



## Health Care Reform: What Next?

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by John S. Hoff

**H**ealth care reform (in the form crafted by President Clinton and the Democratic leadership in Congress) died. Its death was certified by Senator Mitchell and *The New York Times*.

The question now is what happens next? Here are my predictions.

All the current trends (both good and bad) will intensify. There will be increased pressure on providers from managed care plans; more risk selection by insurance companies; more efforts by the states to enact reforms; increased reliance on self-insurance by employers to avoid state reforms by invoking the ERISA preemption; and consequently, increased pressure in Congress to remove the ERISA preemption.

There will be renewed consideration of reform in Congress, but it will be a different kind of reform and a different debate. The Administration's health care bill was like Pickett's Charge at Gettysburg. It represented the high water mark for those who advocate government control of the health care system. The exercise was necessary to demonstrate that comprehensive reform like the Clinton bill is not feasible. Repulsing it cleared the way for consideration of a more incremental approach. The effort next year will be to try to develop such a plan.

The catalyst for developing such a plan will be a combination of Republicans and moderate Democrats in Congress. There were a majority of moderate Democrats in Congress this year, as the defeat

of the health care bill demonstrated. However, their strength will be greater next year. Since legislators will not be playing defense to the President's bill, they will have a greater opportunity, or challenge, to present their own approach. Some members will want to cut costs (Medicare and Medicaid) as part of an effort to cap entitlements and reduce the deficit. Others will embrace more structural reforms, such as 1) consideration of the tax treatment of employer-provided insurance and 2) tax benefits for those who buy their own insurance, including medical savings accounts to encourage individuals to be price conscious in their medical care purchasing.

The effort will also focus on insurance reform. Everyone assumed that insurance reform was no more controversial than motherhood and, consequently, could easily be passed at the end of the last Congress. However, there are important issues that must be resolved, and there was no time for these problems to be aired or considered in the closing days of Congress. The political climate also made consideration impossible. Some of the main insurance issues that will be considered in more depth next year are:

*Community rating.* Do Americans want everyone to pay the same premium, regardless of age, health status, or activities that impair health? Would community rating encourage insurers to risk-select, even if this were prohibited, through disguised methods? Is a risk-adjustment mechanism (which does not exist) necessary to offset the effects of community rating on insurers' incentives? Would age bands sufficiently ameliorate the effect

of having one price for all?

*A uniform benefit package.* If there is a uniform benefit package, it encourages special interests to vie for Congressional approval. A uniform benefit package also requires government regulation of how care is delivered in order to ensure the uniformity. Does the benefit of facilitating comparative selection by having a uniform benefit package offset the increased government involvement that would be necessary?

*An individual mandate.* Should people be required to obtain insurance?

*Preexisting conditions.* Should insurance companies be permitted to impose preexisting condition limitations on coverage?

The combination of community rating and restrictions on preexisting conditions without an individual mandate would result in the premiums for the young and healthy going up and would reduce the number who choose to purchase insurance. This would increase the cost of insurance to the older and sick and leave more of the young and supposedly healthy without insurance, the reverse of what insurance reform is intended to do. Therefore, the debate is going to be focused on whether it is possible to introduce these reforms in a way that does not actually reduce the number of people with insurance.

Washington will concentrate on this issue as the other trends continue independently of it. The debate will be more technical, more incremental, and more responsible than the one we had to watch over the past year. It will be conducted with far less voltage. ■

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