# JUST TWO LITTLE WORDS

December 28, 1994 by: Phyllis Schlafly

Much of President Clinton's speech proposing tax cuts consisted of posturing to position himself as a proposer of middle-class tax cuts, but two little words marked a revolutionary shift in the White House position on health care. In two little words, Clinton ditched the Hillary Rodham Clinton-Ira Magaziner approach and climbed aboard the solution to the health care problem advocated by conservatives, especially Senator Phil Gramm.

For two years, the fundamental health care issue has been a choice between forcing everyone into government-mandated "universal coverage" OR privatizing the health care industry by letting individuals, with their own money, make their own decisions about doctors and treatment. Clinton read the election returns and rejected the former in favor of the latter.

The two little words in Clinton's TV address, which constitute such a dramatic change of White House position, were "medical expenses." They were inconspicuously tucked into the list of purposes for which Clinton now wants to allow Americans to withdraw funds from an LR.A. (Individual Retirement Account).

LR.A.s are very popular with the American people. The concept is simple: You put up to $2,000 of your current year's income into a special account designated for your retirement, and you can deduct that amount from your taxable income.

For the past two years, conservative Republicans have urged this concept as the best solution to the health care problem. The idea is that funds placed in a special account (variously called Medical **LR.A.s,** Individual Medical Savings Accounts, or Medisave Accounts) would be taken out of your taxable income so long as they are spent for health care purposes.

Clinton endorsed this concept when he stated in his speech that he wants Americans "to be able to use the money [in LR.A.s] to live on, not just retire on." Then he went on to include "medical expenses" as one of the four purposes for which he wants us to be able to withdraw funds from an LR.A. without penalty.

Using LR.A.s for medical expenses would have a far greater salutary impact than just reducing taxes. It would move the health care industry toward a free-market system in which individuals (rather than government or employer bureaucrats) would be in control of their own health care plan and expenditures.

The reason health care costs are so high is no great mystery: most people are spending somebody else's money rather than their own. The tremendous increase in costs came about as a result of the expansion of third-party insurance paid by government (for Medicare for the elderly and Medicaid for the poor) and paid by employers (for their employees as a tax-free benefit in lieu of taxable wage increases).

Now let's lay out a scenario of what would happen if we allowed tax-protected LR.A. funds to be spent for medical expenses. If you are in an employer-paid health

insurance plan, you could go to your boss and say, "Instead of putting me in a $5,000-per-year HMO health insurance plan (in which the Gatekeepers choose the doctors and treatment), just give me $2,000 in cash plus cheaper high-deductible health insurance."

You won't have to pay taxes on that $2,000 of additional income if you put it directly into an LR.A. and, if you actually have $2,000 of medical expenses, you will then have the cash to pay for it from the first dollar. The high-deductible policy will cover your expenses above $2,000.

Now comes the sweet part. If, like the average American family, you spend far less than $2,000 a year on medical expenses, the unspent portion will remain in your LR.A. account, and you can spend it for a few other designated purposes or let it grow tax-free for retirement. It's yours to keep - even if you change jobs!

There is another tremendous advantage of this Medical LR.A. plan. Since you get to keep what you don't spend, you have a tremendous financial incentive to shop around, ask the price, spend wisely, and avoid unnecessary expense. That is the key to reducing health care costs.

I bet that, when American workers see the option between a $5,000 HMO health insurance plan, in which a Gatekeeper makes all decisions about doctors and treatment, versus $2,000 of tax-free cash plus a high-deductible health insurance policy, they will opt for the latter.

The question is, will the new Republican majority cater to the four big insurance companies that are profiting from HMOs and managed care, where Gatekeepers tell patients what treatment they will be permitted to have? Or, will Republicans read the election returns and go with working Americans who want to make their own health-care decisions with their own money?