Healthcare Re-Visited

Listen to your mother, and eat your vegetables. If you smoke, quit. Get at least a half hour of moderately strenuous exercise several times a week. Don't do drugs / Just say no. But be sure to take your medication(s) prescribed by your doctor. Try to get the recommended amount of sleep each night. If you're overweight, try to lose some of those extra pounds.…

OK… Now that we have re-established the fact that healthcare is a personal responsibility, let's move on to the unresolved issue of who should pay for an individual's / family's health insurance policy. Unfortunately, the Socialists of the Left have commingled the issue of "healthcare" with the issue of acquiring health insurance. So the purpose of this conversation piece is to focus on the issues regarding health insurance. On our website, we have an October 2013 Conversation Piece entitled *Medicare and Universal Health Care Coverage*, where we discuss the concepts of insurance, and make some comparisons / contrasts between health insurance and other types of insurance, like auto insurance. We are going to set aside the issues relating to Medicare, and focus on health insurance for individuals / families prior to retirement.

Our Editorial Board continues to believe that the cost of health insurance (similar to the cost of food, housing, auto insurance, education, etc.) is a personal responsibility. Bernie Sanders believes that healthcare is somehow different, that healthcare is a "right", and that the cost of health insurance should somehow become a responsibility of the federal government. We couldn't disagree more. As we noted in our previous Conversation Piece, the federal government (via the "individual mandate" that was created in 2010) believes that the cost of health insurance should be treated like a "tax". And unfortunately, the Supreme Court subsequently agreed. But the good news is that this over-reach by the federal government can be overturned by repealing the (Un)Affordable Care Act. The debate about the repeal of Obamacare is not a debate about "healthcare" - - it is a debate about who pays for whose health insurance premiums.

Our Editorial Board believes that health insurance is simply insurance, and is just another commodity in the marketplace. Doctor fees, hospital bills, prescription drugs, and other healthcare expenses are also simply commodities in the marketplace. Having said that… We do agree that because of the possibility of severe financial repercussions that could arise due to a serious illness or injury, a person would be exercising prudent personal responsibility by acquiring a health insurance policy.

The current debate is driven by the fact that health insurance is expensive. And one of the fundamental questions that needs to be addressed is "Why is that?" The answer to that question (to a large degree) is due to the distortions in the marketplace that have been caused by the federal government. We will get to Obamacare in a moment, but we first need to go back further in time to the 1940s and 1950s.

Prior to World War II, few citizens had health insurance. And if they did, most policies covered only hospital costs and ancillary services. During WW II, when wages were frozen by the National War Labor Board and there was a shortage of workers, employers sought out different ways to get around the wage controls in order to attract scarce workers. Offering health insurance was one solution.

That approach, by itself, would have been OK. The marketplace adapts to issues that arise in the marketplace. However, the federal government thought that it would "help out" by making changes to the country's tax laws. The Revenue Act of 1954 included a provision whereby the cost of an

employer's contribution to a health insurance plan was excluded in determining an employee's taxable income. Interestingly, this is probably the only instance within the entire US tax code where one party (the employer) can take a tax deduction, and the related counterparty (the employee) does not need to report the income. It certainly is one of the largest "tax preference" items in the tax code. The cost of this tax preference item is estimated to be approximately $275 billion per year in foregone tax revenues (which then needs to be financed by the government via other taxes and/or increases in the national debt).

One of the other "unintended consequences" that occurred because of this change in the tax code is that employees have never truly understood the cost of this health insurance benefit. Unfortunately however, entrepreneurs and other self-employed individuals are painfully aware of the cost of health insurance.

Another effect is that employees have been shielded from understanding the true cost of their own personal healthcare decisions, because of the low out of pocket costs and deductibles that are available under some of these group health insurance plans. And when there is no self-imposed check on the demand for healthcare services, there is an upward effect on prices. (And we don't even want to get into a discussion about the number of hypochondriacs this federal tax policy may have created over the years).

So, rather than learn from our past mistakes about the distortions in the marketplace that are caused by the federal government, our elected representatives decided that the federal government should further intrude into the marketplace by passing the (Un)Affordable Care Act.

And what have we learned? Between 2013 and 2017, within the marketplace for individual health insurance policies, twenty-four states have seen premiums more than double. And in three states, the premiums have more than tripled. For 2018, insurers are announcing additional huge rate increases, and many insurers are simply withdrawing from the various state insurance exchanges. Similarly, the costs for group health insurance plans have also skyrocketed, primarily due to the "employer mandates" that were embedded in this disastrous legislation.

Please keep in mind that Obamacare was put forward with the best of intentions - to make health insurance "more affordable" – but this is something that the federal government cannot accomplish. Obamacare is collapsing because it should never have been implemented in the first place, and all of the additional regulations and mandates that were created by this legislation should be repealed.

So, what should the replacement be? Before we get into a discussion about our recommendations, let's re-visit a few fundamental questions. Why should health insurance be any different than any other type of insurance? Why should employers be caught up in the procurement and administration of a group health insurance program? (Shouldn't they be focusing on their business)? Why isn't health insurance "portable" from one job to the next? Why shouldn't health insurance policies be individually owned, like auto insurance or homeowners insurance? Why can't health insurance be sold by insurance companies across state line? Why is health insurance the only situation in the US tax code, where an employer gets to deduct a cost, and the employee doesn't need to report the income? Why do "employees" get a tax advantage that is not available to self-employed people?

Our Editorial Board's recommendations are as follows. These recommendations pertain to the 85% of the country's population who have been adversely affected by Obamacare. We will then wrap up

with a discussion about the 45 million people who didn't have health insurance prior to Obamacare. And there are still approximately 25-30 million people who do not, seven years later.

Employers should continue to sponsor group health insurance plans, if such plans serve as an effective recruiting / retention tool within their market. And they can continue to assist employees in acquiring an affordable health insurance policy that best meets an employee's needs. However, individual employees should be able to more easily acquire a health insurance policy that is individually owned, and therefore portable from one job to the next. Any employer cost for a health insurance program should be treated as taxable compensation to the employee, leveling the playing field between employees and self-employed individuals.

Health Savings Accounts should be available for all individuals / families. HSAs can be arranged through your employer, or can be set up individually. Any otherwise taxable income that is personally set aside in an HSA during the year should be excluded from the determination of taxable income. These funds are personally owned money (personally saved money) that can be used to pay for health insurance premiums or any other type of qualified healthcare expense.

Here is an insurance "choice" issue that can best be described by making a comparison to auto insurance. Although "auto repair and maintenance" insurance policies exist, very few people buy these (expensive) policies that pay the cost of repair bills. Instead, consumers tend to buy an auto insurance policy (for a much lower premium) that primarily covers the exposure to catastrophic losses. Similarly, individuals / families should consider buying a high deductible (catastrophic loss coverage) health insurance policy. If they buy this type of policy when they are young (and maintain continuous coverage), they can retain the difference in premium costs within their own personally-owned Health Savings Account, which can then be used to cover the cost of routine healthcare expenses.

Once a personally-owned high deductible insurance policy has been obtained and continuous coverage has been maintained, an individual / family should be shielded from "changes in conditions". In regards to "pre-existing conditions"… If a young adult comes off of their parent's health insurance policy with a pre-existing condition and their coverage had been maintained by their parents, they should not be penalized in the marketplace by that insurance company when they go to acquire their own individually-owned policy.

So, what happens if you do have a pre-existing condition and/or you haven't maintained continuous coverage - - how do you get back into the insurance market? The "easiest" way would be to find an employer who can get you covered under their group health insurance program. Once coverage has been established and then continuously maintained, you should be able to subsequently move to an individually-owned high deductible insurance policy, if that best meets your needs. Again, the most important element of the above recommendations is to set aside as much money as possible in an HSA to cover the cost of health insurance premiums and other healthcare costs.

So, that leaves us with the question of what can be done for low-income individuals / families who find it difficult to afford a health insurance policy (or set aside funds in an HSA). On our website, we have a June 2016 Conversation Piece entitled *The 2020 Initiative.* In a few months, we will post a new Conversation Piece entitled *Welfare Reform Re-Visited*. In that piece, we will discuss how the real solution to the problem of poverty in America is to help those less fortunate become "unpoor".

One of the key features of The 2020 Initiative is a change to the US tax code for personal income taxes, whereby charitable contributions to various "pre-approved" Not For Profit charities will result in a tax credit against an individual's / family's federal income tax liability that would otherwise be paid into the swamp. The federal government needs to be starved of these funds, so that it no longer intrudes into the marketplace for healthcare, housing, education, etc., or any other arena that is not specifically identified in the US Constitution as being a responsibility of the federal government.

In the 2020 Initiative, we recommend that four national Not For Profit "clearing-house charities" be established for food, housing, healthcare and education. The sole purpose of these national charities is to collect funds from citizens, and then, based on stringent, objective criteria that quantifies each state's needs, disburse that charity's funds to the applicable state-level charitable organization in each state. We also recommend that a state's citizens' payroll tax withholdings for healthcare be immediately remitted back to that same state-level charitable healthcare organization.

As we will discuss in our upcoming Conversation Piece on *Welfare Reform Re-Visited*, the better solution is to have the people who need assistance rely on civil society, rather than the federal government, to meet their needs. It will be up to the states, and that state's local charities and local community organizations to efficiently manage the use of these funds. The state-level Medicaid program, working with that state's local charities, "free clinics", and other local community groups will have the primary responsibility for the delivery of healthcare services to those individuals / families, who need to participate in this public-sector healthcare solution, until that point in time when those citizens can begin to participate in the private-sector healthcare market.

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