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December 3, 1993

MEMORANDUM

TO: Senior staff and health care war room staff

FR: Gene Sperling GBS

RE: Response to the Heritage Foundation's Report

Attached are talking points on the Heritage Foundation's recent report ("A Guide to the Clinton Health Care Plan", 11/19/93) criticizing the Health Security Act. The talking points also refer to the Heritage Foundation's own health care reform proposal ("The Heritage Consumer Choice Health Plan"), which was introduced by Senator Nickles as the Consumer Choice and Health Security Act. If you would like a copy of either one of these documents by Heritage, please contact me at 2620 or have your staff contact Paul Jamieson in the health care war room at 2566.

This analysis is part of an ongoing effort by staff from the war room, HHS, OMB, Treasury, CEA, the SBA, and the NEC to coordinate the administration's position on and respond to criticisms of the economic impact of the health care plan.

TALKING POINTS ON THE HERITAGE FOUNDATION REPORT ON THE CLINTON HEALTH CARE PLAN

SUMMARY

On November 19, the Heritage Foundation released a report by Robert E. Moffit, Deputy Director of the Foundation's Domestic and Economic Policy Studies Division, asserting that the Health Security Act will increase government bureaucracy and restrict consumer choice. [Heritage Talking Points: "A Guide to the Clinton Health Plan", November 19, 1993] The report, which was covered recently in the Washington Post [11/29/93], hypothesizes that under the Clinton plan, government bureaucrats will determine what services consumers will and won't receive, and the National Health Board and the Regional Alliances will eventually take over the administration of health care. According to Heritage, the only way the Clinton plan could make good on its promise of universal coverage while reducing the growth of health spending is to ration care or raise taxes.

TOP MISCONCEPTIONS OF THE HERITAGE REPORT

In reality, the administration's Health Security Act specifically rejects large government in favor of market reforms to control costs and cover everyone. Ironically, the Heritage Foundation's own proposal, as introduced by Senator Nickles, would result in radical restructuring of health care payments and big government bureaucracies that would not control costs. The Heritage plan would provide little or no reform of insurance markets and would make universal coverage practically impossible. The report's major misconceptions are summarized below and detailed in the attached document:

1) Heritage:	***Government controls will be expensive and will expand.***
Reality:	***President's plan reduces costs and minimizes bureaucracies.***
2) Heritage :	***Less freedom for doctors and patients.***
Reality:	***Health Security Act increases choices for consumers by forcing plans to compete.***
3) Heritage:	***Few agree that the President can finance his plan without broad-based new taxes.***
Reality:	***President rejected broad-based tax increase; independent experts have validated financing.***
4) Heritage:	***An employer mandate will cause higher unemployment.***
Reality:	***President's plan will create jobs; evidence shows that employer mandates do not adversely affect employment.***
5) Heritage:	***Central cost control in Clinton plan is not competition but rigid spending caps.***
Reality:	***Health Security Act rejects price controls; premium limits are only a back-up enforcement measure to private sector competition.***
6) Heritage:	***Clinton plan does not guarantee portability.***
Reality:	***President's plan will provide seamless, portable coverage.***

SIX MAJOR MISCONCEPTIONS OF THE HERITAGE REPORT

1) HERITAGE: ***"GOVERNMENT CONTROLS WILL BE EXPENSIVE AND WILL EXPAND."***

REALITY: ***THE CLINTON PLAN REDUCES COSTS AND MINIMIZES BUREAUCRACIES.***

- ***The National Health Board*** has been repeatedly misinterpreted as a large federal bureaucracy, when in fact, it's modest-sized staff exists only to set broad national guidelines for quality and then get out of the way. States -- not the Board--will craft health care solutions that respond to their individual situations. Appointed by the President and serving staggered four year terms, Health Board members will oversee state plans and guarantee that they meet federal standards, update the standard benefits package, and ensure that basic quality guidelines are adhered to.

- ***Regional Health Alliances*** organized under the President's proposal are purchasers, not government regulators, and will operate on a budget about 2 percent of premiums -- reducing buying, marketing and selling costs of employers and health plans. The alliances will serve to replace thousands of inefficient purchasers of insurance with one larger, stronger, more sophisticated buyer that's able to get better value and offer much more choice. Furthermore, these alliances will be run by groups of local businesses and consumers, not government regulators.

2) HERITAGE: ***"THERE WILL BE LESS FREEDOM FOR DOCTORS AND PATIENTS".***

REALITY: ***THE CLINTON PLAN INCREASES CHOICES FOR CONSUMERS BY FORCING PLANS TO COMPETE.***

- ***Everyone Will Have Choice of Doctors Under the Clinton Plan*** Choice is one of the six non-negotiable principles of the administration's Health Security Act that President explicitly articulated in his address to Congress. Alliances must offer a minimum of three different plans to consumers, and consumers will be able to follow their doctors into a plan. Every American will have a "point-of-service" option that allows them to see any doctor they choose in a traditional fee-for-service arrangement.

- ***Doctors Will Have Choices*** Doctors and other health care professionals also will have a choice of health plans and delivery systems in which they may choose to practice medicine.

3) HERITAGE: ***"THE PRESIDENT SAYS HE CAN FINANCE HIS HEALTH CARE REFORM PROPOSAL WITHOUT BROAD-BASED NEW TAXES. FEW AGREE."***

REALITY: ***THE PRESIDENT REJECTED A TAX INCREASE; PLAN ENSURES COMPREHENSIVE PACKAGE OF BENEFITS.***

- ***President Rejected Broad-based Tax*** The President specifically rejected proposals to finance the plan with a broad-based tax increase. Instead, the vast majority of health care funding for the Clinton plan comes from the same place it does today: employers and individuals. The Health Security Act does include "sin taxes" on cigarettes, which contribute to the nation's long-term health care costs. It also includes a corporate assessment to fund the research and academic health centers. In addition, the plan will achieve new savings in Medicare and Medicaid, place federal workers in less expensive health alliances, and increase revenues by freeing up funds for increased taxable wages and profits which businesses currently spend on rising premiums.

- ***Financing Rigorous and Conservative*** The Administration health care financing analysis was extremely rigorous and conservative; when presented with a choice of two numbers, the administration consistently chose the more conservative one. Moreover, the plan does not count any savings from streamlining waste and bureaucracy despite evidence of lower costs in areas of the country where these reforms have taken hold. In addition, there was an unprecedented degree of outside review of the plan assumptions and methodologies by nationally recognized accounting firms such as Price Waterhouse and Coopers and Lybrand and Fortune 500 companies such as the DuPont Corporation.

- ***Financing Validated by Experts*** While many economists and health care experts disagree a specific provisions of the plan, there is significant agreement that the cost estimating process was scrupulous:

  Senator Daniel Patrick Moynihan: "I feel very comfortable about the administration's position [on financing]." [USA Today 10/1/93]
  Henry Aaron, Brookings Institution: "I think the calculations are honestly done, using the best techniques available...the administration has consulted widely, looked at various projections and took the set that seems the most likely". [Orlando Sentinel 9/26/93]
  Richard Ostow, Chairman of the Cost Audit Group: "We believe that these cost estimates are the best available at this time and are suitable for planning purposes." [10/8/93]
  Yale Professors Ted Marmor and Jerry Mashaw: "The Clinton reform projects Medicare growth rates to be 4.1 percent by the year 2000...Why is this not a plausible, even a conservative estimate?" [LA Times 10/7/93]

4) HERITAGE: ***"MOST...ECONOMISTS...EXPECT HIGHER UNEMPLOYMENT TO ACCOMPANY...EMPLOYER MANDATE."***

REALITY: ***STUDIES SHOW CLINTON PLAN WILL HAVE POSITIVE EFFECT ON EMPLOYMENT***

- ***Clinton Plan Will Lower Costs For Businesses And Create Jobs*** The independent Employee Benefit Research Institute estimated that "the employment effects of President Clinton's proposal [range] from 660,000 jobs created to 168,000 jobs lost. [EBRI "An Employer Mandate: What's Known and What Isn't" November, 1993]. Similarly, the Economic Policy Institute estimated that "...there will be job creation and not job loss". ["The Impact of the Clinton Health Care Plan on Jobs, Investment, Wages, Productivity, and Exports"] In the health care sector, by 1996, as many as 400,000 net new jobs will be created, with more providers and fewer administrators and insurance workers. Joshua Weiner, a health economist at the Brookings Institution, made an even more optimistic prediction: the President's plan will create 750,000 home health care jobs alone. [Reuters, "Health Care Reform Impact on Jobs" 9/16/93]

- ***Real World Evidence of Employer Mandates Does Not Point to Large Job Loss*** Hawaii imposed an employer health insurance mandate in 1974, and, since then, total private non-farm employment increased by 90 percent, compared to 54 percent for the country as a whole. [Hawaii Department of Health 6/8/93]

- ***Studies Claiming Job Loss Fail to Accurately Analyze the Health Security Plan*** Studies by the Employment Policies Institute and the National Federation of Independent Businesses completely exclude from their analysis the discounts to small and low-wage businesses that the President's plan provides. In addition, they also use a benefits package that costs more than the administration's package.

5) HERITAGE: ***"THE CENTRAL COST CONTROL IN THE CLINTON PLAN IS NOT COMPETITION...BUT A RIGID SYSTEM OF SPENDING CAPS..."***

REALITY: ***CLINTON PLAN REJECTS PRICE CONTROLS, EMBRACES PRIVATE SECTOR COMPETITION***

- ***President's Plan Relies on Market Competition*** The Clinton plan specifically rejects a policy imposing price controls on health care. The primary strategy for cost containment is private sector competition -- creating the right economic incentives to bring costs in line and encourage health plans to compete on price and quality.

- ***President's Plans Relies on Premium Limits Only as a Back-up to Market Competition*** Price controls would have the government substitute its views for the markets in hundreds -- maybe thousands -- of decisions. The Health Security Act rejects that type of micro-management in favor of letting a market that truly competes work. Instead, the plan will simply put a speed limit on how fast premiums can go up. These limits will only apply to plans whose prices go up faster than the targeted rate; it will not apply to any other plans.

6) HERITAGE: "THE CLINTON HEALTH PLAN DOES NOT GUARANTEE AMERICANS FULL PORTABILITY..."

REALITY: PRESIDENT'S PLAN ENSURES SEAMLESS COVERAGE

- ***No Matter Where You Go, You're Covered Under the Clinton Plan*** Universal, seamless and portable coverage is the cornerstone of the Clinton plan. The Administration's Health Security Act guarantees every American, rich and poor, employed and unemployed, a package of comprehensive health benefits that can never be taken away. Even if a consumer must switch alliances for whatever reason, he is guaranteed at least the same comprehensive package of benefits he received under his old plan.

HERITAGE FOUNDATION'S OWN PROPOSAL DOES NOT PROVIDE UNIVERSAL COVERAGE AND WOULD INCREASE BUREAUCRACY

SUMMARY

- The Heritage Foundation's health care reform proposal ["The Heritage Consumer Choice Health Plan", by Stuart M. Butler, 3/5/92], which was introduced as "The Consumer Choice and Health Security Act" by Senator Nickles, would require individuals to buy health insurance from among a variety of plans. The individual's employer would then be required to deduct the cost of the premium from the individual's wages and send the payment to the insurance company. Individuals would also be encouraged to retain "Medical Savings Accounts" to pay for catastrophic health care bills. Low-income and unemployed people would receive vouchers to purchase insurance. Some of the effects of this plan include:

INCREASED GOVERNMENT BUREAUCRACY

- Ironically, the Heritage Foundation's own health care proposal would increase government bureaucracy far more than the Clinton plan. For example, the Heritage proposal requires employers to give their employees wage increases equal to the full value of their health insurance contributions -- a noble idea but virtually impossible to enforce without the federal government stepping in to determine and enforce the value of those wage increases. Similarly, the Heritage proposal forbids insurance companies from denying coverage to individuals with pre-existing health conditions but sets up no mechanism to enforce such a proposal. This proposal is only feasible through large-scale government oversight and intervention.

HIGHER COSTS FOR RETIREES

- The Heritage Foundation would put retirees in a separate risk pool from active workers, raising their costs. "One major adjustment [the Heritage Foundation's study] recommends...would create increase costs for retirees..." ["Choice in Health Benefits: Too Much of A Good Thing?" Government Executive, April, 1992]

HUGE ADMINISTRATIVE BURDENS FOR EMPLOYERS

- While claiming to sever the link between employers and health coverage, the Heritage plan actually places enormous administrative burdens on employers. Under their plan, employers would potentially have to fill out a different form and make a different payment for each one of their employees choosing different plans. An employer would be stripped of the tax breaks they have today -- which would even further discourage employers from contributing to their workers insurance payments.

LACK OF UNIVERSAL COVERAGE

- The Heritage plan's emphasis on individual mandate for health insurance -- while failing to reform the insurance market to make this requirement economically feasible -- would make universal health coverage a virtual impossibility.

- Employers would not only be allowed to stop paying for coverage for their employees, but they would lose the tax deductibility of any contribution toward their employees' coverage. In a largely unreformed market, health plans would have no incentive to compete on price instead of risk selection, putting health insurance for "high risk" individuals further out of reach.

DOES NOT EMPHASIZE PREVENTIVE CARE

- By encouraging "Medical Savings Accounts" for costly catastrophic illnesses, the Heritage proposal discourages cost-effective Preventive care. These accounts would force people to pay for these routine services out of their own pockets, encouraging people to avoid seeking preventive care in hopes of saving this expense. Individuals would have no little incentive to engage in healthy behavior, concentrating instead on drawing down savings to cover costs in the event of a long-term illness.

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