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THE CONSUMER CHOICE HEALTH SECURITY ACT (S. 1743, H.R. 3698)

INTRODUCTION

In the final days of the 1993 congressional session, a major bill was introduced which promises to change the national debate over health care reform. The Consumer Choice Health Security Act of 1993 (S. 1743, H.R. 3698), introduced in the Senate by Don Nickles of Oklahoma and in the House by Cliff Stearns of Florida, both Republicans, would effectively open up to every American family the same consumer-choice health care program now enjoyed only by Members of Congress, Administration officials, and nine million other federal workers and their dependents, as well as federal retirees.

Significantly, the Nickles-Stearns bill won the immediate backing of 24 original Senate co-sponsors, five more than the bill introduced by Senator John Chafee, the Rhode Island Republican, and only six short of the tally for the President's legislation. This means the bill has more support in the Senate than any other alternative to the Clinton plan. In addition to Connie Mack of Florida and Orrin Hatch of Utah, who with Nickles are the sponsors of the Senate measure, original co-sponsors include most of the Republican Senate leadership—among them Robert Dole, Thad Cochran, Trent Lott, and Alan Simpson. The House version boasts similar Republican leadership support, including Newt Gingrich of Georgia and Richard Arney of Texas.

One reason the Nickles-Stearns bill has gained strong support in Congress is in part because it is guided by most of the same principles as the President's plan—principles which strike a chord with Americans.¹ But it does so without the vast new regulatory bureaucracy and huge tax increases in the Clinton plan, and in a bill only one-seventh as long as the White House legislation.

¹ The President's principles are that reform must achieve: 1) guaranteed comprehensive benefits for all Americans, 2) effective cost control, 3) quality improvements, 4) increased choice for consumers, 5) simplicity and reduced paperwork, and 6) that reform must make everyone responsible for health care.

The Clinton bill would require Americans to buy a standardized set of health benefits offered through typically three or four plans organized by a state-sponsored health alliance. The vast majority of employers would be required to pay—out of the compensation package for each employee—a fixed-dollar tax for each employee and send it to the alliance. This is the only part of health care costs that would be tax-free for the employee. Depending on the standardized benefit plan the employee picked, the family would be responsible for the remaining premium cost and out-of-pocket payments in after-tax dollars. If the employee wanted health benefits not in the standardized plan, the family would have to pay in after-tax dollars.²

Choice of Benefits. In the Nickles-Stearns bill, Americans would be able instead to choose the package of benefits that they consider best for their family, provided these include at least insurance protection against “catastrophic” medical costs. In other words, each family, not the government, would decide the medical services they could receive. Whichever plan chosen, the family would receive the same system of tax relief, in the form of a refundable tax credit. Moreover, and in stark contrast with the Clinton plan, the tax credit would apply also to out-of-pocket expenses, not just insurance, and to contributions to a “Medical Savings Account,” which could be drawn down, free of tax, for any medical expense.

If the family was satisfied with the plan it already had through the place of work, the family could continue to be enrolled in it. But if a worker preferred a plan offered through another organization, perhaps through a union or even the family’s church, the employer would be required to “cash out” the actuarial value of the worker’s current benefits and give the money to the employee to use for another plan. Whichever plan the worker picked, the same system of tax credits would apply. If the worker became unemployed, the family would receive a refundable tax credit—a form of voucher—to offset the cost of the chosen plan.

Working Model. The Nickles-Stearns bill is based on the tax credit proposal first developed by The Heritage Foundation.³ Unlike the President’s plan, however, the Heritage plan and the Nickles-Stearns bill is not an untested theoretical construct. It is instead a modified and improved version of the Federal Employee Health Benefits Program (FEHBP), which currently gives federal workers the choice of a wide range of plans and benefits packages, and which during the last fifteen years has kept its average premium increases about one-third below those of other private health insurance plans. And the very existence of the FEHBP refutes the claim that Americans are unable to make an informed decision over health care benefits. “Many people say that the American people don’t have the

2 For a comprehensive analysis of the Clinton plan see Robert E. Moffit, “A Guide to the Clinton Health Plan,” Heritage Foundation *Talking Points*, November 19, 1993.

3 See Stuart M. Butler and Edmund F. Haislmaier, eds., *A National Health System for America* (Washington, D.C.: The Heritage Foundation, 1989). See also Stuart M. Butler, “A Policy Maker’s Guide to the Health Care Crisis, Part I: The Debate Over Reform,” Heritage Foundation *Talking Points*, February 12, 1992, and Stuart M. Butler, “A Policy Maker’s Guide to the Health Care Crisis, Part II: The Heritage Consumer Choice Health Plan,” Heritage Foundation *Talking Points*, February 28, 1992.

ability to make the choices that are required under [the Nickles-Stearns bill]," notes Alaska Republican Senator Ted Stevens. "I think the Federal Employees Health Benefits Plan shows they can."

Among the key provisions of the Nickles-Stearns bill:

- ✓ **Insurance companies** could no longer exclude individuals, or charge them higher rates, because of pre-existing conditions. Their underwriting procedures, and hence premiums, could reflect only age, sex, and geography. But they could offer discounts to promote healthy behavior or for checkups and other steps taken to detect, prevent, or delay the onset of illness.
- ✓ **Individual tax credits** would replace the current "exclusion" for company-sponsored health plans. This means that instead of having, in effect, a tax deduction for the plan picked by his or her employer, a worker would be able to claim a sliding scale credit for the plan he chose, as well as for out-of-pocket expenses and contributions to a Medical Savings (medisave) Account.⁴ The credits would be refundable, meaning that if the credit actually exceeded the family's tax liability, the government would pay the difference. The credits would be as follows:

Health insurance premiums and unreimbursed medical expenses as a proportion of gross income	Percent Credit
Below 10 percent	25 percent
10 - 20 percent	50 percent
20 percent or more	75 percent
Contributions to a medical savings account	25 percent

Employers would have to offer employees the right to convert their current plan to an individual policy, which the employee would then own. Employers also would be required to add the value of their current coverage to the worker's wages, which each worker could then use to pay for the company-sponsored plan or to buy coverage from an alternative source. Employees thus would have the full security of owning their own coverage, which they could take with them if they changed jobs, and even during a spell of unemployment. And they would have greater choices and the incentive to pick the best value for money in plans.

To make the system simpler for employees, and to ensure regular payments, employers would be responsible for withholding premiums for the chosen plan from the employee's paycheck, whether or not that plan is sponsored by the employer, and sending the money to the plan. Employers also would adjust tax withholdings to reflect the credit available to the worker.

⁴ Contributions to a medical savings account would be eligible only for a 25 percent credit. Each household could contribute a maximum of \$3,000 each year plus \$500 for each dependent. Unused funds could be rolled over each year without affecting the limit for new contributions.

