White House-backed plan to slash health care costs advances in Senate

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President Obama's push for a cost-cutting overhaul of the US health care system that will slash benefits for millions of workers and retirees moved forward Wednesday, with the release of a report from the Congressional Budget Office (CBO) on legislation drafted by the Senate Finance Committee.

The CBO reported that the Baucus plan, named for committee Chairman Max Baucus, Democrat of Montana, would cost $829 billion over 10 years, but would reduce the national deficit by $81 billion in the decade starting next year.

The CBO report was praised by White House Budget Director Peter Orszag, who commented Wednesday that the finance panel's bill "demonstrates that we can expand coverage and improve quality while being fiscally responsible."

In reality, the legislation, if enacted, will leave millions of Americans without coverage, slash billions from Medicare and other federal programs, and ration care through a series of cost-cutting "efficiencies." At the same time, individuals and families will be required to purchase coverage—funneling billions into the coffers of the insurance companies—or pay a fine.

Of the five bills in Congress, the Baucus bill is the version most closely tailored to the demands of the insurance industry. Obama has welcomed it, saying it contains "80 percent" of what he is looking for.

During his presidential campaign, Obama claimed that he would fight for universal health care for all Americans. This campaign rhetoric has now been ditched in favor of legislation that, according to CBO estimates, will leave 25 million people without any health insurance at all, or about half the present number of uninsured.

Under the Baucus bill, individuals and families will be forced to obtain insurance or pay a fine, up to $750 for individuals and $1,500 for families. Those without employer-sponsored insurance, or insurance provided through a federal health program, will be required to purchase coverage from private companies on an insurance "exchange."

Businesses are not required to provide coverage for their employees. Employers with more than 50 full-time workers will pay a nominal fee if the government ends up providing subsidies for their employees to purchase coverage on the exchange. The CBO estimates that about $23 billion in penalties will be collected from businesses.

The federal government will pay out more than $460 billion over 10 years to private insurers to subsidize coverage for low- and middle-income people.

Although insurers offering coverage on the exchange will not be allowed to deny coverage for preexisting conditions, there are no restrictions on what insurers can charge. Insurance companies can be expected to hike premiums to offset any inroads into their profits. They can also tailor the features of plans to discourage higher risk segments of the population from signing up for coverage, and cherry-pick healthier individuals through marketing and other techniques.

Businesses with more than 50 workers that self-insure, paying health care claims out of their own revenues rather than utilizing a private insurer, will not be barred from denying coverage based on preexisting conditions. It is estimated that about 70 million people are covered by such plans.

Under intense pressure from the health care industry lobby, the Finance Committee did not include a government-run "public option" as part of the exchange. Obama and other White House officials have stated that the lack of a public option will not stop the president from signing a health care bill.

The plan calls for the expansion of so-called nonprofit health care cooperatives. These co-ops will provide little competition to private insurers. As the CBO report put it, they will not establish "a significant market presence in many areas."

The $829 billion cost of the legislation is to be financed in large part by deep cuts to Medicare and other federal programs for the elderly, poor and disabled, which will be slashed by about $400 billion over the next decade.

About $200 billion will be cut by lowering Medicare payments to hospitals, nursing homes and other providers. Medicare Advantage (MA), the program through which more than 10 million seniors receive Medicare benefits via private health insurance plans, will see a $113 billion reduction.

The Medicare program will see overall reductions in spending of about 5 percent from 2010 to 2019. Contrary to claims that such cuts can be made without affecting care, they will result in real reductions in quality and availability of care for seniors.

Further cuts to Medicare will be made through the utilization of "comparative effectiveness research" (CER). The Baucus plan will establish an Innovation Center within the Centers for Medicaid and Medicare Services to test health care models "that transition primary care practices away from fee-for-service based reimbursement."

Talk of moving away from "fee-for-service" reimbursement is a euphemism for setting caps on the cost of health care that doctors can provide for their patients. It is a formula for denying more expensive tests, drugs and procedures currently available under Medicare and many employer-sponsored plans, or requiring patients to pay for such services out-of-pocket.

An independent Medicare Commission, appointed by the president, will have the power to enact measures to reduce "excess cost growth." Measures ordered by the commission—an unelected body—will take effect unless overridden by Congress. The CBO estimates that this commission will slash $22 billion in spending over 10 years.

The plan seeks to reduce Medicare payments to doctors by penalizing those who administer the most tests and treatments. Those falling in the top 10 percent cost category will face a 5 percent cut in Medicare reimbursements.

Doctors will also be called upon to submit data to the government to measure the quality of the treatment they dispense. Eligible doctors who choose not to participate will be penalized 1.5-2 percent on certain Medicare payments, while those who are judged successful will get a 1 percent bonus. This is nothing other than a financial incentive for doctors to ration care to their elderly patients.

Under the Baucus bill, Medicaid, the health care program for the poor jointly funded by the federal government and the states, will be expanded to cover an additional 14 million people by raising the income threshold for eligibility. This will cost an estimated $345 billion in federal outlays. Individuals and families insured under Medicaid will generally receive the lowest quality of care.

Under an amendment introduced by Senator Jay Rockefeller, Democrat of West Virginia, states will be required to maintain coverage levels for children currently on Medicaid and the Children's Health Insurance Program (CHIP), rather than pushing them onto the exchange.

The CBO estimates that already cash-strapped states will see spending on Medicaid rise by $33 billion over 10 years. The real dollar amount will most likely be much higher, as the impact of the recession forces more and more families into joblessness and poverty. There are no provisions in the bill to pay for this.

About a quarter of the costs of the Baucus bill are to be covered through taxes on so-called Cadillac insurance plans—those costing more than $8,000 for individuals or $21,000 for a family. These plans will be taxed at a 40 percent rate for the coverage exceeding the cutoff levels. The CBO estimates that the tax will raise about $201 billion over 10 years.

Portrayed as high-end policies purchased by the wealthy, in reality such plans are most common among unionized workers. Workers have gained these insurance plans—which provide lower co-pays and deductibles and coverage such as optical and dental—in bitter contract struggles, often at the expense of wages and other benefits.

While the insurance companies providing these policies will be taxed, they can be counted on to pass this penalty on to the insured in the form of higher premiums and/or reductions in coverage.

The tax on "Cadillac plans" amounts to an indirect tax on health benefits received by workers covered by employer-sponsored health insurance. During last year's presidential election, Obama attacked his opponent, Republican Senator John McCain, for advocating such a tax.

Overall, the provisions of the Baucus bill are the most regressive of the congressional health care plans currently working their way through Congress. The Finance Committee could vote on the bill as early as Friday, but Senator Baucus is expected to delay the vote until some time early next week.

The legislation has yet to gain the backing of a single Republican on the committee, but Democrats hope to enlist the support of Senator Olympia Snowe of Maine, the only Republican who has expressed any support for the measure.

Once adopted, the Baucus bill will go to the full Senate, where it must be reconciled with a proposal from the Senate health committee. Senate Majority leader Harry Reid, Democrat of Nevada, expects full debate in the Senate to begin in mid-October. The Senate plan must then be brought together with legislation being drafted in the House.

The Obama administration will be closely involved in this process. Reid will begin closed-door meetings next week to discuss the legislation with Baucus, Senator Christopher Dodd (Democrat of Connecticut), and senior White House officials, including Budget Director Orszag, White House Chief of Staff Rahm Emanuel and senior health adviser Nancy-Ann DeParle.

In recent weeks, Obama has enlisted the support of a number of right-wing Republicans to back his health care initiative. Included among them is Bill Frist, former Republican Senate majority leader and a physician, whose family founded the Hospital Corporation of America (HCA), the largest private operator of health care facilities in the world.

Frist, a multimillionaire who owes his fortune to his holdings in HCA, stated that if he were still in the Senate he "would end up voting for" the Baucus bill, in particular because it mandates individuals to buy insurance.

Republican Governor Arnold Schwarzenegger of California and New York Mayor Michael Bloomberg (technically an independent, but running for reelection on the Republican and Independence party tickets) also publicly support a health care overhaul, although they do not support a specific plan. Both Schwarzenegger and Bloomberg have been responsible for massive budgets cuts in their respective jurisdictions, and their support is indicative of the reactionary character of the health care legislation being promoted by Obama.