Why Health Care "Cadillacs" Shouldn't be Touched

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As independent health care analysts, we were pleased to hear President Obama strike an open posture ahead of Thursday's big health care summit and say he was willing to put all good ideas on the table. But we were disappointed to find out that he was not equally willing to take the bad ones off it, starting with the so-called Cadillac tax on high-priced insurance plans.

This controversial provision included in the new pre-summit plan the White House released Monday won't deliver the savings its backers promise. Worse, the Cadillac tax comes equipped with little known unintended consequences that, according to our research, could have a devastating impact on the delivery of health care itself and undermine the objectives of the president's plan.

The "health excise tax" has been given a Robin Hood name and touted as targeting only luxury plans. But "generous" coverage only accounts for a part of what makes plans costly. Plans are often more expensive, because they cover older or sicker members. Those that cover smaller businesses with less purchasing power also cost more. These plans are as likely to be taxed as the ones for big corporate CEOs. As such, this tax's main effect won't be to reduce exorbitant health coverage, but to cut benefits for people who need high-cost health plans.

Unions who opposed the plan argued that the vast majority of those affected would be middle-class people with reasonable plans. They were right—but their arguments didn't go far enough and don't apply just to union employees. The tax will impact anyone with high-cost health insurance. Of greater concern should be the ripple effects the tax would have on doctors and hospitals and on access to quality care for those vulnerable patients.

Cleveland Clinic's approach to health care

Here's why: Many providers who serve Medicaid and Medicare patients receive little or no profit from those programs and in many cases lose money on these patients. Private insurance pays more per procedure, and patients with employer coverage are critical to the system staying profitable. Many older and lower-income Americans only have access to care because doctors and hospitals in their neighborhoods also have patients with employer insurance.

The "Cadillac tax" will force some employers to cut back on coverage, which means more out-of-pocket costs for employees. Our analysis of historical economic trends shows that employers reduce benefits when there is economic pressure. When that happens, employees seek less medical care, leading to fewer profitable patients to help providers cover expenses. While our research shows that employers increase health coverage as employment recovers, this tax will likely delay that process.

Employers won't just cut benefits. A tax will add to compensation costs and could be a tipping point, pushing employers to reconsider hiring strategies. Some will hire more part-time employees or make coverage hurdles higher, while others will ship jobs overseas.

This means a slower economic recovery, the potential for jobs to move outside of the U.S. permanently, and a lower base of the private insurance patients so critical to the financial well-being of U.S. health care providers.

Because health care supply and demand is locally driven, members of Congress won't be able to understand how the president's plan affects their constituents without detailed local analyses that clearly have not been undertaken.

The fact is, health care is much more expensive in some parts of the country than others. Local economy and employer mix are key drivers of patient volumes and profitability, and the effects to this tax will vary considerably by region.

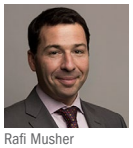
The health reform proposal also cuts $500 billion from Medicare. The doctors and hospitals that serve large concentrations of public patients will be hit hardest by those cuts just as their income from private insurance drops. This double whammy will force hospitals to shut down some operations, withdraw from unprofitable lines of service, reduce service levels, or close their doors. Medicaid, Medicare and entire communities of people seeking health care services will find it more difficult to gain access to care, even if they gain coverage.

Senators and representatives who vote for this tax will only learn that local health care providers are in trouble when it's too late, creating crippling expense for their own state governments. States already subsidizing money-losing hospitals will be forced to choose between increasing those subsidies or letting the hospitals close. Governors already facing deficits may find themselves forced to either beg for additional aid from the federal government or let residents of their state go without needed medical services.

This mix of factors could leave the federal government with a painful dilemma: Send billions more to these troubled states or watch hospitals disappear as the result of a bill intended to increase access.

As others have pointed out, the goal of health reform should be expanded access to health care, not just insurance. The road to reform begins with deeper thinking and analysis of what really drives costs and patient, employer, and provider behaviors.

Sensible employers and health care professionals should oppose this bill. And senators and representatives should consider the effect it could have on their own constituents, if only to ensure that their re-election prospects don't become another "unintended consequence" of health reform.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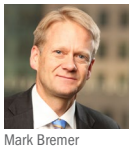
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