - Require full transparency of quality and costs by hospitals, providers and insurers for patient choice
    - Improve quality
      - Patient safety and reduction of medical errors
      - Incentives for excellence (best practices), particularly among providers who see patients enrolled in the new public plan, the National Health Insurance Exchange, Medicare, and FEHB
      - Establish a comparative effectiveness institute
      - Culturally competent care and monitoring and evaluation of health disparities
    - Reform malpractice and defensive medicine while preserving patient rights
    - Increase competition in insurance industry<sup>4</sup>
      - Require insurers in markets without competition to provider a reasonable share of premiums to patient care (medical loss ratio)
      - Allow state innovation, as long as states meet the minimum standards of national plan
    - Increase competition in the drug industry, including safe drug reimportation, expediting generics’ entry into the market, and allow Medicare to negotiate for cheaper drug prices
    - Reduce waste and abuse in Medicare
    - Strengthen the safety net and prevention and public health
      - Worksite health promotion programs, onsite clinical services, nutritious foods in cafeterias and vending machines, exercise facilities
      - Expand the public health workforce, including loan repayment programs
      - Invest in education, individual empowerment and healthy environments
      - Organize and streamline of public health funding and strategies nationwide, and investment in its infrastructure
      - Evaluate of all policies and their impacts on public health
    - Comment: Both candidates’ cost containment mechanisms look relatively similar and are presumed to cut costs based on similar calculations. However, critics suggest that these mechanisms are insufficient and that it’s difficult to predict how fast they can be implemented and how effective they will control costs. Without significant methods to rein in costs, any subsidies or tax credits provided by the government will cease to make insurance and care affordable in the long run.

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<sup>3</sup> Obama has stated he would consider a mandate for adults if enough people do not purchase coverage that is considered “affordable”. See: Collins, S. et al. (2008). The 2008 presidential candidates’ health reform proposals: choices for America. Retrieved October 15, 2008 from [http://www.commonwealthfund.org/usr\\_doc/Collins\\_presidentialcandhlrtreformprop\\_1179.pdf?section=4039](http://www.commonwealthfund.org/usr_doc/Collins_presidentialcandhlrtreformprop_1179.pdf?section=4039).

<sup>4</sup> Mergers were supposed to create efficiencies but instead created monopolies and hiked up prices.

Suggested Improvements From the Right:<sup>5</sup>

- Limit or cap tax subsidies given to business and lower the cap over time; alternatively, replace with a refundable tax credit. Concurrently, focus on improvements to the individual market.
- Set a lower standard for the national public plan and private plans that offer national coverage.
- Minimize regulation through the Exchange.

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<sup>5</sup> Antos, J., G. Wilensky, and H. Kuttner. (2008). The Obama plan: more regulation, unsustainable spending. *Health Affairs, Web Exclusive*: w462-w471.



**MCCAIN’S PLAN: AFFORDABILITY, ACCESS & CHOICE, PORTABILITY & SECURITY, AND QUALITY**

**Summary:** Change the tax code to give individuals refundable tax credits to purchase coverage through private insurance in the individual market or from their employers, expanding individual responsibility and choice while decreasing federal regulation of insurance markets

- 1) Refundable tax credit: \$2,500 for an individual and \$5,000 for a family to use towards purchasing health care through your employer or in the individual market (as an individual or family or as a voluntary group or club)
  - An elimination of the tax subsidy for job-based insurance funds this tax credit.
  - The credit goes to the insurance company chosen by the individual, not into the person’s bank account. Excess funds can be put in a Health Savings Account (HSA) only.
  - Comment: Eliminating tax subsidies for job-based coverage in favor of a flat tax credit for individuals may encourage younger, healthier workers to enroll in individual coverage and employers to drop their offers of benefits.<sup>6</sup>
  
- 2) Choice of plans nationwide
  - Employers, individuals and families would be able to choose a plan that is available in any state.
  - Comment: This could lead to a race to the bottom as insurers seek to be based in the state with the least regulations.
  
- 3) Interstate health plans with flexibility on costs and benefits
  - Comment: Insurers can “reside” in any state but offer coverage nationwide. This could encourage health insurers to cut costs by having their plans licensed in states with the fewest health insurer regulations, which can minimize consumer protections and effectively deregulate the insurance industry.
  - Comment: As states deregulate the insurance market, insurers may offer more “bare-bones” plans—plans with limited benefits in return for a low premium. This option may appeal to young and/or healthy workers who do not need or desire comprehensive insurance.<sup>7</sup> In the long run, providing a \$2,500/\$5,000 tax credit for all Americans regardless of age or health status could leave the young and healthy with money in their Health Savings Accounts for a rainy day, but could also leave the sick and older individuals without affordable or available health options.
  
- 4) Expand Health Savings Accounts
  - Comment: Health Savings Accounts (HSAs) are often coupled with High Deductible Health Plans (HDHPs), which typically offer a lower premium for health insurance coverage in exchange for a higher deductible (the amount you must pay before your insurance starts paying for an illness, excluding copayments). These plans are commonly regarded as better for the healthy who do not typically need care and the wealthy who can afford high deductibles.
  
- 5) Expand state-based high-risk pools, called Guaranteed Access Plans (GAPs), to provide coverage for those denied coverage in the individual market and give assistance to families at certain income levels.
  - The federal government would provide half the funding for GAPs, with the other half covered through assessments (fees) on private insurance companies selling individual insurance.
  - Comment: Senator McCain proposes to spend \$7-\$10 billion to subsidize these pools, which is not enough to fund coverage for more than 3 million medically uninsurables without significant

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<sup>6</sup> Buchmueller, T. et al. (2008). Implications of the McCain plan to restructure health insurance. Health Affairs, Web Exclusive: w472-w481.

<sup>7</sup> McCain argues that younger workers will choose better value over reduced cost, however, choosing to keep job-based coverage over venturing into the cheaper, less comprehensive individual market.

restrictions on benefits and enrollment.<sup>8</sup> Deregulation of insurance markets and the shift from job-based to individual coverage may cause more individuals to lose their existing coverage and become “uninsurables”.

6) Cut costs:

- Invest in HIT
- Improve prevention, disease management, and coordinated care
  - Increased access through retail clinics and walk-in clinics
  - Encourage businesses and insurers to offer smoking cessation programs
- Require full transparency of quality and costs by hospitals, providers and insurers for patient empowerment
- Improve quality
  - Patient safety and reduction of medical errors
  - Reward quality among Medicaid and Medicare providers
- Reform malpractice and defensive medicine while preserving patient rights
- Increase competition in insurance industry by having interstate competition
  - Flexibility for states to experiment with access, payments, use of private insurance, etc. with Medicaid
- Increase competition in the drug industry, including safe drug reimportation and expediting generics’ entry into the market
- Promote research and development of new treatment models
- Comment: Both candidates’ cost containment mechanisms look relatively similar and are presumed to cut costs based on similar calculations. However, critics suggest that these mechanisms are insufficient and that it’s difficult to predict how fast they can be implemented and how effective they will control costs. Without significant methods to rein in costs, any subsidies or tax credits provided by the government will cease to make insurance and care affordable over the long run.

Suggested Improvements From the Left:<sup>9</sup>

- Implement a publicly funded reinsurance program for the nongroup market or risk adjustments so higher-risk individuals can purchase individual market coverage.
- Develop health insurance purchasing organizations (e.g., connectors).
- Modify the tax credit to be income-based—and highest for those at the lowest income.
- Adjust the tax credit based on age or implement community rating without age adjustments.
- Modify the tax credit to be indexed to the rising cost of health care.

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<sup>8</sup> Buchmueller, T. et al. (2008). Implications of the McCain plan to restructure health insurance. Health Affairs, Web Exclusive: w472-w481.

<sup>9</sup> Ibid.



Impacts of the Obama and McCain Health Reform Plans<sup>10</sup>

	Obama Plan	McCain Plan
<b>Estimated Cost Over Ten Years</b>	\$1.17 trillion	\$2.1 trillion
<b>Reduction in the Total Uninsured</b>	55%	41% <sup>11</sup>
<b>Reduction in Uninsured Children</b>	66%	35%
<b>Reduction in Uninsured Young Adults</b>	59%	48%
<b>Reduction in Uninsured Adults Aged 25-44</b>	50%	50%
<b>Reduction in Uninsured Adults Aged 45-54</b>	50%	39%
<b>Reduction Uninsured Adults Aged 55-64</b>	52%	25%
<b>Reduction in Uninsured With Incomes Under \$10,000 Annually</b>	60%	28%
<b>Reduction in Uninsured With Incomes Between \$10,000 and \$20,000 Annually</b>	62%	39%
<b>Reduction in Uninsured With Incomes Between \$20,000 and \$30,000 Annually</b>	63%	48%
<b>Reduction in Uninsured With Incomes Between \$30,000 and \$40,000 Annually</b>	61%	55%
<b>Reduction in Uninsured With Incomes Between \$40,000 and \$50,000 Annually</b>	60%	50%
<b>Reduction in Uninsured With Incomes Between \$50,000 and \$750,000 Annually</b>	49%	49%
<b>Reduction in Uninsured With Chronic Illnesses</b>	51%	24%

Changes in Source of Coverage<sup>12</sup>

	Obama	McCain
<b>Employer Coverage</b>	+ 4.7 million	- 9.4 million (1/2 move to individual coverage, 1/4 become uninsured and 1/6 move into high risk pools)
<b>Private Individual Coverage</b>	- 7.7 million	+ 24 million
<b>Public Coverage (Medi-Cal and Healthy Families)</b>	+ 16.6 million	- 11.2 million (1/2 move into publicly subsidized private coverage)

<sup>10</sup> Lewin Group. (2008). McCain and Obama health care policies: cost and coverage compared. Retrieved October 21, 2008 from <http://www.lewin.com/>.

<sup>11</sup> Falling to 35% over the next ten years.

<sup>12</sup> Lewin Group. (2008). McCain and Obama health care policies: cost and coverage compared. Retrieved October 21, 2008 from <http://www.lewin.com/>.