



Health Care Hooey

Student Handout #8: **FactCheck.org**, “**Health Care Spin**”

October 14, 2008

McCain and Obama each make false claims about the other's health care plan. We sort through the misinformation.

Summary

McCain and Obama have sharply different health care plans, and each has made sharply worded attacks that are either false or misleading. McCain proposes a market-based system that relies on tax incentives, which one Obama ad falsely characterizes as the "largest middle-class tax increase in history." Obama proposes new subsidies to expand private insurance coverage and some expansion of government insurance, which McCain falsely claims "will rob 50 million employees of their health coverage."

Neither candidate has offered enough specifics about his plan to allow experts to assess the cost or impact without making various assumptions. Studies agree generally, however, that Obama's plan would cover more of the uninsured than McCain's would.

Here we lay out a brief explanation of both plans, what the experts are saying about them, and some of the ways each campaign is trying to fool the voters about the other.

Analysis

The Obama-Biden campaign is running half a dozen TV ads attacking Sen. John McCain's health care plan, while the McCain-Palin campaign is countering with a radio ad of its own. Together they give a distorted and confusing picture of what each man proposes, how it would affect workers and families, and how much it would cost.

This is our attempt to lay out clearly what each candidate actually proposes, what the experts say the plans might accomplish, and how each candidate tries to confuse voters about this issue.

The Details

Sens. Barack Obama and John McCain have sharply different plans. Obama focuses on requiring health insurance plans to meet certain standards and expanding government offerings and subsidies. McCain favors a market-based approach that aims to move more individuals into the private insurance market and foster competition.

McCain's plan would:

- Give a health insurance tax credit of up to \$5,000 for couples and families and \$2,500 for individuals. Those who choose to buy insurance on their own would be able to use the credit to pay for their health coverage, with payment going directly from the government to the insurance company. Nobody would be required to buy insurance for themselves or their children, and employers large or small would not be required to offer health insurance as a benefit.
- Tax the value of employer-provided health benefits. Employees would pay federal income taxes (but not Social Security or Medicare payroll taxes) on the value of those benefits. The tax credit would offset those taxes. Companies would not be taxed.
- Expand health savings accounts so that any money left over from the tax credit could be put into such an account, where it could be used for approved medical expenses.
- Allow the sale and purchase of insurance across state lines. No federal standards would be imposed, and insurance companies would not be required to cover preexisting conditions.
- Expand high-risk pools that exist in many states to cover those who have been denied coverage or have high-cost health issues. Some financial assistance would be given to low-income people in such pools.

Obama's plan would:

- Create a national system of competing, federally approved private insurance policies and a public plan that offers coverage similar to [the Federal Employees Health Benefits Plan](#), which provides coverage to federal employees and members of Congress. Individuals and small businesses could purchase coverage through this national exchange.
- Set national standards for private plans and forbid insurance companies from denying coverage because of preexisting conditions.
- Require that children have insurance, offer tax credits to low-income families, and expand coverage under Medicaid and the State Children's Health Insurance Program. Obama has not specified what penalty parents would face if they don't have health coverage for their kids.
- Impose a "pay-or-play" requirement under which large companies would either have to offer coverage or pay a portion of premiums for workers, or pay a percentage of payroll into the national public plan. Small businesses would be exempt from the requirement, but could qualify for a refundable tax credit of up to

50 percent of premiums paid for their employees, to encourage them to offer coverage directly. Obama also wants to cover some of the costs of expensive health coverage businesses face for some employees.

Both candidates say they'll push for measures that would lower health care costs, such as greater use of electronic health records, coordinated care and prevention efforts.

What Experts Say

Independent studies generally agree on one thing – Obama's plan would cover more people. But they differ widely on how much each plan would cost, and particularly on how McCain's plan to change the tax rules on all existing employer-provided coverage would work out. One study estimated that McCain's plan would cut the number of uninsured Americans by 21 million, while another put the number at only 1 million.

The Lewin Group [released an analysis](#) last week concluding that McCain's plan would cover somewhat fewer people than Obama's, but at a much higher cost. An earlier study by the Urban Institute-Brookings Tax Policy Center [predicted](#) that Obama's plan would cover far more people than McCain's, at a moderately higher cost. And two [dueling studies](#) published in the journal *Health Affairs* found flaws in both plans and concluded that neither would do much to reduce the number of the uninsured.

The estimates may vary so widely because both candidates are vague about important details, such as the income levels at which subsidies would be offered or, in Obama's case, the penalty parents would pay for not insuring children. Analysts have had to make guesses about such details, and they also must make assumptions about what would induce individuals to buy coverage, or drive employers to drop it.

Lewin Group study: There are currently 45.7 million Americans without health insurance, [according to the Census](#). The Lewin Group, a private health care consulting group whose studies have been used in the past by both Republicans and Democrats, projected current trends would lead to 48.9 million uninsured Americans by 2010. The study predicted that Obama's plan would reduce that number by 26.6 million, McCain's by 21.1 million. By 2018, when the uninsured would number 59.2 million under current law, Obama's plan would reduce that number by 32.3 million and McCain's would drop it by 21.1 million. It also found that McCain's plan would result in a net cost of \$2.05 trillion over 10 years and that Obama's net cost would be \$1.17 trillion over the same time period.

Tax Policy Center study: The TPC, a nonpartisan group headed by Len Burman, former head of tax policy in the Clinton administration, said Obama's plan would reduce the number of uninsured by about 18 million in 2009 and by 34 million by 2018, an estimate close to the Lewin Group's. But it found that McCain's plan would reduce the number of uninsured by about 1 million in 2009 and by 5 million in 2013, at which point the number of the uninsured would start to rise because the tax credits don't grow as quickly as premium costs. The Obama plan would cost about \$1.6 trillion over 10 years,

according to the report, and the McCain plan would cost about \$1.3 trillion.

The Tax Policy Center study goes into greater detail on how the plans affect the tax bills of Americans. The Lewin report includes breakdowns of coverage of the uninsured by age, income and for those with chronic conditions — the latter group fares better under Obama's plan, as half are projected to gain coverage, and 24 percent would be covered under McCain's.

Analyses published in September in [Health Affairs](#) cast critical eyes on both plans. Those [critiquing McCain's plan](#) said it initially would result in a net decrease of the uninsured of 1 million, though there would be a net increase of the uninsured within five years; they added that "the decline of job-based coverage would force millions of Americans into the weakest segment of the private insurance system — the nongroup market — where cost sharing is high and covered services are limited." The authors said the plan "would diminish the security of coverage for most Americans," especially those in less-than-perfect health.

Those [reviewing Obama's plan](#) — two unpaid advisers to the McCain campaign and a scholar with the conservative American Enterprise Institute — raised questions about the cost of the plan and said the number of the uninsured "will not materially decline." They concluded that "[h]eavy regulation coupled with a fallback National Health Plan and a play-or-pay financing choice also raise questions about the future of the employer insurance market."

Another set of studies by a group called Health Systems Innovations was prepared specifically for the McCain campaign and says his plan would cover more of the uninsured than Obama's.

What the Ads Say

The candidates' ads only add to the confusion — each side straining to paint the other as risky and disruptive. Each side has made false statements about the other.

One Obama ad charges that McCain's plan would be "the largest middle-class tax increase in history." That's simply not true. The ad, titled "One Word," cites a [New York Times article](#) from May 1 that says nothing of the sort.

The Obama campaign's calculations look only at the tax that workers would pay on the value of employer-sponsored health benefits without accounting for the tax credit workers would receive. The *Times* article said that "the elimination of the [income tax] exclusion would generate \$3.6 trillion over 10 years, according to the McCain campaign." The \$3.6 trillion, the Obama camp reasons, would be the largest tax increase in history. But for most Americans, the increased tax bill would be more than offset by McCain's tax credits.

Only those in high tax brackets or with very high-priced plans would pay more in taxes

than they'll get with McCain's credit. The *Times* article says some middle-income workers "conceivably" could pay more if they live in regions where insurance costs are unusually high. But most would come out winners.

It's true that experts say over time, as health premium costs rise — and they've done so faster than inflation, to which the credit is indexed — the credit won't be sufficient to cover health care taxes some workers will face. But those are workers in higher income brackets. The [Tax Policy Center report](#) shows that by 2018, the top 40 percent of income earners would see their taxes increase on average.

For 2008, the average cost for a family's employer-sponsored health care plan is [\\$12,680](#). A \$5,000 credit would be enough to cover the added federal income taxes a family would face on that plan, no matter what tax bracket the family is in. If the average were to rise to \$13,300 next year, a typical middle-income family in the 25 percent tax bracket would still face an added tax bill of only \$3,325, and after getting their tax credit would still have \$1,675 left over to put into a health savings account to pay for such things as deductibles, co-payments and prescriptions. Describing that as "the largest middle-class tax increase in history" is a gross deception.

The Republicans are no better. The McCain-Palin campaign and the Republican National Committee are running a 60-second radio spot that says Obama's plan would "rob 50 million employees of their health care." That's false. It's a complete misrepresentation of [a Lewin Group study of another health care plan entirely](#), one put forth by the liberal Economic Policy Institute, not by Obama.

Even so, the ad grossly mischaracterizes the analysis. What the study actually says is that nearly 52 million people would shift from private coverage through their employers to being covered by a national insurance pool, with employers still contributing to the cost through a payroll tax, which would be cheaper for some employers than paying premiums directly. The study actually shows that not a single person would be "rob[bed] ... of their health care." Far from it. The plan "would reduce the number of uninsured by about 97.3 percent, leaving 1.3 million people uninsured." But again, that's not Obama's plan.

The Lewin Group's study of *Obama's* plan projects that 1.5 million of those who now have employer-provided benefits would become uninsured in 2010, while a greater number — 4.3 million — would be uninsured under McCain's. Both the Lewin Group study and the Tax Policy Center's find there would be a net increase in the number of those with benefits at their jobs under Obama's plan, and a net decrease under McCain's.

The radio ad goes on to say that "Congressional liberals" want "government-run health care" in which "bureaucrats will decide what health procedures you can get and when you get it." That might have been a valid criticism of the Canadian-style national health plan supported by Rep. Dennis Kucinich and a few others. But Obama got the Democratic nomination, and his plan isn't anything like that.

The ad also charges that Obama's plan "costs taxpayers hundreds of billions." It's worth

noting that the Lewin Group analysis found the net cost of McCain's plan to be \$880 billion higher than Obama's over 10 years.

More Misleading Claims

In ads and on the stump, McCain and Obama have put forth other incorrect statements on their health care plans:

- Another Obama-Biden ad [tells viewers](#) that "McCain's own Web site said [the tax credit] goes straight to the insurance companies, not to you. Leaving you on your own to pay McCain's health insurance tax." Technically, that is what the Web site says, and voters who visit the site may be confused on this point. (In fact, McCain's main health care page doesn't tell voters that they'll pay income taxes on job-provided health benefits.) Still, this line of attack from the Obama camp makes no sense whatsoever for those who keep their insurance at their jobs. McCain spokesman Brian Rogers told us that the exact mechanics haven't been determined, but a McCain administration would work with the IRS and the Treasury Department to make sure the credit paid for income taxes in such cases.
- The McCain campaign has claimed its plan pays for itself, but both the Lewin Group and TPC studies say it comes nowhere close to doing that. McCain economic adviser Douglas Holtz-Eakin had said this spring that the proposal would bring in \$3.6 trillion over 10 years, making the plan "budget neutral." However, a [March 2007 report](#) by the Joint Committee on Taxation found that government revenue would increase by that much if employees had to pay *both* income taxes *and* the FICA (payroll taxes) on their health benefits. The McCain campaign says it won't touch payroll taxes. Last week the *Wall Street Journal* [reported](#) that Holtz-Eakin now says McCain would cut Medicare and Medicaid by an unspecified amount to make the plan "budget neutral."
- Yet another Obama TV ad, titled "[Unravel](#)," misleadingly highlights McCain's tax on health benefits but leaves out completely the part about the tax credit. It then says that McCain's plan "would raise costs for employers offering health care, so your coverage could be reduced or even dropped completely." The McCain plan doesn't impose added costs directly on employers, as that claim implies. It is true that health experts say costs *could* rise for *some* businesses, primarily smaller companies, if young and healthy employees buy their own plans on the private market, leaving older, less-healthy and expensive-to-insure workers in company health plans.
- McCain has repeatedly claimed that "small businesses" would be fined if they failed to provide coverage for their employees under Obama's plan: "If you're a small business person and you don't insure your employees, Sen. Obama will fine you. Will fine you," he charged at the [Oct. 7 debate](#). That's not true. Obama's plan says small businesses would be exempt from the pay-or-play requirement

and could receive a tax credit to help pay for premiums, if they choose to cover workers.

– by Lori Robertson

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Source: <http://www.factcheck.org/elections-2008/health_care_spin.html>