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Taxing Health Care Benefits: The Wrong Prescription

The draft Senate Finance Committee health reform bill would slap a 40 percent exercise tax in 2013 on health care plans valued more than \$8,000 for individual coverage or \$20,000 for family coverage. In today's dollars, that works out to about \$6,500 for individual plans and \$17,000 for family plans. This would amount to an enormous tax on workers' health care benefits that would grow very quickly, as insurers increased premiums by an equivalent amount. It would shift health care costs onto the backs of workers, fail to bring down the growth of health care costs and be politically disastrous.

The excise tax would hit union and nonunion plans alike.

Unions are estimating that members would be slammed with disastrous new costs, with median assessments over the next 10 years projected at:

- **\$8,467** for individual coverage and **\$21,434** for family coverage per active CWA member for the most popular health care plan offered to its members in 25 states.
- **\$24,385** for individual coverage and **\$50,748** for family coverage for every CWA pre-Medicare retiree.
- **\$12,000** for individual coverage for each of 500 United Steelworkers members working in a large paper facility in Maine and **\$16,500** per USW retiree, with family coverage at **\$23,000** for workers and **\$37,000** for retirees.
- **\$16,400** for individual coverage and **\$50,000** for family coverage for each of the 600 USW active members working in one production facility in West Virginia.
- **\$35,300** for family coverage for 16,000 Airline Pilots Association (ALPA) members with union-negotiated plans.
- **\$22,021** to **\$24,179** for family coverage, depending on the state, per active UAW member employed by one of UAW's largest employers.
- **\$18,292** for individual coverage and **\$21,712** for family coverage for each active UMW member employed by one large employer in West Virginia.

Over time, the tax would hit lower and lower cost plans. After 2013, the threshold amount at which the tax applies would rise at a much slower rate than plan costs are expected to rise, exposing more and more lower cost plans to the tax.

The excise tax would be a *direct tax* on many workers and retirees covered by Taft-Hartley multi-employer plans, self-funded plans and the retiree plans recently established in the auto industry and as part of bankruptcy reorganizations.

The excise tax would be an *indirect tax* on other workers and retirees covered by union-negotiated plans, because insurance companies likely would pass costs on to workers.

The excise tax would cause some employers to reduce benefits to avoid the tax altogether, shifting the burden of paying for health care costs onto the backs of workers.

The excise tax would not bring down health care costs. There is no evidence that taxing health benefits—by taxing insurers and employers that provide higher cost plans or by capping the tax exclusion for individuals—would rein in private-sector spending on health care. The enormous waste in our health care system is not driven by consumers. The vast majority of health care spending is for people who genuinely need care, not people who demand care because their insurance covers it. Most treatments occur because doctors recommend them, regardless of coverage. The key to reining in health care spending is to get providers to deliver care in more cost-effective ways. Increasing out-of-pocket costs may actually lead consumers to forgo necessary care and make counterproductive health care decisions.

Many health care plans have higher costs for reasons that have nothing to do with wasteful or unnecessary care. The cost of health insurance varies widely depending on factors that have nothing to do with any supposed indifference of consumers to the cost of care—factors such as geography, size of the employer and percentage of the company's workforce that is older or sick.

For example, the Steelworkers represents workers at a small manufacturer of name-brand sporting goods, where layoffs due to international competition have left a highly skilled workforce whose average age is over 60 and who average 40 years of experience. Family coverage is almost \$21,000 under the COBRA formula for continuing coverage after employment. This is 40 percent more than the average for a similar USW group with the same plan, simply because of the age and health conditions of the group.

Union-negotiated plans are not “Cadillac” plans offering excessive benefits. The benefits provided under union-negotiated plans are roughly comparable to those of other plans, but over the years union members have consistently chosen to give up higher wage increases in exchange for limits on out-of-pocket health care costs.

The excise tax is the opposite of reform. One of the principal goals of health care reform is to guarantee quality, affordable health care for working families as health care costs spiral out of control. The excise tax would raise health care costs for workers, including some of the most vulnerable workers—workers in small firms, workers in firms with sicker employees and workers in firms with older employees.

The excise tax would be political disaster. In a recent national poll, 54 percent opposed “placing a tax on the highest-cost private insurance policies in order to pay for health care reform,” and 34 percent were strongly opposed, while 41 percent were in favor.¹

There are better ways to pay for health care reform. President Obama proposes capping itemized deductions at 28 percent, which would raise \$350 billion over 10 years. Applying the Medicare tax to non-wage income would raise \$160.3 billion from 2012 to 2019. The House health care reform bill would impose a graduated surtax on adjusted gross income over \$350,000, raising \$458.4 billion from 2012 to 2019.

¹ Lake Research, September 18-20, 2009.