

REPORT: HOUSE'S APPROACH TO FUNDING HEALTH CARE REFORM IS BEST



Taxing high incomes sounder than taxing insurance premiums, new analysis shows

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As both houses of Congress fine-tune proposals for sweeping reform of the nation's ailing health care system, a key issue is how to pay for the new plan. A Senate proposal favors an excise tax levied against insurance plans with premiums higher than \$8,500 per year for an individual or \$23,000 for family coverage. The House favors, instead, a 5.4% surtax on annual income above \$1 million for joint filers and above \$500,000 for single filers.

A new paper issued today by the Economic Policy Institute, [**"The House Health Care Bill is Right on the Money: Taxing high incomes is better than taxing high premiums."**](#) sorts through the pros and cons of both approaches. Authors Elise Gould, EPI's health policy research director, and economist Josh Bivens conclude that the House's surtax plan is the sounder approach, from the standpoint of both economics and health care delivery.

The chief problem with the Senate excise tax idea, as the authors show, is that it is built on a false assumption, one that creates a minefield of unintended consequences. The report shows that it isn't the quality of the health insurance but the size and age of a business's workforce that are most significant in determining the cost of premiums, and that smaller firms pay 18% more than larger ones for the same quality of coverage. "It's a misnomer to call a high-cost plan a 'Cadillac' plan," said Gould. "Given the way that insurance prices are determined, a high-premium plan is very likely to be a Chevy."

"The cost of private health insurance is an unreliable indicator of the quality of that insurance, and a tax plan based on cost alone will create serious inequities," explains Gould. "Under the Senate's excise tax plan the heaviest burden will fall on employees of small businesses, on those in workplaces with older workers, and those with the greatest medical needs."

For particularly vulnerable populations, especially those with chronic health conditions, the excise tax approach could actually lead to higher, not lower, medical expenditures in the long run. By creating higher out-of-pocket costs the Senate's approach would drive individuals to cut back on needed medical care or to seek it later when they are sicker and treatment is more expensive. "Any cost containment from the excise tax is driven by reduced medical care, not by reductions in health care prices," said Bivens.

What's more, the proposed surtax would raise more of the revenue needed to pay for the plan. The authors cite estimates from the Congressional Budget Office that show that the

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Senate excise tax would raise less than a third as much in revenue as the House surtax – \$150 billion versus \$460 billion over the next decade.

Among the report's key findings are these:

- The excise tax will hit many workers with ordinary health plans, not exclusively high-value plans.
- The excise tax shifts health costs and risks onto workers and their families, especially hitting hard those with high medical needs.
- Consumers may respond to their increase in out-of-pocket burden by cutting back on medically indicated as well as cost-effective medical care.
- Even if workers receive cash wages in exchange for the cut in their benefits, their total compensation will still go down, and much of their wages may be eaten up by increased health costs.
- Any cost containment from the excise tax is likely to be completely swamped by other determinants of health care costs.

The authors conclude: “The excise tax has the potential to create a financial hardship for many working families, particularly those who rely on comprehensive coverage to cover costs of their serious illnesses. The excise tax is a cut in benefits, a cut in total compensation, and a shift in risk onto workers. Such a policy should not be considered until high-quality, affordable coverage is available to all who stand to lose in the employer market.”

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