The Washington Post

ArnoldCare

From Mr. Universe to Mr. Universal

Monday, January 15, 2007

CALIFORNIA IS not the first state to aim for universal health coverage. But the plan that Gov. Arnold Schwarzenegger (R) announced last week stands out for its ambition. Of the earlier pioneers, Maine and Vermont are small, and Massachusetts started with relatively few uninsured people in the first place. But California is the nation's most populous state. Fully 19.4 percent of its residents lack insurance, a share that's higher than the national average. If the governor's plan makes it through the legislature, it will juice the health-reform movements that are gathering steam in state capitals across the country.

As in Massachusetts, the key to Mr. Schwarzenegger's proposal is a requirement that individuals buy insurance. The aim of this mandate is to break the spiral that plagues insurance markets: Nearly 3 million Californians whose jobs offer health coverage nonetheless turn it down because they think they won't need it; this leaves a less healthy group in the insurance pool, which forces insurers to raise premiums. Mr. Schwarzenegger's mandate would force healthy people back into the insurance pool and so bring premiums down. It would also give newly insured people access to preventive check-ups, reducing reliance on expensive emergency-room treatment.

You can't require people to buy insurance without subsidizing those who can't afford it. Massachusetts started off with an advantage: It already had a fund to compensate hospitals that gave free care to uninsured patients. This system made the cost of free care for the uninsured visible and provided a ready source of cash to help citizens below 300 percent of the poverty line buy insurance. In California, by contrast, there is no compensation fund for hospitals, which therefore recoup costs by charging insured patients extra; as a result, the cost of insurance for the average Californian family is inflated by more than $1,000 per year, according to Peter Harbage and Len M. Nichols of the New America Foundation. So California's free-rider costs are real -- but hidden.

This has forced Mr. Schwarzenegger into choices that make more sense politically than substantively. The best way to pay for subsidies to help low-income insurance buyers (defined in the governor's plan as adults below 250 percent of the poverty line and children below 300 percent) would be a progressive tax, but Mr. Schwarzenegger does not want to propose tax increases. So he will resort to levying a "dividend" of 2 percent of doctors' revenue and 4 percent of hospitals' revenue, arguing that medical providers will recoup that cost thanks to the creation of 5 million or so newly insured clients. This neglects Mr. Schwarzenegger's other argument that medical providers are already recouping costs by overcharging insured patients. And last time we checked, "dividends" are what companies disgorge *after* profits have materialized.

The governor also proposes that companies without health plans should pay a tax -- sorry, an "in-lieu fee" -- of 4 percent of payroll. This is likely to come out of workers' wages in the end, so it will be regressive. The governor says that firms with fewer than 10 employees won't have to pay the fee. This means that firms with 10 to 20 employees will develop a new zeal for outsourcing. Finally, Mr. Schwarzenegger aims to pass almost half the projected cost to the feds, mainly by expanding state spending on Medicaid and so attracting matching payments.

Despite these caveats, Mr. Schwarzenegger deserves credit for his plan. For reasons of equity and efficiency, health coverage in the United States must become universal. Perhaps a shove from a former Mr. Universe will help the nation to get there.