LIFT PERSPECTIVE

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The Influence of Federal Policy on Texas Health Care

The patchwork approach of tax subsidies for health insurance, billions of dollars in direct and indirect federal spending and a growing federal intrusion in the health insurance marketplace has created an expensive and inefficient system that costs the federal, state and local governments — and therefore ultimately the taxpayers — much more than it should while still leaving more than 44 million Americans uninsured.

Federal Tax Policy. The kind of health insurance most people have is largely a result of federal tax policy. During World War II, the federal government imposed wage controls to keep employers from bidding up the price of scarce labor. Employers, in their effort to attract good workers, started offering health insurance as part of the benefits package. After the war, treating employer-provided health insurance as a tax exclusion became federal policy, which created a widespread demand for it. Currently, nearly 90 percent of all private health insurance comes through an employer.

Key Issues:
Federal policies affect state health care spending and policy in four primary ways.
- The type of health insurance most people have is largely determined by federal tax policy.
- The federal government directly spends billions of dollars every year on health insurance programs such as Medicare and Medicaid.
- Federal policy indirectly affects state health programs and policy by providing grants and matching funds if states and local communities agree to provide certain specified types or levels of care.
- Congress is increasingly imposing restrictions and regulations on health insurance and the health care marketplace.

Because employer-provided health insurance escapes taxes, an employee can buy a lot more insurance with the same dollar than someone who does not get health insurance through an employer. For example, a dollar in pretax wages may only be worth 50 cents after federal, state and local taxes have been taken out, according to the worker's tax bracket.

In addition, whereas economists consider health insurance as part of the total compensation package, most employees believe the cost of health insurance comes out of the employer's pocket. As a result, employees — and especially organized labor — continually push for more comprehensive coverage, regardless of the cost. This practice has led to a very wasteful health insurance system in which workers use insurance to pay for a number of expenses they could easily pay for out of pocket.

Direct Federal Spending. The federal government is the largest health insurer in the country. Currently (FY 99):

- The Medicare program covers 39 million mostly seniors (Part A) at an annual cost of about $193 billion (after subtracting the money received in Part B premiums).
- The federal-state Medicaid program covers 41.7 million people, with the federal government spending $108.6 billion and the states spending $82.7 billion.
- Thus, the federal and state governments combined spend about $400 billion on these two programs alone, or about a third of total health care spending.

When these and other programs such as health care for the military are added in, it is clear that the federal government plays a huge role in purchasing health care. Because of its size and involvement, it can guide, or even dictate, how health care is delivered in this country.

One way the federal government exercises its control is by leveraging the money it does spend. For example, Medicaid is supposed to be a federal-state match program. In fact, the "match" is skewed heavily toward the federal government. Nationwide the federal government spends about 67 cents out of every dollar spent on Medicaid, meaning that a state need only spend 33 cents to get a dollar's worth of health care. For Texas, the federal government spends 62.5 cents of each dollar and the state 37.5 cents.

That type of incentive encourages states to spend more than they otherwise would, and it makes Medicaid one of the last programs to be cut — because the state has to find a dollar's worth of cuts in order to save 33 cents. Had the states created their Medicaid programs without the enticement of federal financial incentives, they would have spent much less, and the health insurance packages would have been much less comprehensive. For example, left to their own devices, states would likely not have covered the impotency drug Viagra for poor males, nor would they have covered sex-change operations, as some have been required to do.

Indirect Federal Spending. It is very difficult to accurately estimate how much money the government indirectly spends on health care. There are numerous federal programs that provide grants and aid to states, local communities, and even directly to health care providers such as clinics and hospitals. Some of the programs provide funds for health care providers who serve low-income populations, others target specific medical conditions such as people with AIDS or prenatal care.

These programs are voluntary; the states do not have to participate. If they do participate, the government usually imposes conditions and restrictions that, in essence, put the state or provider under federal control. In other words, federal money usually comes with strings attached. But because the federal government makes the money available, it is very difficult to turn down — even if it means accepting conditions and expanding the federal government's intrusion in the state.

Federal Restrictions and Regulations. Speaking to the Service Employees International Union a few years ago, President Clinton outlined his strategy for health care reform: "Now, what I tried to do before [i.e., the Clinton plan] won't work. Maybe we can do it another way. That's what we've tried to do, a step at a time until we eventually finish this. . . . We've got to do it right so we can go on to the next step and the next step and the next step." And that is exactly what he has done, with the help of the Republican Congress. As a result, the federal government is increasingly imposing rules and restrictions on the states' responsibility for regulating health insurance.

Step 1: The Health Insurance Portability and Accountability Act (HIPAA) — This legislation was supposed to make health insurance more "portable," so that people would not lose their coverage when they changed jobs. It also required the states to create a health insurance safety net for those who have been denied health insurance coverage.

Step 2: Mental Health Parity — Led on the Republican side by Sen. Pete Domenici (R-NM), this bill required health insurance to cover mental health benefits up to the same dollar limit it covered standard medical care. Sen. Phil Gramm (R-TX) slipped in a provision at the last minute that said if incorporating this "mandate" would drive up a company's health insurance costs more than 1 percent, it didn't have to do it. As a result, most companies have not implemented the provision, or else they have limited mental health care coverage in other ways, which has led to more calls for reform.

Step 3: Uninsured Children — Sen. Kennedy (D-MA) managed to persuade a conservative Sen. Orrin Hatch (R-UT) to sign on to this legislation (after several other Republicans turned him down), forcing the Senate and then the House to throw billions of dollars at a crisis that never really existed. While there were 10 million uninsured children at the time (1997), 3 million were qualified for Medicaid but had not enrolled. Most of the rest were uninsured for very short periods of time. According to the U.S. Census Bureau, only 4 percent of children were uninsured for a 28-month period. Finally, the states have a health care safety net so that no one is denied care. Even so, the money was too appealing to turn down. As a result, almost every state has created a program to expand health insurance for low-income children — with decidedly mixed results.

Step 4: Managed Care Reform — Both the House and Senate have passed managed care reform legislation — known as the "Patient's Bill of Rights" — and the legislation is waiting for a conference committee to work out the differences.

Although the legislation itself has been watered down from its original version so that it may not do much harm, if it is eventually signed into law, it will mark a milestone in the federal government's willingness to micromanage health insurance and health plans.

Conclusion. The federal government plays a major — and growing — role in state health care and the market for health insurance. The result of that intrusion has been to drive up the cost of health insurance and the number of uninsured.

There is legislation in Congress — e.g., changing the tax laws so that everyone gets the same tax break for purchasing health insurance and eliminating some of the restrictions on Medical Savings Accounts — that could slow or reverse that trend. But whether Congress will pass such legislation, in light of its growing desire to micromanage health insurance, is still a matter for debate.

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