

A First Dose of Health Care Reform

From his safe senate seat, Oregon Sen. Ron Wyden writes the Healthy Americans Act

By Jim Pasero

When Gordon Smith looks left across the aisle in the U.S. Senate chamber at his colleague Ron Wyden, he can't help but feel envious. Smith and Wyden may be friends who don't aggressively campaign against each other, and they may share similar interests for Oregon's future, but today the two lawmakers are leading remarkably different political lives. Smith has a fight for his political survival in 2008, while Wyden is emerging as a leader in the nation's health care debate.

Wyden has become arguably one of the dozen most politically safe senators in the entire body. So what does a U.S. senator do when he acknowledges that for now, at least, his political vulnerability is close to zero? In Wyden's case, he's gone to work.

And the work he's been doing is some heavy lifting in the Senate Finance Committee, the committee that oversees our nation's trade laws, tax laws and all entitlement programs. Since he's been on the committee, Wyden proposed serious tax reform legislation, the Fair, Flat Tax, and he's also offered a solution to fixing the nation's health care problems, The Healthy Americans Act.

Ironically, Smith also happens to serve on the Finance Committee, marking, as Michael Barone of the "Almanac of American Politics" notes, "only the third time in American history that two senators from the same state have served on Finance."

Wyden, without saying it directly, acknowledges precisely what he has gained from his political security: time — time to learn and to work on the major issues of our day. "I believe it is largely taking the time to listen, to read. And, of course, everything in the U.S. Senate mitigates against that. You have to figure out how to deal with this absolute infernal, incessant out of control money chase, where everybody tells a sitting senator that you have to raise a bajillion dollars every month for six years. That sort of hangs like an albatross over every senator.

"And it's very easy to say I am not going to go and listen to so and so. I am not going to get that book. I am very lucky in that two of the people I like the most, my wife and Michael Powell, run bookstores. I like to spend time in book stores in my hometown. I have just made a judgment that I am going to spend a lot of time listening, learning, going to hearings. Doing the kinds of things you have to if you are going to take on a big initiative."

The time Wyden has spent in preparation is getting noticed. For a first term member of the Finance Committee, the Oregon senator has been getting strong press reviews. And from influential sources.

The Washington Post's David Broder wrote a column in November 2005, "Wyden's bid to up the tax-reform ante." Wyden also received good reviews for his Fair, Flat Tax Act

of 2005 from the *National Journal*, *Newsweek* and *Money* magazine. In February of last year, Wyden joined Rep. Rahm Emanuel on the op-ed page of the *Wall Street Journal*, as he explained the proposal in “Simple Tax, Fair Tax.” And last month, an *Oregonian* headline read, “Wyden’s flat tax isn’t going away quietly.”

David Broder summarizes the Wyden proposal:

Like the plan from the President’s commission, Wyden would eliminate the need for the alternative minimum tax, a device that was originally designed to nail tax-avoiders but which is forcing millions of upper-middle and middle class families to make separate computations and additional IRS payments.

But unlike the plan submitted to Bush, which continues to provide special benefits through lower tax rates for those with dividend and capital gains and interest income, Wyden urges Democrats to treat those sources of income the same as wages and salaries – and tax them at all the same rates.

He would collapse the current six income tax rates to three brackets of 15 percent, 25 percent and 35 percent. And he would provide all taxpayers with a refundable credit for 10 percent of their state and local income, sales and property taxes ... Wyden’s plan preserves the most popular deductions — for home mortgage, interest, charities, and children — and would keep the earned income tax credit.

In promoting his tax proposal, Wyden borrows heavily in sentiment from the Tax Reform Act of 1986 when Oregon Sen. Bob Packwood chaired the Finance Committee.

“I am proposing that we start with Reagan’s initial proposal in ’86 which had three tax rates of 15, 25 and 35. But whenever I talk to colleagues, both Republicans and Democrats, I say, ‘Look, it is fine if it’s 12, 22 and 32.’ In other words, I am not wedded to the percentages. I think the challenge is to recognize the core principles that Reagan and Bill Bradley put together in ’86. Bradley and I have talked a number of times in the last few months, and the case for doing this is much greater than it was in ’86.”

Why?

“Because 14,000 tax breaks have been added since ’86,” says Wyden, “accountants, tax lawyers, all of them who make their living off the tax code, say they have never seen the system as broken as it is today. What Americans want is to be able to compete in the global marketplace. They want high-wage, high-skilled jobs. But, today, because of this broken tax system, people who are smart and talented spend a lot of time trying to find tax practitioners and others to see if they can figure out the latest game to get out front of the latest ruling or exemption or find the provisions that are contradictory that open a space for someone to gain an advantage. So that was the case in ’86, but it is much stronger today.

“So you fix the tax code, it seems to me, and you do two key things: One, you give everybody a chance to get ahead, and I really want to emphasize that, because that is the space that brings both parties together. A lot of people want to talk about soaking the rich, but I want everybody to have a chance to get ahead. I want the cop walking the beat to have a chance to get ahead, and I want investors to have a chance to get ahead.

“I think marginal rates are a big deal. I don’t think preferences are a big deal. Ronald Reagan and Bill Bradley came to this together. Ronald Reagan felt that (with high marginal rates) making an additional movie didn’t make any sense. Bill Bradley, as a professional basketball player, saw that the top marginal rate was way too high, and both of them, as incredible as it sounds, subscribed to the idea that you ought to have a tax system that lets everybody get ahead. Now that can be a unifying message for this country at a time when both political parties can figure out how to fight about who is going to buy a Coca Cola.”

Wyden’s description of his tax plan has a supply side tone and feel, almost as if Jack Kemp was speaking. However, some proponents of the ’86 reform, while lauding Wyden’s intentions, are skeptical of his tax reform package, especially when the capital gains tax is established at 35 percent rate. Many economists believe that such a high capital gains rate would discourage investment, the very thing that Wyden wants to unleash. Others worry that once you begin to unravel the Alternative Minimum Tax, you also unravel a significant part of the federal government’s revenue structure. Regardless, Wyden has forced the conversation to begin anew.

For his part, Wyden had hoped that the President would make tax reform his signature issue in the last Congress. The President chose instead Social Security partial privatization as his top legislative priority.

“I would write it off as one of the great missed opportunities of the Bush administration,” says Wyden. “The President has this commission, and when I saw the report, I said that I didn’t agree with everything in it. But there’s a lot here that can jump start debate. For instance, in my Fair, Flat Tax I have a one-page 1040 form with 30 lines. The President has a commission with John Breaux and Connie Mack as chairs, two well respected guys. Their one-page 1040 comes in at 36 lines. I told the President himself, directly, that for the purposes of government work there is no difference at all there. We can work out tax simplification in a relatively short time and use that as a jump start to have the broader debate about reform. He said, ‘You’re a good guy; you want to work with us,’ but he just didn’t follow it up.”

This Congress, Wyden has turned his attention to health care with another ambitious reform plan, the Healthy Americans Act. The litany of American health care crises is well documented: 48 million uninsured Americans, while the industry devours a whopping 15 percent of the country’s Gross Domestic Product. Health care has emerged as a leading issue in the 2008 presidential election. *New York Times* columnist David Brooks told Jim Lehrer of PBS’s “The NewsHour with Jim Lehrer” that on a recent trip to New Hampshire, health care was the first question on voters’ minds.

But before health care became an issue in the presidential campaign, Ron Wyden was working hard to shape future debate. And this time it was *The Financial Times* that took notice in a March 1 op-ed by Jacob Weisberg, “Symptoms of an Unsustainable System”:

Under Mr. Wyden’s plan, American employers would no longer provide health coverage, as they have since the second world war. Instead, they would convert the current cost of coverage into additional salary. Individuals would use this money to meet the requirement that they be insured. Buying coverage directly would encourage consumers to use healthcare more efficiently. Getting rid of the employer tax deduction, which costs \$200 billion a year, would free funds to cover those who are not poor enough to qualify for Medicaid but not wealthy enough to afford insurance.

After summarizing Wyden’s plan, *The Financial Times* asks the political questions:

Can Mr. Wyden sell his bill to the public as an advance for competition and choice (which it is)? Or will his opponents succeed in framing it negatively, as an expansion in the scope of government (which is an accurate description as well)? Will moderate Republicans see their advantage in sharing credit for fixing the system, or in denying an accomplishment to Democrats, as they did last round?

Mr. Wyden is about to discover that designing an ideal American healthcare system is the easy part. Advancing it politically will be hard enough to make him sick.

Wyden’s co-sponsor for the Healthy Americans Act is Republican Utah Sen. Bob Bennett. Together Wyden and Bennett have managed to get 10 senators, five Democrats and five Republicans, to sign a letter to President Bush endorsing the principles of universal coverage and cost containment. Wyden speaks openly of his working relationship with Bennett.

“Sen. Bennett and I spend a lot of time talking about health care. Both of us are concerned about America’s place in the global economy. Both of us are concerned about health care and taxes as the driving issues. And both of us subscribe to the idea, quaint as it may be, that ideas really matter. And that this is a time in American politics when it is awfully easy to spend your time kicking the other guy’s shins in. But at the end of it, you will not be able to deal with the big issues. You are not going to deal with health care in a starkly partisan way. It is too big. It is too complicated. It is too personal.”

In June, Bennett and Wyden testified before the Senate Budget Committee on the Healthy Americans Act. And on June 26th, Wyden and Bennett wrote an op-ed in the *Wall Street Journal*, “Fixing Health Care,” that outlined the plan’s concepts. One week later the *WSJ* ran numerous letters from readers reacting to the Wyden and Bennett op-ed. The letters, most of them favorable, were published under the headline, “The Healthy Americans Act! Sounds Good ... Perhaps Too Good.”

Wyden explains some of the motives behind the Healthy Americans Act. “Delinking health insurance and employment is clearly the biggest idea. My view about employer-based health coverage is that we could survive it in the 1940s before there was a global economy, but you cannot today have your businesses spot the foreign competition 18-20 points a day when they open their doors. American businesses like Price Waterhouse Cooper face premium hikes of 13 percent a year. They are up against foreign competition that has socialized health care.”

The late economist Milton Friedman explained that the reason the majority of Americans receive their health care coverage through their employer is because during World War II and in the early postwar years, the American economy was subject to wage and price controls. Those controls meant that the only way businesses could entice labor was through expanded benefits. Wyden is correct to see the system as antiquated. Safeway CEO Steve Burd may recognize the same systemic problems, which may be one of the reasons that he appeared with Wyden at his December press conference in the Senate Finance Committee hearing room when he outlined his plan to the media.

As for adopting a single-payer, government-run health care system, which many Democrats favor, Wyden is opposed. He explains that voters in Oregon rejected a similar measure earlier this decade by a vote of 4-1.

Barone comments on Wyden’s more centrist approach: “Wyden over a long career has specialized in assembling bipartisan coalitions for various reforms ... he has a genius for coming up with sensible-sounding ideas no else has thought of and a knack for making the counter-intuitive political alliances that proved helpful in passing unfamiliar measures.”

At least on the surface, Wyden’s health care reform ideas are market-based. Two of the most interesting ideas in the plan — delinking health insurance from employment and mandating that all Americans purchase health insurance, a la auto insurance — were originally proposed in 1989 by Stuart Butler, then domestic policy director of The Heritage Foundation. Butler, like Wyden today, believed that those who can’t afford insurance should receive a subsidy from the federal government to purchase a basic plan. Of course, agreeing on what constitutes a basic plan can be a loaded political question, with Republicans favoring a catastrophic policy, while Democrats prefer the more expensive models that include preventative care options. Wyden admits to being pressed by *Wall Street Journal* editorial page editor Paul Gigot on this point.

Besides spending 25 years in Congress and learning, reading and conducting three years worth of Oregon town hall meetings on health care, Wyden credits some of the evolution in his thinking to a dinner he attended last fall where he, John Kitzhaber and Regence CEO Mark Ganz held a wide ranging conversation on the subject of health care reform. Ganz has emerged, in Wyden’s mind, as a key advisor in his reform efforts, part of which will be regulating insurance companies.

The Lewin Group, a health care consulting firm, in addition to predicting that Wyden's plan would save the nation money, summarizes what the new regulatory world of health care would look like for insurance companies under Wyden's plan:

The "Healthy Americans Act" (HAA) established a centrally financed system of private health insurance for all Americans except those covered through Medicare or the military. Participants would choose from a selection of private plans offered through newly created regional purchasing organizations called, "Health Help Agencies" (HHAs). All Americans would have coverage at least as comprehensive as the health coverage now provided to members of Congress and federal workers.

Critics of the Wyden proposal have compared his regional purchasing organizations to what the Hillary Plan in '93 called "alliances."

Wyden comments on his insurance reforms: "What I did for the purpose of the bill is put the big interests on a grid. And, basically, everybody gives and everybody gets. Mark Ganz, Regence CEO, was essentially my counsel with respect to private insurance. The private insurance industry will be very, very different under my legislation because there will be no more cherry picking. There will be guaranteed issue so that they will have to take all comers. There will be a version of community rating and you will not have the 'Star Wars' scene in 'Sicko' under my private insurance reforms. Michael Moore shows all the exclusions and exemptions in the private insurance market. You are not going to have that under my legislation."

Adds Ganz, "The Hillary Plan wasn't true community rating because there were many exceptions. It has to be all in or not at all. Community rating sounds government in scope."

Wyden continues: "I told the private insurance people that you are going to be able to sell your product, but it has to be a different product. I told them, 'A lot of people in the country want to put you out of business, the single payer people.' I am saying that those of you who are committed to a system where there are private choices, and people can make apple to apple comparisons, and you don't have the cherry picking, there will be a role for you. Sleazy private insurance companies will not like this bill, and they will not survive it. But insurance companies that are committed to a high standard of excellence will not only survive the bill, but they will find great new opportunities in prevention, in chronic care management, in making judgments that allow us to get more value for the health care dollars as opposed to what a lot of people think private insurance companies do, which is to operate like cash registers. But I think there are some younger, smarter private insurance people like Mark Ganz who will tell you that not only will they survive, but they want to bring entrepreneurial skills to prevention. The private insurance companies in my bill that reward prevention with creative thoughtful approaches are going to have big numbers in terms of subscribers."

Can Ron Wyden heavily regulate the insurance industry and keep these companies profitable? Can he reform the nation's health care system and still leave the basic

elements of Medicare intact? Can he introduce the concept of preventative care into Medicare by getting seniors to change their behavior and by rewarding them for doing so? Can he devise a benefit plan for subsidized individuals that won't be too expensive? All questions that don't have ready answers.

Ganz may be one of Wyden's most prominent health care advisors, but he has not agreed to all parts of the Healthy Americans Act. Says Ganz, "I believe that employers have a critical role in the transformation of health care. If you sweep away employer responsibility sponsorship so rapidly you lose the ability to drive behavior."

On mandating that all Americans own health insurance, Ganz remarks, "Mandating people buy insurance will only work if you have a more sustainable system in general.

"Oregon ran out of money. It will happen in Massachusetts. It will happen in a national plan if you don't address what causes costs to go up, why health care costs so much, and rises so fast — at least twice the rate of inflation. A legitimate debate in the presidential campaign needs to center on *that issue* rather than just talking about the uninsured. We need to talk about what is fundamentally wrong with the system. How we negotiate discounted networks with hospitals. How patients can get things like price and quality and see what they are receiving. Spending on health care happens in a dysfunctional market. What we need is a competitive market at the point of service, instead of only at the point of purchase of insurance."

About his concerns and his relationship with Wyden, Ganz says, "We have talked about these issues for many years, and that's where Ron is trying to raise the level of debate."

Ganz may as well add that although the senior Oregon senator may not have all the answers to our health care's woes as of yet, he does have about as safe a seat on the Finance Committee as you'll find — and a history and a willingness to grind away at a problem. Or to put it in Wyden's words, "Big challenges require big solutions, and you have to put together big coalitions to get things done."

Wyden thinks he just might be the person to help put these big things together.

Key Elements of the Healthy Americans Act

Sen. Ron Wyden's Healthy Americans Act would make several significant, fundamental changes to the way Americans currently purchase and receive health insurance. Listed below is a summary of some of the key changes.

- Centrally financed system of private health insurance for all Americans, except those covered by Medicare or military.
- Creates regional purchasing organizations, "Health Help Agencies" (HHAs), as the "exchange" through which participants select their private insurance plan.

- All participants would have access to a standard benefit design, equivalent to what is provided to Congress and federal workers.
- Employers are required to terminate their health plans, rolling the amount saved to their workers in increased wages. A new “health premium” tax deduction offsets taxes from these wage increases. Deduction amount is capped.
- All participants pay premiums through income tax filings whether or not they enroll in a health plan. Premiums are fully subsidized for any participant earning less than 100% of the federal poverty level (FPL) and partially subsidized up to 400% of the FPL. Premiums due would be computed as an add-on to individual’s tax liability.
- In addition, employers are required to pay an assessment ranging between 2-25% of the national average premium for the minimum benefits package, depending on firm size and revenues per worker.
- Participants are never “dropped” from coverage as a result of change in employment status.
- Participants having no insurance or covered by catastrophic policies must “buy up” to the Blue Cross/Blue Shield standard option offered to federal employees.
- Participating insurers must provide the benefit standard and are free to offer more comprehensive alternatives as an added cost option.
- Estimated 2007 monthly premium costs would be \$357 (single), \$714 (married), \$883 (family), \$663 (one-parent family).
- Insurance plans “below the regional average” would require no additional premium contribution. People electing more costly or comprehensive plans pay. Participants are allowed to change benefit design options annually.
- Employers are expected to administer the selection of health plans offered and increase withholdings for more expensive elections. Non-workers deal directly with HHAs. People who do not select a plan would be randomly assigned to one of the available plans.
- Premiums are community rated within each area: premiums do not vary with age, gender, experience, or health status. Discount is allowed for participating in a wellness program.
- Regional HHAs would manage the enrollment process, collect and redistribute aggregate premiums to specific health plans for an administrative fee of 3.2% of claims.
- Insurers would be at full risk for costs that exceed premiums received.
- Insurance brokers, benefit consultants and safety net providers are assumed to disappear.
- Enrollment increases in HMOs or other “tightly managed” alternatives estimated from about 30-70%.
- The Lewin Group estimates the annual rate of health spending would be reduced by 0.86 percent, saving \$1.48 trillion, or 4.5% of spending over a 10-year period.

Compiled by Steve Gregg