MAXTAX'S MEDICARE REFORMS: WOULD THEY REALLY REFORM HEALTH CARE?

The MaxTax is largely a Medicare bill attached to 39 pages of private health care reform. To show you what I mean by that, here's roughly how many pages MaxTax spends on each topic:

> Health care exchange and other means to make private care available to the uninsured: 39 pages (including several on preventing tax dollars from being spent on undocumented workers or abortions)
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> Extending access to the poor and underserved (including expanding Medicaid to 133% of poverty): 34 pages
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> Improving the efficiency of public health care systems (mostly Medicare): 120 pages
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> Revenue plans: 25 pages
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> Total: 223 pages

I make this observation as a way to raise an honest question about Ron Brownstein's claim that "Baucus' draft bill offers the most fiscally sustainable framework yet devised for expanding coverage."

About half of Brownstein's support for this claim comes in a discussion of the changes the MaxTax makes to public health care delivery. To understand what those changes are, read paragraphs four through thirteen of his piece. Those paragraphs summarize the 120 pages of the MaxTax treating Medicare that do things like shift payment to reward the quality of service, rather than the quantity of it (these changes make the kind of changes proposed by Atul

Gawande in this important New Yorker piece).

Now, I'll get to the other half of Brownstein's support for his article in a second. But first, regarding the many admirable changes MaxTax advocates for Medicare, here's my question.

What effect will those important changes in public health care delivery—made in a bill that specifically prohibits public health care solutions for the rest of the population—really have on the fiscal responsibility of health care overall?

That is, Brownstein rightly commends Baucus for implementing changes to Medicare that will probably have real impact on the cost the government pays for Medicare. But this is in a bill that—almost as an afterthought—dumps 30 million people into private care that includes no such changes (at least no mandated changes). The Federal government would, under MaxTax, be paying billions for health care that did not necessarily integrate the same changes that the government would incent in Medicare coverage.

So here's my honest question. Do policy wonks believe that by rewarding or even mandating such changes in Medicare, the entire health care delivery system would change? Assuming the reforms succeeded in bringing down cost of delivery, would insurance companies embrace the same changes as the best way to make a profit? And if so, would insurance companies trying to fulfill the corporate imperative to increase profits pass on such savings to consumers and the government that would be subsidizing that care?

As you might expect, this is another area where MaxTax's rejection of a public option seems particularly indefensible. If the most "fiscally sustainable" way to bring down health care costs is to have public insurance mandate changes in the way it delivers care, then wouldn't the best way to bring down health care costs in general be to ensure that we use public insurance to mandate such changes at all levels of care, for

those still working as well as those in retirement?

Wouldn't a public option be the best way to ensure that private insurers implement such changes as well—and pass on the savings to consumers?

If you're going to laud the Medicare aspects of Baucus' plan, it seems, you've also got to point out the inherent contradiction in the plan, one that says the best way to control costs is by mandating changes in public health care delievery, but then deliberately limiting public health care delivery systems.

And here's a question about Brownstein's second point: that the tax on Cadillac insurance would contribute increasing revenue as we get further out. As you recall, MaxTax generates revenue by taxing employer-based insurance—and only employer-based insurance—35% for plans that are deemed (in the near term, at least) to be overly generous.

> The insurance tax also contributes to another major breakthrough in the Baucus bill. Earlier Congressional Budget Office analysis of the House Democrats' health care legislation noted that while it was largely paid for in the first decade, the longer-term trajectory was much more precarious. In a July 26 letter to Republican Rep. Dave Camp of Michigan, CBO concluded that in its second decade the House bill's costs would rise substantially faster than its revenue and offsetting savings, which meant the bill "would probably generate substantial increases in federal budget deficits during the decade beyond the current 10-year budget window."
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> But CBO reached precisely the opposite verdict about the Baucus bill. In its September 16 analysis of the proposal, CBO concluded that because Baucus' funding streams (like the provision

> taxing high-end health plans) are tied more directly to medical costs themselves, over the bill's second decade "the added revenues and cost savings are projected to grow more rapidly than the cost of the coverage expansion." So much faster that CBO concluded the Baucus bill over its second decade would reduce the federal budget deficit by as much as one half percentage point of GDP-a huge savings. "That's very important, and it is a significant departure from the previous bills," says McClellan.

Now, my question is more about the CBO's assumptions than Brownstein's per se.

The point Brownstein and CBO make is that, because the Cadillac tax is indexed to overall inflation and not medical inflation (that is, the increase in the amount of allowable insurance would grow at around 3% rather than 9% each year), more and more plans would come to be taxed, including plans that aren't really Cadillac plans at all, but are instead Chevy plans. The MaxTax imposes a stiff penalty on some employer-based coverage, and over time, that stiff penalty would come to include more and more and ultimately all employer-based plans.

The CBO estimate seems to assume no response to this reality: not the obvious response from insurers (which would be to pass the tax onto those employers paying for the insurance). And not the obvious response from employers (which would be to drop health care coverage for workers—which largely because of the Cadillac tax, would become even more unaffordable). So the CBO estimate does not appear to factor in one likely (and, arguably, intended) consequence of the Cadillac tax: to move more and more people into the private individual insurance market, where there is no revenue stream to offset government subsidies, and where there are no cost controls.

The point being that the Cadillac tax only affects one segment of health care delivery: health care provided through employers. Since it is not imposed on all care, it invites the gaming of the system, and will predictably shift coverage from one area to another.

So again: by controlling costs only in one or two segments of the system, aren’t you inviting insurers to recoup those costs in the one area in which there are zero cost controls, the individual insurance market?