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Ask the Experts: The McCain Health Reform Proposal Kaiser Family Foundation October 16, 2008

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LARRY LEVITT: This is Larry Levitt from Kaiser Network.org. Welcome to the second in our two-part series of Ask the Expert shows, focusing on the health plans of the presidential candidates. The campaign has entered the home stretch, following last night's final public debate, where the candidates very different visions of how the nation's healthcare system should be changed.

We heard from Obama adviser, David Cutler, last week, and today we're joined by Jay Khosla, a health adviser to the McCain campaign. He's here to answer your questions about Senator McCain's proposals, which include shifting the federal tax subsidies for health insurance, and allowing people to buy coverage across state lines.

As always, you can submit questions at any time during the show, by emailing them to ask@kaisernetwork.org. Now Jay, thanks for joining us.

JAY KHOSLA: Thank you for having me Larry.

LARRY LEVITT: Stepping back from the details of Senator McCain's plan for a moment; I think it's fair to say that no plan that either candidate puts forward would pass Congress fully intact, so give us a sense of what, beyond the details, what are the aims of the senator's plan? What are the principals embodied in them?

JAY KHOSLA: Absolutely, I think Senator McCain's vision for healthcare reform is pretty simple. I can actually encapsulate that in one sentence. It is to provide access to quality and affordable care for every American, and what Senator McCain has proposed are these four pillars of reform on which he wants to build this vision. Those four pillars are affordability, portability and security, access and choice, and quality.

So, I think what Senator McCain has proposed is kind of a very pragmatic vision that he wants to accomplish, but you're absolutely right, at the end of the day it has to be, not only a bi-partisan effort—we talk about bi-partisanship a lot—but it also has to be an inclusive effort. We have to get everybody around the table to make sure that we are addressing the problem from bottom down.

LARRY LEVITT: And speaking of bi-partisanship, I mean any plan would probably have to attract support from the other side, what do you think is in Senator McCain's plan that might be attractive to Democrats as opposed to Republicans?

JAY KHOSLA: Absolutely, and I think, in all honesty, these two healthcare plans are very different plans. They are two very different visions for American healthcare system; but there's also areas of commonality that we need to address, especially when it relates to the idea of having a more

quality-focused healthcare system. I think Senator Obama and Senator McCain both agree on that. They agree on the idea of having payment reform, so we move away from this fragmented system that rewards physicians based on number of services instead of the quality outcomes, and having a bigger offer of generic drugs, for example.

So there are a lot of areas of commonalities on both plans that Senator McCain and Senator Obama can agree on, as do the Democrats and Republicans, and Health IT is another great example of that. But we are hopeful that Senator McCain's vision is pragmatic enough, and in the past, Jason Furman has actually said very good things about the tax credit approach, so we're hopeful going forward, Democrats feel the same on some of these issues, and we can have a very progressive and fruitful dialog on this.

LARRY LEVITT: I know in Washington it's hard to get away from cost and the budget in anything you talk about, particularly healthcare. There have been a lot of discussion about how much each of these plans would cost the federal government. What's your estimate—the campaigns estimate of the net cost of the plan to the federal government?

JAY KHOSLA: I think that's a very fair question to ask, so we have done our internal estimates. As you have seen, there are studies out there that have pegged both plans at

every-which number that you can think of, it's all over the map.

Our plan, based on our internal estimates, is budget neutral over a period of 10 years. It's not budget neutral the first year, but over 10 years it is budget neutral; and its budget neutral because it has a combination of reforms built in. It has tax reform, it has insurance reform, and it has very comprehensive cost-containment measures that we have built in, that we feel pretty safe about saying that over a ten-year period, the McCain plan will be budget neutral.

LARRY LEVITT: And you talked about it not necessarily being budget neutral in the first year, and I imagine that's because the new tax credits that the plan provides exceed the cost of removing the tax exemption for employer provided insurance. Give a sense of how that plays out over time. There has been a lot of discussion also, about how fast these tax credits will grow. What is actually in the plan about how those tax credits will grow over time?

JAY KHOSLA: Absolutely, and Larry, if I can have a second, I think there's a lot of misconceptions out there on the McCain healthcare tax credit, so if I can have an opportunity to kind of clarify some of this.

LARRY LEVITT: Sure.

JAY KHOSLA: So the way Senator McCain envisions these

healthcare tax credits is simply building on the current employer-based system. What Senator McCain is proposing is first of all, nothing changes for the employer. The employer deduction itself is untouched, including the payroll side.

So nothing absolutely changes for the employer, so they have every incentive to provide quality coverage as they do now. In a competitive workforce environment, they will continue to do so, and Senator McCain is very supportive of it.

On the employee side, all that happens is payroll taxes are off the table—all that happens is the value of the employer-provided coverage just shows up as additional income on their W-2 form. So, to put this in perspective actually, if you say that everybody in the employer-sponsor system gets the same coverage as a member of Congress, every American family, in every tax bracket will come out ahead with additional dollars left over.

So, this is actually much more generous even than what members of Congress are getting. We actually have on our website, a table which shows you how well people do, and it's very progressive. People in lower tax brackets and middle tax brackets actually see the greatest benefit here, and moving on to the question you asked about how are these indexed, we talked to a lot of healthcare experts, and we talked to a lot of economists to figure out what is the single-biggest threat

facing the U.S. healthcare system, and it is rising costs.

Healthcare costs are going up at 7-percent to 8-percent every year. By the end of the next decade, healthcare costs will make up 20-percent of our GDP; so we have to do everything possible to bring those costs under control. So what Senator McCain has proposed is a comprehensive plan, and one of the things we are doing to put a downward pressure on healthcare cost, is indexing healthcare tax credits to CPI instead of the medical inflation.

By doing this, we will put a downward pressure so people will demand more value for their money. If we simply index them through the medical inflation, it's almost like you're conceding defeat. You're saying it is okay for healthcare costs to go up 7-percent to 8-percent a year. In that regard, no amount of healthcare tax credit—well, no amount of money is enough, because it is a system that is headed towards a fiscal meltdown.

LARRY LEVITT: And that indexing also produces savings to the federal government over time?

JAY KHOSLA: Over time, yes, it's part of the whole—it's a comprehensive plan, so I would like to once again stress the idea that not only is it a tax reform, but it is also the insurance reform piece and the cost-containment measures that bring savings to the entire system. Lewin actually just did a

study about the Obama and the McCain plan, and they said that the McCain plan, actually even to the states, saves almost half a trillion dollars over 10 years; that's a huge number. So we are trying to do it in a very comprehensive and pragmatic way.

LARRY LEVITT: Speaking of the Lewin plan, that's one of the many estimates out there about the cost of these plans as well as how many of the currently uninsured they would cover. Do you have an estimate as well of what kind of reduction in the uninsured we could expect from Senator McCain's plan?

JAY KHOSLA: Absolutely, and having Doug Holtz-Eakin, the former CBO Director, as our Senior Policy Adviser, I feel pretty good about these numbers when we do internal estimates, but our internal estimate all along had been that we would cover anywhere between 25 to 30 million uninsured. Lewin said it's about 21 million, Roger Feldmen's study saying it's about 28 million, so we are right in the ballpark of the number of uninsured folks that we will cover.

So we feel very positive about the value that we will get. But once again Larry, going back to the point, what is the reason we have all these uninsureds? The reason is rising costs; it's the affordability. We are addressing the underlying problem of the uninsured. We feel that if we can address the cause issue, we can make it affordable for every

American to have it.

LARRY LEVITT: Well, I'm going to move on, we've got a lot of questions from viewers, so I want to move on to those. One is a question that's come up in a couple of the debates, the last one being last night, which is the implications for the current economic situation and the fiscal crisis and whether that means that any of Senator McCain's health plan would be scrapped or curtailed in any way.

JAY KHOSLA: I think Senator McCain, in his own words, and I'll paraphrase here, he has been very clear. He has always said that healthcare is a top priority for him. It'll be a top priority for Senator McCain as President on day one, day two, day three. Even when he's talking about his overall spending freeze, which is a tough decision to be made in tough economic times for the American people, he has made it very clear that healthcare will continue to be a priority along with veteran's care and other very important issues that will not be part of that spending freeze.

This is an issue that have to be addressed, because Larry, you and I know and our listeners know that healthcare and economy are so tied together. You cannot really address the economic conditions facing middle-class America without really addressing the healthcare costs.

LARRY LEVITT: You talked earlier about some of the

similarities between Senator McCain's plan and Senator Obama's plan—some ideas that might have some bi-partisan appeal, and we got a number of emails about those; one being health IT. Talk a little about what Senator McCain's vision is on health IT, what he would do to move that along.

JAY KHOSLA: Health IT obviously is a very, very important part of healthcare reform debate, and it is a bi-partisan issue, which greatly increases its viability. What Senator McCain is doing with health IT is taking a much more pragmatic approach. We don't feel that health IT is the silver bullet that's going to solve our healthcare problems, but it is a very important part of the puzzle. So we have to do it in the context of entire healthcare system reform.

What Senator McCain focuses on when it comes to health IT is to make sure that we have interoperability in the system. Right now, you have legacy systems built everywhere, and you have systems in physician's offices and hospitals and other provider offices, and often times they don't talk to each other, so we keep investing money in health IT without really demanding that these systems talk to each other. That's been a big problem all along.

What Senator McCain wants to focus on, is of course health IT is going to need funding, and we'll provide that funding, and we'll provide that funding, but we have to do it

in a responsible manner so we're not going back to the same physician two years from now and saying, listen, this old system doesn't work anymore, you have to buy a new one. So we have to have that kind of faith built into the system, so that people feel confident installing health IT.

We feel payment reform, for example, is a great way to accomplish health IT in the Medicare system, and it's a great way to influence the private sector, because private sector is light-years ahead when it comes to health IT. We need that strong, public-private partnership on health IT to make it happen, and Senator McCain is very committed to doing that.

LARRY LEVITT: So you think the federal government needs to be clearer about the standards for IT and particularly on interoperability?

JAY KHOSLA: I think the federal government obviously has a very important part to play in making sure that we have interoperable standards out there for health IT. But we have to build on the private sector model that's out there, because, like I said, private sector is light years ahead and we have to make sure that we are not penalizing folks who are doing the right things out there.

So we have to sit down with the private sector, consult with them and figure out what is the most effective way of incorporating all the efforts already happening in the private

sector, and move on forward so everybody's on the same playing field.

LARRY LEVITT: In a payment reform, how would Senator McCain change the way providers are paid? I mean what direction does he want to go there?

JAY KHOSLA: I think—let me just talk about this at a 30,000-foot level, and then I can get into some details. The idea that Medicare right now is a volume-based reimbursement system, is not the right model, and Senator McCain has said that constantly. We need to move away from this fragmented and volume-based system, and move into a system where we are actually rewarding providers for coordinated and quality-outcome based care.

Physicians and providers have always wanted to do the right thing, and Senator McCain strongly feels that in a bi-partisan and inclusive way, if we have everybody sit down together and say, let's do what is right for the patients, we can accomplish this. Greater use of medical homes, for example, having the primary care physician whose coordinating care, so we don't have seniors who are seeing 5 to 10 different doctors, taking 15 to 20 different medications—half the medications don't work with the other half. We want to avoid that kind of inefficiency, and bad outcomes to the system. That's what Senator McCain is looking towards. SGR is another

great example of the physician-

LARRY LEVITT: Sustainable Growth Rate.

JAY KHOSLA: We have seen in the past that the hole just keeps getting deeper and deeper and deeper, and every year it just becomes about political gamesmanship instead of the physicians and our seniors. So Senator McCain is a strong believer that we have to come in and start that system from scratch, the current system is not working. We have to scrap it, sit down with physician community, sit down with the Democrats, the Independents and figure out what is the best way to protect our seniors, what is the most sustainable way of doing this.

LARRY LEVITT: Do you have thoughts about the way physician payment should change? Or just that it needs to be different from the current approach?

JAY KHOSLA: Well obviously, I think the targets in the SGR mechanism right now are so far apart, there's no way of actually going back and fixing it. So I think we can actually use this as an opportunity to talk about the payment reform, that I think it's actually both Senator McCain and Senator Obama would agree on, is have a system where you are rewarding physicians on quality outcomes, and taking better care of their patients, doing things the right way, and not just based on volume.

I think physicians want to do the same; they want to do what's best for their patients, so we almost see the SGR as an opportunity to do the right thing.

LARRY LEVITT: I want to shift gears a little bit and talk about the insurance market, we had a lot of questions about Senator McCain's approach to insurance regulation, and I'll read one; in light of the recent Wall Street collapse, which both campaigns rightly attribute, in part, to lax regulation.

Why does Senator McCain believe that further deregulating the healthcare sector is a good idea? And first let me ask you about that premise; would you say that Senator McCain would deregulate or remove some of the existing regulations in the insurance market?

JAY KHOSLA: No, here's the thing, I think this has been played—this has gotten a lot of political flack around it, but the reason what Senator McCain has proposed has nothing to do with deregulation. All Senator McCain has said in the past is listen, I want to have a healthcare system where the family is in command of their decision. They are the ones making the choice that is right for them. So when they are talking about choices, Senator McCain wants to make sure that they have as many choices as possible.

So what Senator McCain has proposed is allowing

families to make the decision. If they feel that the coverage they currently have—they absolutely get to keep it; we don't want to take that away from anyone, but if people want to investigate more options, they can do it in a nationwide market. So they can go across state lines and buy an insurance product that best meets their needs.

We have never once said that we are taking anything away from the insurance regulators, or the oversight of any of these markets. We have a lot of faith in them. They have taken care of their markets, and they'll continue to take care of their markets and consumer oversight and protection will be paramount in everything we do. So all we're doing is talking about choice, not deregulation.

LARRY LEVITT: And in review of what effect this might have on states ability to regulate as they do now, I mean some insurance commissioners have said that it would be difficult for them to, for example, respond to consumer complaints if people are buying insurance from other states. How would you respond to that?

JAY KHOSLA: Larry, that's exactly my point, we have put this as a policy proposal that's out there. We have—Senator McCain has made it very clear that he wants consumer protection and oversight to be a very, very strong component of this plan, so we are going to make sure that we work with the

state insurance commissioners and the regulators to sit down and figure out what is the best way to protect the consumers when they're buying across state lines.

Maybe it's a partnership both between the state of purchase and the state of residence, but we are going to make absolutely sure that the consumers are protected, that is going to be our number one paramount goal when we are doing this.

LARRY LEVITT: We also had a lot of questions about what would happen to people with pre-existing health conditions since the tax credit Senator McCain has proposed would be available in the non-group market, as well as the employer market in many states don't regulate the non-group market in the same way that they regulate the small-group insurance in particular. What would happen to people with pre-existing health conditions in that market?

JAY KHOSLA: Absolutely, I'm so glad you asked this question, and this is another area where there's a lot of misconception, so I appreciate the opportunity to make this clear.

Senator McCain strongly believes that no American, simply because of a pre-existing condition, should be denied coverage to quality and affordable care. He has made that very clear ever since he rolled out his GAP plan, which is the Guaranteed Access Plan.

What Senator McCain wants to do, is to take the best practices from every state where they deal with this segment of population, and put them all together into a best practices model, bring it all together, and use that best practices model as a construct to sit down with all 50 states, and then institute these GAP plans.

The idea behind the GAP plan is if you're denied coverage because of a pre-existing condition, in the employer market, or the individual market, you will have guaranteed coverage under the GAP plan. This is not a one-size-fits-all GAP plan. We will have options in there, we will have choices, there will be an HMO, there will be a PPO, there will be opportunity to go to a center of excellence.

So, for example, if there's an American who is suffering from Brain Cancer, for example, maybe just a regular PPO is not enough, he has to go to a center of excellence to get the right kind of care. That will be an option, and we will have premium limits built into place in these GAP plans, there will be subsidies for low-income Americans, and they will still have access to the tax credit on top of everything.

So, Senator McCain has a very strong feeling about this, and that's why some of the attacks that have come our way have been kind of hurtful, because Senator McCain has taken a very personal role in making sure that those with pre-existing

conditions are taking care of. I think he feels that's almost a moral responsibility for Americans to make sure that we are taking care of these Americans who need care the most.

LARRY LEVITT: And you talked about guaranteed coverage in these GAP plans, there are many high-risk pools now, and the states have waiting lists for example, because the funding is capped, so these would be plans that would be available to anyone with a pre-existing condition who couldn't get coverage otherwise?

JAY KHOSLA: Absolutely, right, and that is the idea, so I know that there's a lot of talk about comparing this to a high-risk pool, but what these are, are brand new entities. What we are creating almost is a twenty-first century creation to reflect the realities of time.

So what Senator McCain has proposed, and he's talked about this, there will be need for federal funding for these GAP plans, and he'll provide it. Because he feels this is a very important issue and needs to be addressed the right way, so people are not waiting in lines, they have choice; they can afford the care that's provided there.

LARRY LEVITT: Do you have any estimates of how much federal funding that would require?

JAY KHOSLA: We just have our internal estimates, obviously estimates once again, have been all over the map on

this very issue, but what Senator McCain has said previously, based on our internal estimates, and this is just the federal cost since this will be a partnership between states and the federal government, the federal cost could be anywhere between \$15 to \$20 billion dollars a year.

LARRY LEVITT: Fifteen to 20 billion per year?

JAY KHOSLA: That's just the federal portion.

LARRY LEVITT: Okay. Now you talked earlier about the incentives for employers would not change, that employers would still get to deduct the cost of providing health insurance to the workers. We did get a question about still changing the incentives in the tax system with employees now having a different incentive. There have been some estimates that that would lead to a shift from the employer market to the non-group market. Do you believe that would happen?

JAY KHOSLA: Absolutely not, and thank you again, I mean these are fantastic questions; these are the kinds of questions I actually wanted to answer, so people get a clear picture.

Here's what would happen under the McCain plan; employers are absolutely—nothing's taken away from the employers for providing coverage, and like I said, families under the McCain plan, actually come out ahead in the employer-sponsored system, not only with the current policies that they

have, which are as good as a member of Congress, but having additional dollars in the HSA.

One criticism that's been leveled at the McCain plan is what about the young and the healthy? They will leave the employer sponsored market, and go into the individual market. So, let's cut past the rhetoric and just look at the numbers, what would happen. Let's just say for simplicity, it's a \$5,000 individual coverage, that's about standard FEHBP level coverage.

So if somebody like me, who's 29 is in relatively good health, at least for now, and say if I'm in the 25-percent tax bracket, and I have a \$5,000 employer coverage, what would happen under the McCain tax credit? Well, I have two options. I can go into the individual market and buy a \$2,500 policy, or I can stay with my employer and keep a \$5,000 policy and have \$1,250 left over to invest in a health savings account, because the tax treatment of a \$5,000 policy is only an additional \$1,250 in increased income taxes in the 25-percent tax bracket.

We are giving you a \$2,500 tax credit, so you have \$1,250 left over. So why would people leave a \$5,000 policy with \$1,200 in a health savings account to go buy a \$2,500 policy?

So the idea here is very simple; we build on the employer sponsored system, make it stronger, and at the same

time, help people, the self employed and the unemployed, who in the past have not gotten the same treatment under the tax code; that's all we're doing in the McCain plan is simply giving those families additional dollars for the first time to say, hey, you deserve the same as an American family, you go buy the coverage that you need.

If you actually take a look at the Lewin study, it's pretty clear who is actually cause more harm to the employer-sponsored system is it our plan, or compared to the Obama plan, which has the employer mandate built into it.

Senator McCain feels that that is much more harmful to the employer-sponsored system. Because if you come in and mandate a certain level of coverage, and then you say, okay, you either provide this level of coverage, which has not been defined yet what a meaningful coverage is or you pay a lower tax penalty, which is a payroll tax. As an employer, that's a pretty easy decision for me if you look at these tough, economic times we're having.

So let's take GM for example, a company like GM can say, listen, healthcare costs are going up too fast, we can't afford healthcare, you know what? I will put everybody into this new, government run plan that's being created and just pay the lower tax penalty. This would happen and then once one big company does it, the others see this is a competitive

advantage, and then it just keeps going down that path.

Studies have looked at this in the past, and they have said more than 50 million people from the employer sponsored market would be moved into this new government. Lewin in its latest study, showed that under the Obama plan, a lot more people will be moved from private coverage into the government plan, compared to the McCain plan; and the savings are phenomenal.

Under the McCain plan, savings per family of \$1,400 according to the Lewin study. Under the Obama plan, it's \$400, way less than the \$2,500 that's being claimed. So, I would really urge people to look at the numbers, get past the rhetoric, and see how it actually works out.

LARRY LEVITT: You talked about health savings accounts, the tax credit being used for a health savings account, and also contrasted the McCain plan with the Obama plan, which might establish minimum benefit requirements. Describe for a minute how the tax credit could be used; would there be any minimum requirement for what would constitute insurance that would qualify for the tax credit. Could you use the tax credit to put money into a health savings account?

JAY KHOSLA: So the way we envision the healthcare tax credit being used is to make sure that people are buying healthcare coverage, so I want to make that one point clear,

because there's some misconceptions out there that we're just handing you a \$5,000 check and people can buy things other than healthcare. That's not the case.

What we are allowing families to do, is make a choice for themselves. At the beginning of the year, families can come out and say, I have employer-sponsored coverage; I like it, I want to keep it, that's where I want my \$5,000 to go. In the individual market they can say, I've looked at my options, and I think I want to buy insurance from Insurer X, that's my choice, send him the money.

So the family directs the funds, and anything that's left over ends up in a health savings account for qualified medical expenses, and actually, we feel that's a good way for people to start getting into long-term care insurance. Because you can actually use money in the health savings account to pay for premiums for long-term care. There's a big role for those to play.

As far as dictating a minimum benefits package, we have never taken a stance on if we are going to mandate a certain level of coverage; what we have said that people should go out and buy insurance that best meets their needs. We have confidence in the American people and the American families that they will buy a policy that best and uniquely fits their needs.

LARRY LEVITT: Well we're approaching the end of our time here, and I want to talk a little bit about the politics, that's how this might play out, and you worked on the hill. Give us a sense of a roadmap. What might happen after the election if Senator McCain is elected? How would healthcare likely play in the agenda for a McCain administration?

JAY KHOSLA: Absolutely, and I will once again go back to my point that Senator McCain believes that healthcare obviously is a very, very, very important topic for American families, especially the middle-class that needs to be addressed on a timely basis. So it will be on one of the top priorities that he takes on as President.

The best way that Senator McCain is going to proceed on this is not only in a bi-partisan way, and obviously he has a very strong history of not only going against his own party sometimes, but trying to get things that are important to the American public in a bi-partisan way, so he will handle healthcare the same way, and he will make sure that the process is inclusive.

For too long, we have done this process behind closed doors, and I think that has been reason for some of the failings in the past. He feels that if we can have providers, patients, employers, everybody at the table making the right decisions to make this into a pragmatic proposal, we can make a

lot of progress.

Like I said, I feel good. There are areas of commonalities. These are two very distinct healthcare approaches, but at the end of the day there are some common areas which we can build on and I think Senator McCain is uniquely equipped to do that, and I feel very confident in that.

LARRY LEVITT: Would you expect that there would be action on healthcare in the first term?

JAY KHOSLA: Absolutely, absolutely; I think Senator McCain definitely wants to make sure that healthcare is a top priority item, and he will definitely work with Congress, no matter who's in charge to make sure that we are making sure that American families are not overburdened, under insured, or uninsured because the rising healthcare costs. So that's a very important priority and reform is needed and he'll make sure it happens sooner than later.

LARRY LEVITT: Well Jay Khosla, thanks for joining us.

JAY KHOSLA: Larry, thank you so much for having me.

LARRY LEVITT: And thanks to all of you, I'm Larry Levitt and you've been watching Kaisernetwork.org. See you next time for Ask the Experts.

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