FOR IMMEDIATE RELEASE **CONTACT:** Laura Capps/ Melissa Wagoner
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DEMOCRATS CALL ON BUSH TO OFFER REAL HEALTHCARE REFORM IN STATE OF THE UNION

Reid, Kennedy, Schumer, Durbin, Stabenow say Bush's Current Proposals Will Only Make a Bad Situation Worse

Washington, DC: Today, Senators Reid, Kennedy, Durbin, Schumer, and Stabenow sent President Bush the following letter urging him to reassess the health care proposals he plans on making on Tuesday and instead offer the American people a solution that will work. After five years of ignoring our nation's healthcare crisis, President Bush is expected to announce at the State of the Union proposals to encourage health savings accounts (HSAs). The Senators believe that HSAs benefit the wealthiest and healthiest Americans but leave ordinary working families with higher medical costs and more people uninsured. The expanded use of tax deductions for health care would also primarily benefit high-income houses.

Below is a text of the letter signed by Senators Reid, Kennedy, Schumer, Durbin, and Stabenow and a fact sheet on Health Savings Accounts.

January 27, 2006

The Honorable George W. Bush
The President of the United States
The White House
Washington, D.C. 20500

Dear Mr. President:

We are pleased to read press reports indicating that your State of the Union address will contain a long-awaited and much needed focus on health care. We believe it is essential that we work together both to reduce health care costs for individuals and businesses, and expand access to quality care. However, we are deeply concerned that the Administration's proposals discussed in these reports do not appropriately address this crisis. Instead, the proposals you apparently intend to discuss could simply shift health care costs onto consumers and patients and cause many Americans to lose the coverage they currently have.

As you know, health care premiums have increased 71 percent since you took office. At a time when Americans are understandably looking for lower health care costs, your proposal to expand health savings accounts (HSAs) will leave American consumers with high-deductible plans that will require them to spend more. Studies indicate that "consumer-driven" health plans, such as the high-deductible plans associated with HSAs, are significantly more likely to force consumers to avoid, skip, or delay health care because of the costs they face and to spend more on health care than people in comprehensive plans. Further, your association health plan (AHP) proposal for small businesses will actually increase premiums for the vast majority of small business employees, and leave those in the new plans with inferior coverage that lacks important consumer protections.

As for access to health care coverage, nearly 46 million Americans are uninsured – an increase of six million on your watch. At a time when more and more Americans lack health insurance coverage, studies indicate your proposal to provide a tax deduction for high-deductible plans associated with HSAs would increase the number of Americans without insurance by more than 300,000. Moreover, the individual tax credit approach you have supported in previous years, if enacted, could lead businesses to drop coverage for 2.4 million people, including 1.4 million who could become uninsured. Finally, studies indicate your AHP proposal could cause about 10,000 small business employees to lose their health coverage.

The one new piece you are apparently considering – expanding deductibility for out-of-pocket health expenditures – could cause employees to lose the good group health insurance they have today while adding to our already large deficits. In short, this is a proposal that at best appears to come at great expense, with little corresponding benefit.

As always, Senate Democrats are committed to making health care accessible and affordable for all Americans and to reduce costs to help America's businesses compete in the global marketplace. We support proposals that would protect our vital public programs and modernize the health care system to reduce costs. We would establish a program for small businesses based on the one federal employees enjoy and would provide assistance with catastrophic cases to ensure that coverage is affordable.

We strongly urge you to reassess your damaging proposals and use your State of the Union address to join with us to truly reform our health care system and provide all Americans the health care they deserve. This year should not be a year of partisan positioning, but of real progress on a growing crisis that has been ignored for the last six years.

Sincerely,

Senators Durbin, Kennedy, Schumer, Durbin and Stabenow

BUSH'S HEALTH SAVINGS ACCOUNTS WILL MAKE A BAD SITUATION WORSE

Like Privatizing Social Security, HSA's Will Fail to Solve the Problem

After five years of ignoring our nation's healthcare crisis, President Bush is expected to announce at the State of the Union proposals to encourage health savings accounts (HAS). Last year, the White House launched a failed privatization social security plan and now they want to do the same to healthcare. Senator Kennedy believes that HSAs benefit the wealthiest and healthiest Americans but leave ordinary working families with higher medical costs and more
people uninsured. The expanded use of tax deductions for health care would also primarily benefit high-income houses.

For example, a single woman suffering from breast cancer who makes $37,000 a year could face $32,000 in medical bills for cancer treatment and surgery in a single year. Right now, she's likely to buy an individual health plan for $2500 that provides full coverage of her costs after she pays a $2000 deductible – so her total costs would be $4,500 and insurance picks up the remaining $27,500.   However, under the Bush health care proposal, her health insurance will cost $2000, but it will carry a $8000 spending limit, so her total costs would be $10,000 -- $5,500 more than under her old plan. She may have some money saved in her HSA, but with a costly illness like cancer, she won't have time to save enough for her treatments, and would likely go into debt.

As another example, today, the average single mother of three who makes $31,000 a year will pay $2200 for an employer-sponsored health plan, with an "out-of-pocket" spending limit of $2000. If one of her children has an unexpected illness or injury, she wouldn't have to pay more than $2000 in extra medical expenses. Under the Bush health care proposal, she'll pay just $1800 for her HSA health plan, but that plan has a $10,000 deductible. So if her child gets sick under the Bush proposal, she could end up spending over $11,800 - more than 30% of her income on health care – forcing her to cut back on other essential needs.

Below are the facts on HSA's:

Health savings accounts don't work for those who are not healthy.
Persons with chronic health conditions or who are hit with illness or injury will experience significantly greater out-of-pocket expenses than for traditional, comprehensive insurance.

Persons with high-deductible health plans are significantly more likely to avoid, skip or delay health care because of cost than those in comprehensive health insurance. This problem is most commonly seen in individuals with health problems or incomes below $50,000. Thirty-one percent (31%) of individuals in high-deductible health plans reported delaying or avoiding care, compared to 17% in comprehensive health plans.

Most health spending is by those with multiple chronic conditions. These individuals will never be able to accumulate funds in a health savings account and will have to find the funds to cover all their care before meeting their high-deductible plan begins to cover them.

Health savings accounts put coverage for low-income and less healthy individuals at risk.
Traditional insurance spreads risk among large groups. While those who are young and healthy may pay a bit more than they otherwise would, they know that if they are hit by illness or injury, have a baby born with health problems, or as they age, they will still be able to purchase insurance at a more affordable price. With health savings accounts, it's each man for himself, and those who need insurance most will face the greatest risk.

Several studies have found that if those who are young, healthy or wealthy move to health savings accounts while those who are not remain in the traditional insurance plans that provide the benefits and security they need, traditional insurance will become unaffordable, leaving those who most need protection at greater risk of becoming uninsured or underinsured.

Health savings accounts are not a solution for the uninsured. They are regressive, favoring the wealthy, while most of the uninsured have low or moderate-incomes.
Most of the uninsured are in low tax brackets so they don't receive much, if any benefit, from the health savings account deductions. More than half of the uninsured receive no benefit from tax-deductibility. The higher an account holder's income, the more benefit received from the tax deduction.

Health savings accounts allow wealthy individuals to shelter funds.
Funds grow over time and offer tax advantages regular savings vehicles -- including 401ks and IRAs -- don't provide. Individuals can fund a health savings account and receive tax-favored treatment regardless of income. The tax deduction available for contributions has no phase-out for high-income individuals.

This allows an additional tax-favored savings vehicle for high-income individuals who have maximized their contributions to retirement savings accounts or have incomes to high to qualify for a deduction.

Once an account holder turns 65, funds that have accrued tax free may be withdrawn for any reason with no penalty. For example, if an account holder wants to buy a sports car with their health savings account funds, there is no penalty.

Health savings accounts are another way of shifting costs.

Early evidence is that one-third of all businesses offering health savings accounts with a high-deductible plan to their workers make no contribution to the account. For firms that do make contributions, the average contribution is only $533 for individuals and $1,185 for families, while the average deductible for an individual was $1,901 and the average deductible for a family was $4,070.

Despite similar rates of health care use, individuals in consumer directed health plans and high deductible health plans are significantly more likely to spend a large share of their income on out-of-pocket health expenses than those in comprehensive health plans. Forty-two percent (42%) of those in high-deductible health plans spent 5% or more of their income on out-of-pocket expenses and premiums, compared to 12% of those in comprehensive health plans.

Health savings accounts already receive more favorable tax treatment than other health plans and retirement accounts.

Contributions to health savings accounts made by an employer are not considered income and are not taxed. They are deductible, whether or not a taxpayer chooses to itemize. Earnings in a health savings account accrue on a tax-free basis, and withdrawals for medical expenses are not taxed. All other similar accounts, including IRAs and 401(k) plans, are subject to tax either on contributions or withdrawals.

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