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## **A Better Way to Health Reform**

**By Martin Feldstein**

The American health-care system suffers from three serious problems: Health-care costs are rising much faster than our incomes. More than 15 percent of the population has neither private nor public insurance. And the high cost of health care can lead to personal bankruptcy, even for families that do have health insurance.

These faults persist despite annual federal government spending of more than \$700 billion for Medicare and Medicaid as well as a federal tax subsidy of more than \$220 billion for the purchase of employer-provided private health insurance.

There's got to be a better way. And it should not involve the higher government spending and increased regulation that characterize the proposals being discussed in Congress.

A good health insurance system should 1) guarantee that everyone can obtain appropriate care even when the price of that care is very high and 2) prevent the financial hardship or personal bankruptcy that can now result from large medical bills.

Private health insurance today fails to achieve these goals. It is also the primary cause of the rapid rise of health-care costs. Because employer payments for health insurance are tax-deductible for employers but not taxed to the employee, current tax rules encourage most employees to want their compensation to include the very comprehensive "first dollar" insurance that pushes up health-care spending.

A good system should not try to pay all health-care bills. That would lead to excessive demand, wasteful use of expensive technology and, inevitably, rationing in which health-care decisions are taken away from patients and their physicians. Countries that provide health care to all are forced to deny some treatments and diagnostic tests that most Americans have come to expect.

Here's a better alternative. Let's scrap the \$220 billion annual health insurance tax subsidy, which is often used to buy the wrong kind of insurance, and use those budget dollars to provide insurance that protects American families from health costs that exceed 15 percent of their income.

Specifically, the government would give each individual or family a voucher that would permit taxpayers to buy a policy from a private insurer that would pay all allowable health costs in excess of 15 percent of the family's income. A typical American family with income of \$50,000 would be eligible for a voucher worth about \$3,500, the actuarial cost of a policy that would pay all of that family's health bills in excess of \$7,500 a year.

The family could give this \$3,500 voucher to any insurance company or health maintenance organization, including the provider of the individual's current employer-based insurance plan. Some families would choose the simple option of paying out of pocket for the care up to that 15 percent threshold. Others would want to reduce the maximum potential out-of-pocket cost to less than 15 percent of income and would pay a premium to the insurance company to expand their coverage. Some families might want to use the voucher to pay for membership in a health maintenance organization. Each option would provide a discipline on demand that would help to limit the rise in health-care costs.

My calculations, based on the government's Medical Expenditure Panel Survey, indicate that the budget cost of providing these insurance vouchers could be more than fully financed by ending the exclusion of employer health insurance payments from income and payroll taxes. The net budget savings could be used to subsidize critical types of preventive care. And unlike the proposals before Congress, this approach could leave Medicare and Medicaid as they are today.

Lower-income families would receive the most valuable vouchers because a higher fraction of their health spending would be above 15 percent of their income. The substitution of the voucher for employer-paid insurance would be reflected in higher wages for all.

Two related problems remain. First, how would families find the cash to pay for large medical and hospital bills that fall under the 15 percent limit? While it would be reasonable for a family that earns \$50,000 a year to save to be prepared to pay a health bill of, say, \$5,000, what if a family without savings is suddenly hit with such a large hospital bill? Second, how would doctors and hospitals be confident that patients with the new high deductibles will pay their bills?

The simplest solution would be for the government to issue a health-care credit card to every family along with the insurance voucher. The credit card would allow the family to charge any medical expenses below the deductible limit, or 15 percent of adjusted gross income. (With its information on card holders, the government is in a good position to be repaid or garnish wages if necessary.) No one would be required to use such a credit card. Individuals could pay cash at the time of care, could use a personal credit card or could arrange credit directly from the provider. But the government-issued credit card would be a back-up to reassure patients and providers that they would always be able to pay.

The combination of the 15 percent of income cap on out-of-pocket health spending and the credit card would solve the three basic problems of America's health-care system. Today's 45 million uninsured would all have coverage. The risk of bankruptcy triggered by large medical bills would be eliminated. And the structure of insurance would no longer be the source of rising health-care costs. All of this would happen without involving the government in the delivery or rationing of health care. It would not increase the national debt or require a rise in tax rates. Now isn't that a better way?

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