from Phyllis Schlafly

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Health Care Reform: Medical IRA's and Tax Fairness

More than 500 influential health care players came from all over the country to Washington, D.C. last week to learn about health care reform. It was the perfect opportunity for the Democrats to unveil the details of the Clinton health care plan and to initiate a PR blitz to run it through congress in the First Hundred Days.

Unfortunately for Clinton, the meeting exposed the disagreement and disarray among the Democrats. Rep. Pete Stark (D-CA) presented his plan to extend Medicare to the entire population, ignoring recent reports that Medicare will be bankrupt within ten years.

He -was followed by Rep. Jim Cooper (D-TN) who said that Medicare is a bureaucratic disaster and argued instead for Managed Competition. Senators fed Kennedy (D-MA) and Jay Rockefeller (D-WV), who had previously pushed for national health insurance and "pay or play," implied they would now go along with whatever Clinton wants.

But Clinton hasn't figured out what he wants. Judith Feder, Ph.D., who heads Clinton's health policy transition team, was originally scheduled for a two-hour slot on the two-day program. Instead, she spoke for only ten minutes, gave no specific details, and refused to take questions.

The reason health care costs are so high and rising higher is no great mystery. Most people are spending someone else's money rather than their own. This is what we call third-party health insurance, that ls, insurance provided by an employer, an insurance company, or government.

Before 1965, increases in health care costs were relatively srna1l because most costs were paid by the patients purchasing the care. The tremendous expansion of third party health insurance has resulted from the great growth of government-paid health care (Medicare for the elderly and Medicaid for the poor), and employer-paid health care (as employers and employees opted for the tax-free benefit of health care instead of taxable wage increases).

About 95 percent of the payments to hospitals and 80 percent of payments to physicians are now made with other people's money. The patient who contracts for the health services has no incentive to economize and every incentive to overconsume. If your employer agreed to pay your food bills, supermarkets would accommodate you by stocking more prime rib and less hamburger.

On the average, employers are paying $4,500 per year for a family policy. the employer buys a group plan that provides third party (insurance company) payment for employees' health care with a deductible of, s6y, $100 to $200.

Now consider how that same $4,500 might be spent in a different way -- by changing tax law to permit Medical IRA plans. The employer puts $3,000 into a Medical IRA for each employee,

which the employee uses to pay the first $3,000 of his family's health care costs each year. The employer spends $1,500 to buy health insurance that pays all medical- expenses above $3,000. The employee has no out-of-pocket expense (unlike the present system).

Now here's the sweet part. Any portion of the $3,000 in the Medical IRA that the employee doesn't spend on health care is his to keep, and the unspent portion of $3,000 per year will remain in his IRA account year after year.

As long as this IRA money is spent for health care (including eyeglasses and dental care), it remains tax free. If the employee chooses to use it for other purposes (buying a house, paying for a college education, etc.), it would be taxed like ordinary income.

The Medical IRA plan has three tremendous benefits; (1) it would give each employee a valuable and growing financial asset, (2) since it would be a personal account. it would be portable and stay with him if he loses or changes his job, and (3) it would stop the rise in health care costs because millions of cost-conscious Americans would scrutinize their health care dollars carefully, ask the price before ordering any treatment, and avoid unnecessary expense.

Individual Medical IRAs are the only cost control program that can possibly work: they let individuals have a financial self-interest in spending their own money. The general use of Medical IRAs could reduce total health care spending by more than one-fourth, at the same time preserving the right to choose your own doctor.

The present system, under which employees of bigger companies get their health insurance with pre-tax dollars, but the self-employed and employees of smaller companies without a health plan must buy their health insurance with after-tax dollars (which makes their insurance cost about twice as much), is fundamentally unjust. No wonder we have so many uninsured! This discrimination must be eliminated.

Individual Medical IFAs that are personal and portable, combined with tax fairness, are the only way to achieve real health care reform. They will cut costs by putting dollars and choices into the hands of families (not the government or insurance company managers), they will make it possible for the uninsured to buy insurance, and they do not require a big tax increase.