

Scott Hodge: Welcome to another Tax Foundation Tax Policy Podcast. I'm Scott Hodge, President of the Tax Foundation. I'm very pleased to be joined today by Senator Orrin Hatch. Senator Hatch has served the great state of Utah since 1976. He is well-known as the senior Republican on the Judiciary Committee and is a member of the Finance Committee. Senator Hatch has been a staunch supporter of tax relief for American families and business tax reforms to improve American competitiveness. Welcome, Senator Hatch. We're glad to have you with us today.

Senator Hatch: Glad to be with you.

Scott Hodge: Well, today I'd like to talk to you about the President's healthcare reform plan. It's a very bold plan that centers on reforming both the tax system and the incentives within the healthcare system. One of the most controversial aspects is a cap that the President would place on the amount of employer-provided health insurance that employers could exclude from their taxation. How do you see this affecting the marketplace for healthcare and the incentives?

Senator Hatch: Well, it would discourage high-cost, low-deductible healthcare plans. Many health policy experts believe the plans ratchet up the cost of healthcare. People with zero or low deductibles are not cost sensitive. So if anything bothers them they quickly run to the doctor even when it's not necessary. They also have no incentive to shop around and get a better deal.

Scott Hodge: Well, you've also been a supporter for health savings accounts. I think that they operate in many of the same ways in trying to change the incentives that people have in purchasing healthcare. Tell me more about how they work and what they would do to affect the marketplace.

Senator Hatch: Of course health savings accounts are geared to get people to save for their own healthcare and do so tax-free. I believe that HSAs should be a major part of the solution to our healthcare insurance problem. If something catastrophic occurs that an individual or family cannot afford, they will be covered but more routine medical events that are affordable are not. So just as auto insurance doesn't cover oil changes and our home owners insurance doesn't cover the cost of furnace filters, health insurance should not cover predictable routine care. This is one reason why I think HSAs are very, very important.

Scott Hodge: I'm sure you've heard the critics who have said that these types of incentive plans such as the higher deductibles would mean that

people might delay getting preventive care. They might ultimately see their healthcare costs go up. How do you respond to those criticisms?

Senator Hatch: Well, prevention is very important and of course I don't believe that people are stupid. They will not postpone necessary medical visits to take care of themselves. Secondly, the high-deductible plans that go along with HSAs typically allow preventive care to be received with no deductible. The insurance companies are not stupid either and they want to encourage people to get basic and preventive care as well.

Scott Hodge: The President's plan is obviously very sweeping and very extensive in all the various proposals within it but what do you think are the strongest parts of the President's plan? In your opinion which are the ones that are going to have the biggest impact on the healthcare market?

Senator Hatch: First of all it would spread health insurance around to just about everybody, placing people who buy their own insurance on the same level as those who get their insurance from their employers, a very important thing. There's no good reason to allow the latter, a tax subsidy but not the former. Now this situation is the result of an IRS decision during World War II not to tax fringe benefits when employers were using such benefits to try and get around wage freezes. Under the current law we provide a huge tax incentive for some people, generally well paid people and workers whose unions have negotiated strong health packages to get employer-provided health insurance but none at all for low-paid workers whose employers do not provide insurance, for whom the tax deductibility means little since they're in a low tax rate or paying no income taxes at all. So this evens it up and it puts people who buy their own insurance on the same level as those who get their insurance from their employer.

Scott Hodge: I'm sure you've heard many critics such as the unions who do worry that this might bring about the demise of employer-provided health insurance. Do you have the same concerns?

Senator Hatch: No, I don't think so. There are still good reasons for companies to provide health insurance besides the tax benefit. Companies want to attract and retain the best employees and health insurance can be a big factor in being able to do that. I don't think their fears are good worries. I understand that there is a great advantage in the pooling of risk but there are other ways to skin the cat.

Scott Hodge: That's an interesting analogy. Now lately we've seen a report out of the Joint Committee on Taxation, the official score keeper of all things that are tax policy and they've scored the President's tax reform proposal as raising roughly \$500 billion in revenue over the next decade. Does this sound right to you or do you think -- what impact do you think that this is going to have in the debate of such a high number.

Senator Hatch: Well, a half trillion dollars sounds like a lot of money and it is a lot, however it is important to realize that the President's proposal both raises revenue through the repeal of the exclusion and also costs revenue through the new standard deduction. I am told that the amount raised is more than \$3 trillion over time. Obviously the amount of revenue lost from the standard deduction is about \$500 billion below that number. The Bush administration has made it clear that they intended this proposal to be revenue-neutral and that they are willing to adjust it to make it so. Now one way they might adjust it is to also offer some refundable credits to lower-income tax payers who might not be able to take full advantage of the standard deduction. This should have the added benefit of appealing to everybody and especially to more liberal Democrats who claim that they're worried about the poor when I think that we all should be worried about the poor.

Scott Hodge: Well, Senator, thank you so much for taking time out of your busy schedule. I hope that this idea gets some traction, especially here in the Senate. It's such an important issue. So many people are worried about the spiraling costs of healthcare and it's a debate that seems long overdue.

Senator Hatch: Well, we simply have to do something about it. There's no question about it. I think the administration has come up with some very innovative and interesting ways of trying to resolve these problems and make sure that they -- approximately 48 million people who don't have adequate health insurance -- can have a crack at getting it for themselves and taking care of themselves rather than depending on welfare to do it for them.

Scott Hodge: Well, it's an important issue. Thank you very much for your time.

Senator Hatch: Nice to be with you.

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