Baucus Healthcare Plan Would "Break Budget"

Senator Max Baucus introduced the first "deficit neutral" healthcare legislation on September 16, but the bill would increase most people's healthcare premiums and still "break the federal budget" — if you believe President Obama's July 22 prime time address to the American people. Back then, Obama stated: "We also know that with health care inflation on the curve that it's on we are guaranteed to see Medicare and Medicaid basically break the federal budget."

Baucus' bill, the America's Healthy Future Act, replaces President Obama's proposed "public option" with non-profit healthcare exchanges and would cost at least $774 billion over the next 10 years and cut the projected deficits by $49 billion from existing expected increases. But if the current Medicare and Medicaid spending trends would "break the federal budget," would a bill that would cut that spending trend by less than $5 billion per year make the difference? Probably not, unless you believe that President Obama was being less than truthful and overly alarmist in his July 22 statement.

Baucus' bill does cut some $409 billion in Medicare waste. That's a substantial sum that could be used to reduce the deficit, but nearly all of it (plus $413 billion in tax increases) would be applied to new healthcare mandates loosely based upon the Massachusetts system that requires people to purchase insurance or face stiff fines on their income taxes.

The Congressional Budget Office (CBO) explained how the bill would work:

> Starting in 2013, the proposal would establish a requirement for such residents to obtain insurance and would typically impose a financial penalty on people who did not do so (the size of which would depend on their income). In that same year, the proposal would establish new insurance exchanges and would subsidize the purchase of health insurance through those exchanges for individuals and families with income between 133 percent and 400 percent of the federal poverty level (FPL).

Tax increases would include a 35 percent excise on so-called "gold-plated" insurance programs, those costing more than $8,000 per year for a single person and $21,000 for a family. It would also impose fines for most people who don't purchase their own private insurance plans, or those who do so through the non-profit insurance exchanges. The Baucus plan is loosely based upon the Massachusetts plan for mandating coverage. Massachusetts will impose a fine of up to $1,068 this year against those who have not purchased health insurance, a fine level that is added onto state income tax returns and will soon rise to about $3,500 per person as the fine is phased in.

Lori Montgomery of the *Washington Post* explains that one of the main innovations of the Baucus bill in achieving its "deficit neutral" designation is its failure to bring doctors' reimbursement rates under Medicare and Medicaid up to reimbursement levels in the private sector. "If the House bill only raised their pay for one year, as Baucus does, the bill would shift pretty easily into deficit neutrality. And, despite the screaming that would emanate from the American Medical Association, some House Democrats are proposing to do just that."

So why didn't the House bill do that?

The CBO noted that Baucus' bill would "substantially reduce the growth of Medicare's payment rates for most services (relative to the growth rates projected under current law)." The House bill didn't use Baucus' gimmick because doctors already make a lot less money from their Medicare and Medicaid patients than private sector patients and are currently forced to make up much of the difference by charging more for their privately insured patients. Eliminating reimbursement level increases for doctors will put additional upward price pressure on private plans. In fact, most analysts believe that Baucus' bill will create upward pressure on everyone's private insurance premiums.

Princeton Economic Professor Uwe E. Reinhard told the New York Times that "the cost-control measures in the Baucus plan alone will not be enough to control skyrocketing health care costs." He sees a future where both Democrats and the private insurance companies are blamed for making matters worse:

> So imagine, if you will, solid middle-class Harry and Louise, sitting at their kitchen table and beholding the latest premium notice from their friendly private health insurer. The notice calls for a, say, 12 percent increase in the premium for the coming year at a time when the couple's household income has been stagnating.

Irate Harry and Louise will, of course, curse the government — and especially the Democrats — for mandating their purchase of health insurance, thus making them swallow that 12 percent premium hike.

But in a populist fit of anger, irate Harry and Louise may also believe that the health insurance industry is just exploiting the mandate to line its coffers. Contrary to the facts, many citizens impute huge profits to the private health insurance industry.

It's not just that the private sector would be paying for much of the government's Medicare and Medicaid programs through government mandates to doctors. Government would have raised medical costs for insurance companies with new mandates, and has no plans to fix out-of-whack malpractice law. Malpractice insurance costs every doctor in Ameria an average of more than $50,000, and for some specialties pay more than $100,000 annually. That's a cost doctors must pass on to their patients. Long Island's *Newsday* recently profiled an obstetrician who will pay $175,000 in malpractice insurance costs this year, which has cut his compensation for nine-months of pregnancy care and delivery from about $5,000 20 years ago to just $2,600 this year. Doctors are not living as well as they were a generation ago, but ultimately, these costs must be passed onto consumers.

Massachusetts Lawyer James Sokolov used to run television commercials in the Boston market bragging, "When doctors make mistakes, I make them pay." The reality is that the tort system is allowing Sokolove and his ilk to make everyone pay. The absurd nature of the malpractice tort system has meant doctors will often order additional, unneeded tests for patients in order to avoid any chance of a legal suit. The practice is called "defensive medicine," and it is perhaps more costly than the cost of malpractice insurance alone. Stuart L. Weinstein, M.D., of the American Association of Orthopaedic Surgeons estimates that "the average American family pays an additional $1,700 to $2,000 per year in healthcare costs simply to cover the costs of defensive medicine…. Excessive litigation and waste in the nation's current tort system imposes an estimated yearly tort tax of $9,827 for a family of four and increases healthcare spending in the United States by $124 billion." That's a one-year cost, not a ten-year figure.

The future of the Baucus bill is in serious doubt, as many on the Left are protesting the lack of a "public option" in the proposal. But if the Baucus bill passes, the budget would still "break the budget." Under a scenario where the Baucus bill is passed, the primary political question may be: Will voters blame Democrats for engineering a failing, government-managed, pseudo-private system, or will they blame the private sector "capitalism" for not delivering the goods?

Photo of Sen. Baucus: AP Images