

HEALTH CARE FOR AMERICA **NOW!**

AN EXCISE TAX ON HIGHER COST HEALTH PLANS WOULD BE A LEAP IN THE WRONG DIRECTION

“Whether someone hits the [excise tax] ceiling is not so much driven by benefit richness as it is by age, gender, profession, health status, and the geography of the covered population.”

– Milliman actuarial consulting firm¹

- **If enacted, the excise tax on health plans would raise the cost of health care and/or coverage for a large portion of currently insured households, millions of which are middle class families.**
- **The excise tax would force a broad swath of the middle class to pay for health reform in the form of higher taxes, reduced coverage, and higher out-of-pocket expenses.** The excise tax would violate two fundamental commitments of health reform: that workers should be able to keep the coverage they have and that their health care benefits should not be taxed.
- **The excise tax would have a broad impact, even within its first decade.** The excise tax would affect 31 - 34 percent of health plans, according to the Joint Committee on Taxation (JCT), and affect 31 million households by 2019.²
- **The excise tax will affect a growing number of plans and have a more substantial impact each year,** with the JCT projecting that “the provision would generate \$46 billion in additional revenues in 2019 and that receipts would grow by roughly 10 to 15 percent per year in the following decade”.³
- **Over time the excise tax would affect lower and lower cost plans.** Threshold levels for the excise tax would rise much more slowly than project health plan cost growth, exposing more and more lower-cost plans to the tax. Without hitting a broad swath of the middle class, the excise tax would not raise significant amounts of revenue.
- **The intended effect of the excise tax is a reduction in the breadth of employer-provided coverage, resulting in a broad middle class tax increase.** Insurers and employers are expected to cut plan costs to avoid the tax as soon as they are able to do so. CBO and JCT assume employers would then increase workers’ wages to compensate for the benefit cut. Payroll and income taxes paid on these wages accounts for 81 percent of revenues generated by the excise tax. This means: 1) less comprehensive health plan benefits and 2) higher taxes paid by working families post-reform than pre-reform.
- **The excise tax would reduce employer-provided health coverage by \$130 billion in 2019, according to JCT figures.** Insurers and employers are expected to reduce plan costs first by eliminating dental and vision coverage, then by requiring more cost sharing

¹ <http://www.milliman.com/perspective/healthreform/pdfs/no-room-to-stand.pdf>

² Letter to Senate from William Samuel, AFL-CIO, Legislative Alert, October 22, 2009.

³ Congressional Budget Office, Letter to Chairman Baucus, October 7, 2009, page 11.

in the form of higher co-payments, higher deductibles, and higher out-of-pocket maximums, then by restricting coverage of core benefits.

- **Increasing out-of-pocket costs for plan enrollees leads to patients forgoing necessary care as much as potentially unnecessary care.** The Rand Health Insurance Experiment (HIE) found just that: “The HIE showed that cost sharing can be a blunt tool. It reduced both needed and unneeded health services. Indeed, subsequent RAND work on appropriateness of care found that economic incentives by themselves do not improve appropriateness of care or lead to clinically sensible reductions in service use. In addition, cost sharing may not address the principal causes of cost growth. Cost sharing cuts expenditures by reducing visits but has little effect on the cost of treatment once care is sought.”⁴
- **Cutting the breadth of health insurance coverage has real implications for families.** Financial pressures on families from medical bills increase sharply when out-of-pocket spending for health care services exceeds 2.5 percent of family income, according to a national study by the Center for Studying Health System Change (HSC).⁵ The report noted that “virtually all families with problems paying medical bills reported putting off or going without medical care to avoid additional expenses.”
- **The excise tax is a backdoor way of taxing workers’ health care benefits.** Assuming employers replace these benefit cuts with higher wages, the result would still be a massive tax increase on the middle class, because health benefits are not currently taxed and wages are. According to JCT, this proposal would result in a tax increase for 31 million taxpayers—including one quarter of all taxpayers with incomes between \$50,000 and \$75,000—of over \$1,300 on average in 2019.
- **The excise tax would affect plans that exceed the thresholds for reasons that have nothing to do with “gold-plated” benefits.** Within one year of implementation, the excise tax would hit the most popular plan under the Federal Employee Health Benefits Plan (FEHBP). Applying a growth rate of 6.1 percent to the current FEHBP Blue Cross/Blue Shield plan premium, the plan would be subject to the excise tax in 2014, and sooner if participants have dental and vision coverage.
- **Union plans especially are affected by an older workforce and location in higher cost states.** Union workers are older, on average, than non-union workers. They are also concentrated in high-cost states: 16 of the 20 states with the highest health costs have above-average rates of union coverage. Union workers are concentrated in occupations with high incidence rates of work-related injury and illness that result in lost time from work. And with regard to 10 self-reported chronic diseases, union members have a 10 percent higher chronic disease burden, on average, because of their higher average age.

⁴ http://www.rand.org/pubs/research_briefs/RB9174/index1.html

⁵ Center for Studying Health System Change, Research Brief No. 10, “Living on the Edge: Health care Expenses Strain Family Budgets”, December 2008.
<http://www.hschange.org/CONTENT/1034/executivesummary.pdf>

- **The excise tax does not provide a stable source of revenue for health reform.** The reaction to the 40 percent excise tax on the value of health plans above the threshold may be similar to the reaction to the AMT (alternative minimum tax) hitting more middle income families each year – Congress raises the threshold to protect middle income families and the federal government loses the revenue. And with the “high cost state” exemption to expire in three years, the impact will be striking when the tax kicks in.
- **Union plans are not “gold-plated.”** Union members are 3 percent more likely than non-union members to be in HMO plans. The AFL-CIO’s review of a sample of affiliate plans shows that they do not cover services that are medically unnecessary—such as botox, cosmetic surgery, or yoga classes. Their provisions for co-pays, deductibles, and co-insurance vary, but are roughly comparable to—or slightly lower than—the FEHBP Blue Cross Blue Shield standard option. They do have out-of-pocket caps that are significantly lower than the \$10,000 annual FEHBP family limit.
- **Households with the highest incomes should pay their fair share.** Tax cuts since 2001 have disproportionately benefited the richest five percent of Americans. One alternative to the excise tax is an income tax surcharge that would effectively require the wealthiest one percent to give back some, but not all, of the Bush tax cuts. Another is the President’s proposal to limit itemized deductions for the very wealthy, which would affect only the top 1.3 percent of taxpayers. Another is to apply the Medicare payroll tax to unearned income; 73 percent of this tax would be paid by the wealthiest one percent of taxpayers, and over 90 percent would be paid by the wealthiest 5 percent. Or, increase the Medicare payroll tax rate for households with earnings over \$250,000 per year.
- **The public option and “pay or play” would reduce the cost of health reform.** Reducing the cost of health reform to taxpayers would reduce the need to raise new revenues. In the original House bill, the robust public option would save over \$85 billion. The requirement that employers “pay or play” would raise \$135 billion in the House bill.