

ON CATASTROPHIC HEALTH CARE, OTIS BOWEN UNDERMINES REAGAN POLICY

The Department of Health and Human Services last week released, for discussion, its recommendations for dealing with "catastrophic" health care financing. The study was ordered by President Reagan in February and undertaken by Health and Human Services Secretary Otis Bowen. While some of the recommendations make sense, the most important proposal--expanding the Medicare program to pay for virtually all the acute care hospital costs of the elderly--would reverse dramatically Ronald Reagan's domestic policy agenda. Specifically, the plan 1) would trigger a significant growth in the federal government's involvement in health care and 2) would increase medical costs for all Americans. By even considering such a proposal, the White House has given a considerable and unexpected boost to liberal efforts to create a taxpayer-financed national health service. Little wonder that Senator Edward Kennedy (D-MA) has welcomed Bowen's Medicare recommendation as "a new direction for the Administration on this issue." Indeed it is. It contradicts much of what Ronald Reagan long has advocated. If the Administration embraces Bowen's badly flawed plan for Medicare, it may prove to be the Administration's most serious domestic policy blunder.

Bowen claims that unveiling his proposals for discussion is no different from the Treasury's release of its tax proposals for general debate prior to the tax reform legislation. But in the tax reform case, the shape of the Administration's tax strategy was already well defined by the President and his cabinet. By contrast, Bowen's radical and controversial Medicare proposal precedes any formal decision by the White House as to its overall approach.

Action is certainly needed to help those Americans who, usually because of inadequate insurance, cannot finance very heavy--or "catastrophic"--hospital costs and long-term retirement care. But a federal program which pays for near-unlimited medical care would invite an explosion in health costs. Needed instead are incentives to encourage Americans to furnish themselves with insurance to cover

catastrophic health costs. The Bowen plan does include some useful proposals to provide such incentives. It suggests, for instance, a new tax-free "Individual Medical Account," modeled after the Individual Retirement Account, to encourage younger Americans to save for later nursing home costs. The plan also wisely would grant full tax-deductibility for the health plans of self-employed Americans, and require all deductible plans to include catastrophic protection. This would stimulate private solutions to the problem.

But these useful proposals are overshadowed by Bowen's desire to have Medicare pay for all of a retiree's acute health care costs above a \$2,000 a year deductible, regardless of the retiree's assets or income. The new plan would allow retirees the option of increasing their Part B premiums by \$4.92 per month to obtain the federal catastrophic coverage. Part B is the optional, premium-based element of Medicare which pays for physician and outpatient services.

This proposal has serious shortcomings. First, it is using a sledge hammer to crack a walnut. Of 28 million Americans enrolled in Medicare, only about 12,000 each year exceed Medicare's hospital coverage--and most of those are protected by private "Medigap" coverage or savings. Second, it would fuel price rises in the health care industry. The reason: if Uncle Sam picks up an unlimited tab, neither the patient nor the hospital has the incentive to question optional or costly procedures. Thus Bowen's assumption that utilization patterns would not change is wildly optimistic. And third, Bowen's contention that coverage could be financed completely by a modest premium is naive in the extreme. The gap between premium revenue and expenditures would widen rapidly as lawmakers found it politically attractive to hold down premiums while bending to pressure to expand the definition of reimbursable medical expenses. This already has happened with Part B, to which the new premium would be added--those premiums now cover only 25 percent of outlays.

Bowen and his chief of staff, Thomas Burke, have made no secret of their desire to expand the role of the federal government via Medicare and to squeeze out private retirement health insurance. They will no doubt be strong advocates of their Medicare proposal in Congress, where they will receive enthusiastic support from liberals. By permitting Bowen to release his recommendations before deciding on its strategy, the White House may have permanently lost the initiative on an issue that could prove to be one of the most important of Ronald Reagan's presidency. For 20 years liberal efforts to turn Medicare into a tax-supported national health system have wisely been blocked in Congress, for fear that it could lead to a hemorrhaging of federal outlays. It is ironic that Ronald Reagan's Health Secretary may make the liberals' dream come true.

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For further information:

Peter J. Ferrara, "Controlling Catastrophic Health Costs: Otis Bowen's Grand Opportunity,"
Heritage Foundation Background No. 499, April 3, 1986.