

Senate Health Plan Excise Tax = A Big Middle Class Tax Increase

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Communications Workers of America Research Department

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Summary

Health care legislation in the U.S. Senate would raise \$149 billion over ten years by imposing a 40 percent excise tax above certain thresholds on insurance company health plans and self-insured plans offered by companies to their workers. This tax would have a dramatic effect on those plans forcing steep reductions in benefits, shifting of costs to workers and a significant increase in taxes on millions of middle-class families.

Contrary to claims by proponents that it will affect only “Cadillac” health plans, like those enjoyed by Goldman Sachs executives, according to Joint Committee on Taxation¹ data the excise tax will:

- Affect 19 percent of workers with employer-sponsored health coverage in 2016.
- Affect nearly 25 million households² in 2019, including one-fifth of middle-class households making between \$50,000 and \$75,000.
- Affect about 25 percent of health plans by 2019.
- Cost affected households an additional \$7,500 in taxes on average between 2013 and 2019, or more than \$1,000 a year.
- In 2019, cost affected taxpayers who are millionaires an extra \$2,600 in taxes and those making between \$50,000 to \$75,000 an extra \$1,100 in taxes, but the wealthy taxpayers’ income will be at least 13 to 20 times greater.
- Be a tax increase equal to 0.1 percent of income for those households affected that make more than \$1 million a year and be a tax increase equal to 1.4 percent for those households affected that make \$50,000 to \$75,000.

The JCT assumes that 82.5 percent of the revenue raised from the tax will be generated by increased wages to make up for health benefits cuts and increased cost sharing. However, most employers say they will not increase workers’ wages in response:

- Only 9 percent of human resource executives in a recent Towers-Perrin survey said if health care reform reduced their benefit costs would they increase salary or direct compensation; 78 percent said they would retain the savings in the business as profit.
- Just 16 percent of health plan sponsors in a recent Mercer survey said they would convert any health care cost savings into higher pay for their workers.

How the Senate Excise Tax Works

- A 40 percent excise tax would be assessed on the value of health care plans exceeding \$23,000 for a family and \$8,500 for an individual starting in 2013. The “threshold” levels are higher for pre-Medicare retiree plans and high-risk industry plans – \$26,000 and \$9,850, respectively.
- These “thresholds” would increase annually at the rate of general inflation (CPI-U) plus one percentage point. CPI-U is projected to increase at a median rate of 1.8 percent a year through 2019, so the rate of increase in the threshold would be 2.8 percent. This rate is about 25 percent below the projected rate of medical inflation (3.8 percent a year) and less than one-half the rate at which health plan costs have increased in the past five years (6 percent a year).³ Therefore, year after year the excise tax would become more onerous as the cost increases in health plans far outstrips the legislation’s inflation adjustment to the tax threshold.

How the Excise Tax Will Affect Middle Class Americans

Excise Taxes on Plans Will Result in Benefits Cuts and Cost Shifting to Workers

Insurance companies and self-insured employers will dramatically reduce health benefits in order to get the cost of their health plans below the threshold and avoid the tax – essentially shifting the pain to working families by providing them with less comprehensive coverage. Table 1 shows the effect of the Senate excise tax on the most popular plans offered by CWA employers in 43 states for which we have data. Unless the plans remain below the threshold, some plans will face taxes for each worker in the plan of up to \$56,000 over ten years. The average taxes that would be owed over ten years for each worker or retiree in these affected plans are:

- \$17,737 for active worker family coverage
- \$7,540 for active worker single coverage
- \$17,694 for pre-Medicare retiree family coverage
- \$5,628 for pre-Medicare retiree single coverage

Clearly, employers faced with taxes of this magnitude will demand deep health benefits cuts and cost shifting to workers to avoid paying the tax. Recent surveys of 465 employer health plan sponsors by Mercer and of 433 human resource executives by Towers-Perrin found that 63 percent and 87 percent of employers, respectively, would cut benefits in response to higher health care costs, such as would occur with an excise tax. Mercer found that three-fourths (75 percent) of those employers said they would accomplish this by raising deductibles and co-pays, 40 percent would add a low-cost health plan as an alternative and 32 percent would replace their current plan with a low-cost plan.⁴

Excise Taxes on Plans Will Result in Benefits Cuts and Wage Increases

The JCT and the Congressional Budget Office (CBO) assume that in response to a 40 percent excise tax, employers will cut benefits and increase cost sharing to get the price of their plans below the threshold and then increase workers' wages to help offset those new costs. Workers will pay income and payroll taxes on these new wages, which will result in increased tax revenue.

The JCT estimates 82.5 percent of the \$149 billion in revenue would come from income and payroll taxes.⁵ In effect, workers' health benefits will be taxed as new income. This is similar to the health benefits tax proposed by Sen. John McCain during the 2008 presidential campaign for which he was lambasted by candidate Barack Obama and most other Democratic officials. The next section raises serious doubts about the likelihood of this employer wage substitution assumed by JCT and CBO.

According to CBO, the Senate excise tax would affect 19 percent of workers with employer-provided health coverage in 2016.⁶ This number will grow exponentially in future years as the gap widens between the increase in excise tax thresholds, which is projected to grow by about 3 percent a year, and the increase in health plan premiums, which will average at least 6 percent a year based on historical trends.

The JCT's estimates of the effects of the Senate excise tax to the middle class are very significant, contrary to claims made by the taxes' proponents:

- 27 percent of single plans and 22 percent of family plans will be affected by the tax in 2019, up from 14 percent and 9 percent, respectively, in 2013 when it takes effect. [Figure 1]
- 24.6 million households will be affected by the tax in 2019, up from 9.1 million taxpayers in 2013. [Figure 2] Citizens for Tax Justice estimates that a total of 58 million men, women and children affected (12.6 million are married couples, 3 million are single parents and 9.1 million are childless single people).⁷
- One-fifth of middle-class households making \$50,000 to \$100,000 will be affected by the tax in 2019. [Figure 5]
- \$1,237 will be the average tax increase paid in 2019 by affected households, up from \$958 in 2013. [Figure 3] The total average tax paid by affected households will be \$7,500 between 2013 and 2019 – or \$1,070 a year.
- The tax is regressive not progressive. For example, among households affected by the tax in 2019 a household making at least \$1 million a year will pay more than twice as much as a household making \$50,000 to \$75,000 (\$2,600 vs. \$1,100), but the wealthy household's income will be at least 13 to 20 times greater. [Figure 4]

- An analysis of the JCT data by Citizens for Tax Justice found that households affected by the excise tax making at least \$1 million would see a tax increase equal to 0.1 percent of their income, whereas those affected households making \$50,000 to \$75,000 would see a tax increase equal to 1.4 percent of their income. [Figure 6]

Most Employers Say They Will not Increase Wages to Compensate Workers for Reduced Health Benefits

Proponents of the excise tax claim that workers will not lose under the excise tax because any health benefits cuts will be offset by increasing wages and other compensation. Based on years of bargaining with some of the nation's largest employers CWA does not believe this to be true, and neither do employers.

- Only 9 percent of human resource executives in a recent Towers-Perrin survey said if health care reform reduced their benefit costs would they increase salary or direct compensation; 78 percent said they would retain the savings in the business as profit.⁸
- Just 16 percent of health plan sponsors in a recent Mercer survey said they would convert any health care cost savings into higher pay for their workers.⁹

Excise Tax Discriminates Against Unionized Workers, Older Workers, and Those in More Hazardous Jobs and from More Costly Regions

Besides the significant impact on the middle class, it is also important to note that an excise tax that results in significant benefits cuts, cost shifting or income tax increases is discriminatory in several ways:

- **CWA negotiated health care plans are not “Cadillac” plans offering “excessive” benefits.** The benefits in CWA's plans are more like Chevy's than Cadillac's as they are roughly comparable to other plans, but provide for more limited cost sharing. CWA members have made tradeoffs in wages in order to preserve their health care plans over the years. They should not be penalized for this now.
- **An older workforce drives up the cost of CWA coverage.** A good union contract that confers good union wages and benefits encourages workers to remain with their employer and gain seniority, producing an older than average workforce. Moreover, many blue-collar jobs are more dangerous and more harmful to one's health, which result in higher health costs.
- **Many plans are in high-cost regions.** A region can be high-cost because it is an urban area with a lot of medical intensity or because it is a community with a lack of

competition in the insurance market, which is especially true in rural communities. Both situations limit CWA employer's ability to negotiate for lower administrative costs and payment rates to insurance companies that administer our employer plans.

Rather than Impose a New Tax on the Middle Class, There Are Better Alternatives to Raise \$150 Billion

There are numerous alternative options for raising the \$150 billion for health care reform in the U.S. Senate bill that would not penalize the middle class but instead promote a more efficient health care system, and modestly increase taxes on the wealthy.

- Requiring most employers to provide coverage, or pay a penalty of 8 percent of payroll if they do not, as proposed under H.R. 3962 in the House of Representatives, would raise \$135 billion over ten years, according to the Congressional Budget Office.¹⁰
- Levying a modest 5.4% surtax on the wealthiest Americans – individuals earning more than \$500,000 a year or families earning more than \$1,000,000 a year – or 0.3 percent of U.S. taxpayers, as proposed in the House of Representatives healthcare reform bill (H.R. 3962), would raise \$460 billion over ten years.¹¹
- Limiting the charitable deductions of individuals earning more than \$250,000 and families earning more than \$500,000 a year, as President Obama proposed, would raise \$318 billion over ten years.¹²

¹ Figures 1 to 5 in this report were prepared by CWA based on data from the Joint Committee on Taxation in a letter to Rep. Joe Courtney (D-Conn.), from Thomas A. Barthold, Chief of Staff, Dec. 8, 2009.

² In this report "households" refers to individuals and families paying taxes. Based on JCT data showing that 24.6 million "tax units" would be affected by the excise tax in 2019, Citizens for Tax Justice estimates that 12.6 million are married couples, 3 million are single parents and 9.1 million are childless single people for a total of 58 million men, women and children affected. <http://www.ctj.org/pdf/healthexcisetax20091211.pdf>

³ CPI-U estimates from the Congressional Budget Office projected in "Long Term Budget Outlook Update," August 2009; the median for the seven years is 1.8 percent, plus one percentage point, or 2.8 percent. CPI-U of 2 percent is assumed for 2020-2022. Medical inflation projected from CMS, Office of the Actuary, "National Health Expenditure Projections 2008-2018," Table 1 (CMS Implicit Medical Price Deflator -- 2019-2022 -- assumes 3.8 percent a year, the same as in 2017-2018). Premium Growth Trend based on the five year average (2005-2009) for employer plans from 2009 Kaiser/HRET Employer Health Benefits Survey.

⁴ Mercer News Release, "Majority of employers would reduce health benefits to avoid proposed excise tax, survey finds," Dec. 3, 2009, Figures 1 and 2.

<http://www.kaiserhealthnews.org/Stories/2009/December/02/~media/D8E9E662C4B64AB9B1C8E64984EF49B0.ashx>; Towers-Perrin, "Health Care Reform: Leading Employers Weigh In," Sept. 2009, Exhibit 10.

http://www.towersperrin.com/tp/getwebcachedoc?webc=USA/2009/200909/HCR_Pulse-Survey_Sept-09_Final.pdf

⁵ Joint Committee on Taxation data provided to Rep. Joe Courtney, Dec. 8, 2009, p. 4. Excise tax receipts are projected at \$26.1 billion of the \$149.1 billion in new revenue from 2009 to 2019.

⁶ CBO, Letter to Sen. Evan Bayh, Nov. 30, 2009, p. 25.

⁷ Op cit, endnote 2.

⁸ Towers-Perrin op cit, Exhibit 12.

⁹ Mercer op cit, p. 3.

¹⁰ Congressional Budget Office, "Revised Analysis of America's Affordable Health Choices Act as passed by the House of Representatives," letter to Rep. John D. Dingell, Nov. 20, 2009; <http://www.cbo.gov/ftpdocs/107xx/doc10741/hr3962Revised.pdf>

¹¹ Ibid.

¹² President Obama's 2010 Budget and White House announcements.

Table 1: Excise Tax Owed Per Worker Over 10 Years on CWA Negotiated Health Care Plans Under Senate Bill -- Most Popular Plan in Each State
December 10, 2009

Total Excise Tax From 2013-2022 with Threshold increasing at CPI +1%	Family Coverage Active Workers	Single Coverage Active Workers	Family Coverage Pre-Medicare Retirees	Single Coverage Pre-Medicare Retirees
Alaska	\$10,121	\$4,049	\$3,565	\$0
Arizona	\$10,154	\$4,096	\$3,565	\$0
Arkansas	\$12,473	\$8,951	\$0	\$0
California	\$9,924	\$7,666	\$0	\$0
Colorado	\$10,154	\$4,096	\$3,565	\$0
Connecticut	\$8,170	\$6,152	\$0	\$0
Delaware	\$18,344	\$5,817	\$34,508	\$5,630
Florida	\$0	\$0	\$0	\$0
Hawaii	\$9,924	\$7,666	\$0	\$0
Idaho	\$10,154	\$4,096	\$3,565	\$0
Illinois	\$3,691	\$4,065	\$0	\$0
Indiana	\$3,691	\$4,065	\$0	\$0
Iowa	\$10,154	\$4,096	\$3,565	\$0
Louisiana	\$0	\$0	\$0	\$0
Maine	\$55,968	\$19,056	\$40,626	\$6,476
Maryland	\$19,551	\$6,106	\$37,483	\$5,808
Massachusetts	\$55,968	\$19,056	\$40,626	\$6,476
Michigan	\$3,691	\$4,113	\$0	\$0
Minnesota	\$10,121	\$4,049	\$3,565	\$0
Missouri	\$12,473	\$8,951	\$0	\$0
Montana	\$10,154	\$4,096	\$3,565	\$0
Nebraska	\$10,154	\$4,096	\$3,565	\$0
Nevada	\$9,924	\$7,666	\$0	\$0
New Hampshire	\$55,968	\$19,056	\$40,626	\$6,476
New Jersey	\$21,059	\$10,988	\$2,003	\$178
New Mexico	\$10,154	\$4,096	\$3,565	\$0
New York	\$55,968	\$19,056	\$40,626	\$6,476
North Carolina	\$0	\$0	\$0	\$0
North Dakota	\$10,154	\$4,096	\$3,565	\$0
Ohio	\$3,691	\$4,113	\$0	\$0
Oklahoma	\$12,473	\$8,951	\$0	\$0
Oregon	\$10,154	\$4,096	\$3,565	\$0
Pennsylvania	\$18,344	\$5,817	\$34,508	\$5,630
Rhode Island	\$55,968	\$19,056	\$40,626	\$6,476
South Dakota	\$10,154	\$4,096	\$3,565	\$0
Texas	\$12,473	\$8,951	\$0	\$0
Utah	\$10,154	\$4,096	\$3,565	\$0
Vermont	\$55,968	\$19,056	\$40,626	\$6,476
Virginia	\$19,552	\$6,106	\$37,483	\$5,808
Washington	\$10,121	\$4,049	\$3,565	\$0
West Virginia	\$18,344	\$5,817	\$34,508	\$5,630
Wisconsin	\$3,691	\$4,065	\$0	\$0
Wyoming	\$10,121	\$4,049	\$3,565	\$0
Average for plans paying tax	\$17,737	\$7,540	\$17,694	\$5,628

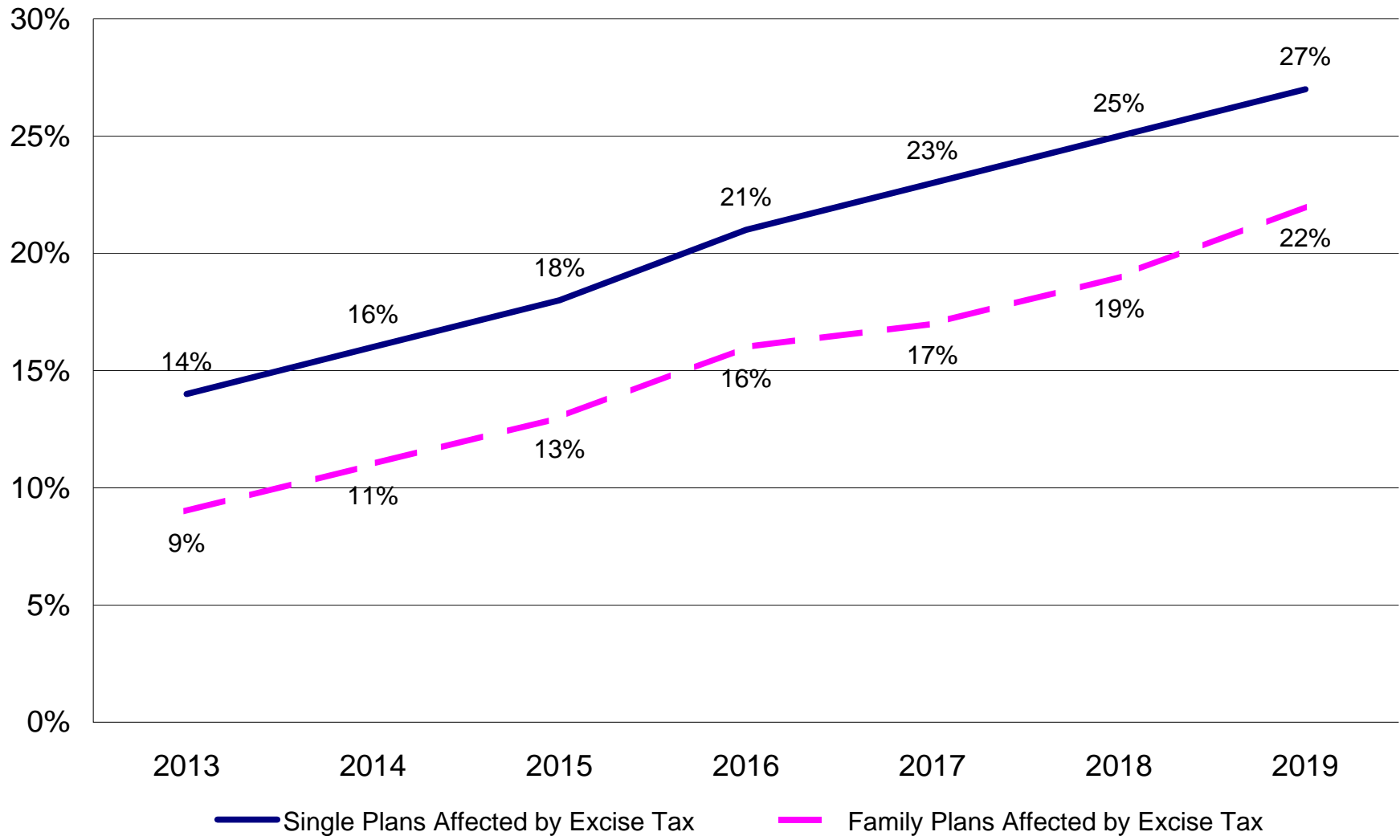
Source: Communications Workers of America Research Department

High-cost transition states: The threshold adjusted upwards in 2013 (20%), 2014 (10%), and 2015 (5%) for states in bold.

2013-2022 Tax Impact is based on a \$23,000 threshold for active worker family plans, \$8,500 for single active worker plans, \$26,000 for family pre-Medicare retiree plans and \$9,850 for single pre-Medicare retiree plans. The threshold is adjusted by CPI plus 1 percentage point. The estimate for 2013-2019 is from the Congressional Budget Office, "Long Term Budget Outlook Update (August 2009)." CPI-U of 2% is assumed for 2020-2022, the same rate as in 2017-2019. The mean CPI-U over 10 years (2013-2022) is 1.8%, plus 1 percentage point, or a 2.8% rate.

The cost estimate for each state includes the cost of the most popular health care plan and dental and vision coverage at \$425 for single plans and \$1,019 for family plans per year, except in New Jersey where \$370 for single and \$1053 for family were used. The 2009 COBRA rate for plan costs is trended forward at 6% per year based on the 5 year average (2005-2009) for employer plans from the 2009 Kaiser/HRET Employer Health Benefits Survey.

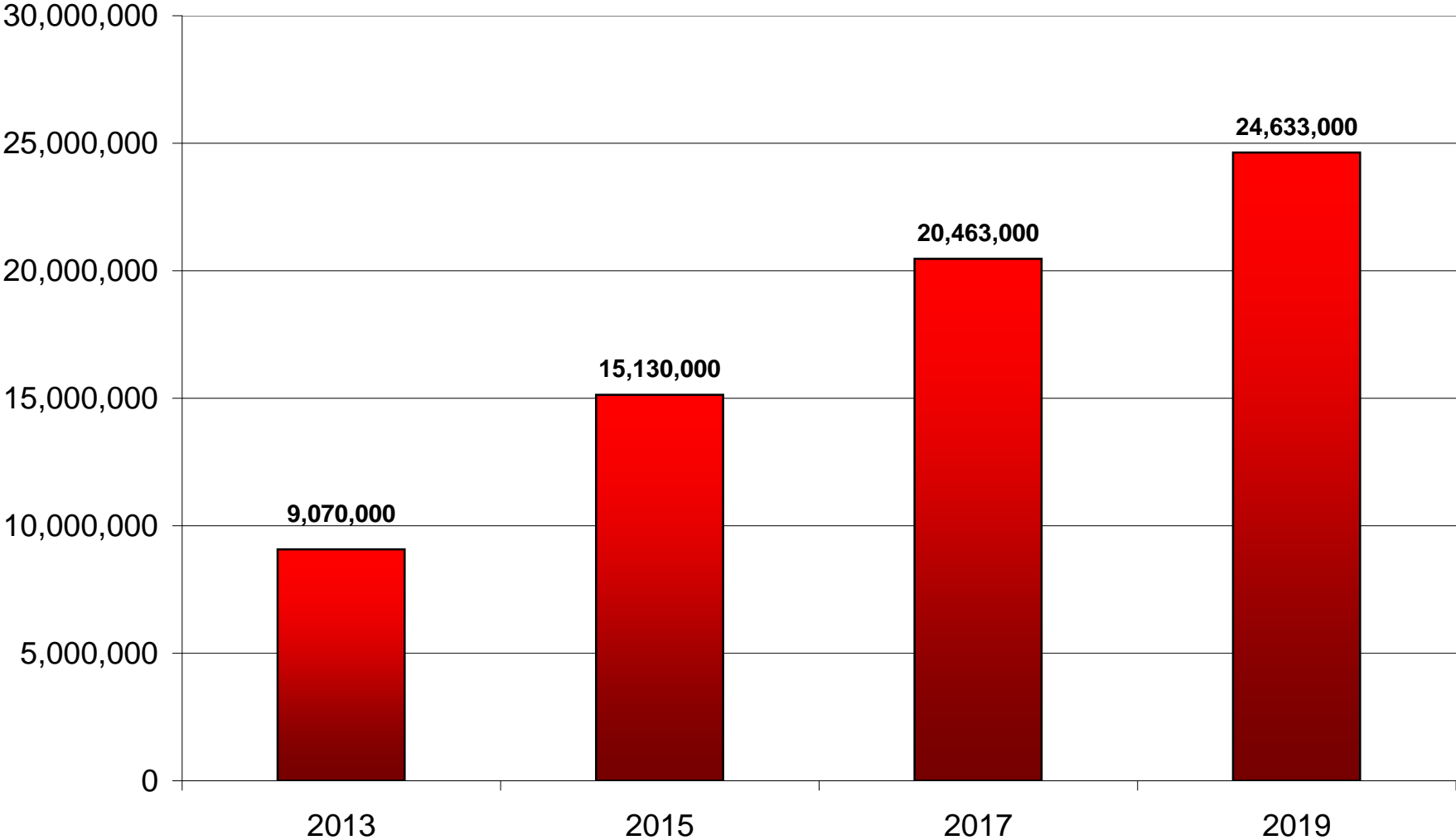
Figure 1
Percentage of Health Plans Affected by Senate Excise Tax



Source: Joint Committee on Taxation data provided to Rep. Joe Courtney, Dec. 8, 2009; analyzed by Communications Workers of America.

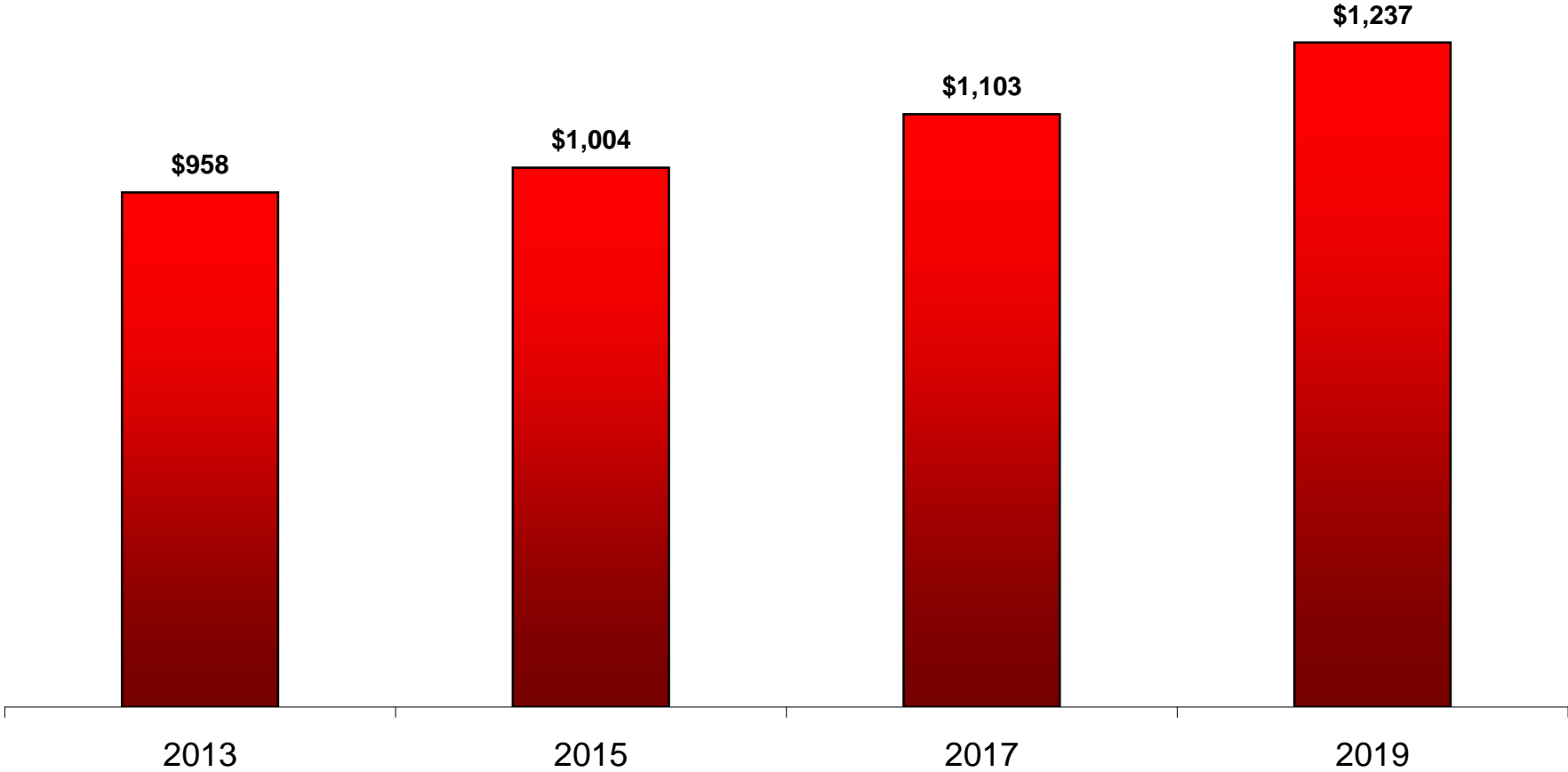
Figure 2

Number of Households Affected by Senate Excise Tax on Health Plans



Source: Joint Committee on Taxation data provided to Rep. Joe Courtney, Dec. 8, 2009; analyzed by Communications Workers of America.

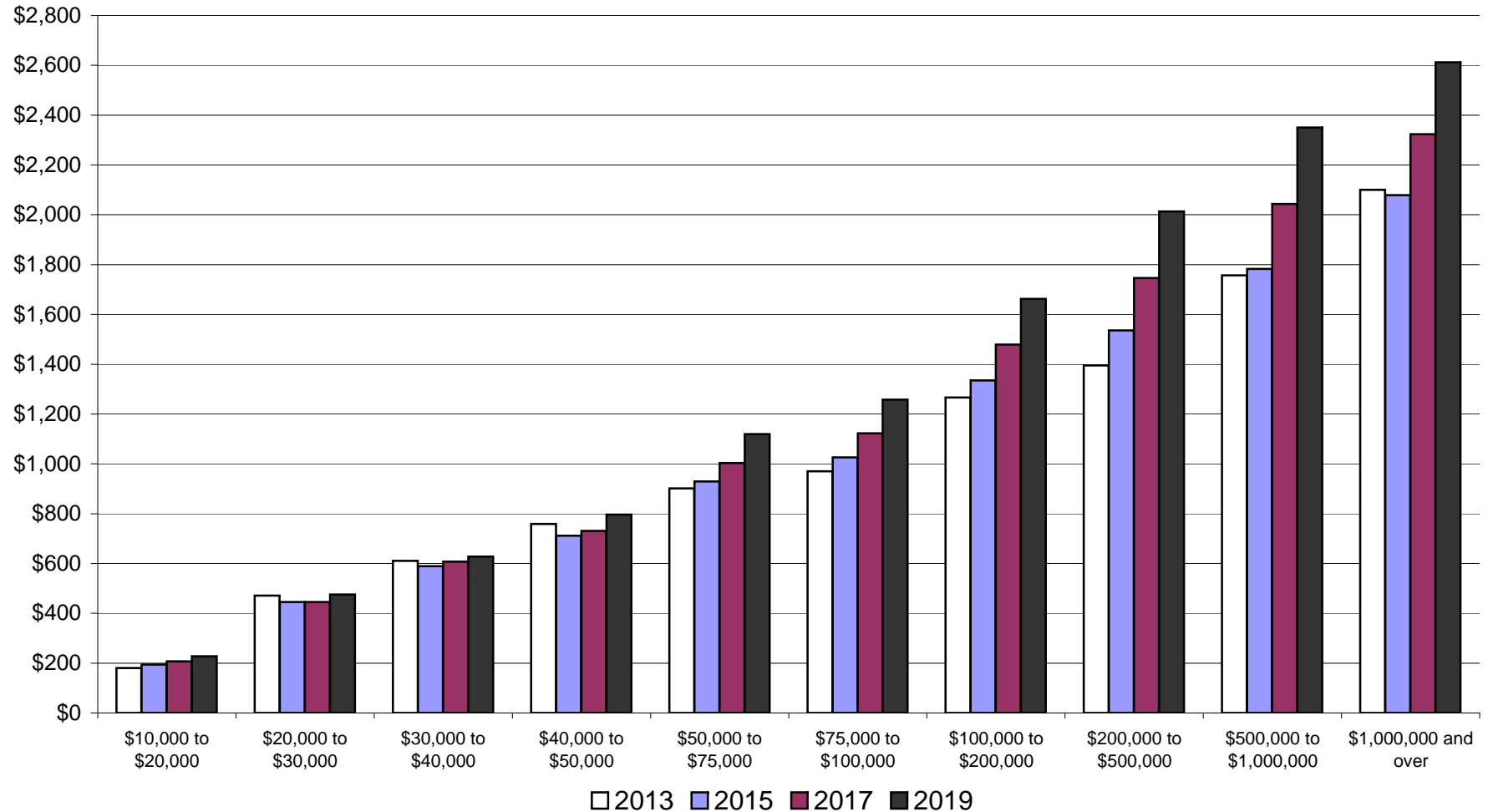
Figure 3
**Additional Average Tax Paid Per Household
Due to Senate Excise Tax on Health Plans**



* Taxpayers are expected to pay higher taxes because employers are expected to replace a portion of health care benefits with wage compensation to avoid the excise tax. Taxpayers will have higher tax liabilities because health care benefits are exempt from taxation but wages are taxable. CWA estimates the average tax paid per household from 2013 to 2019 at \$7,500 assuming the midpoint for even years (2014 - \$981, 2016 - \$1,054, 2018 - \$1,170).

Source: Joint Committee on Taxation data provided to Rep. Joe Courtney, Dec. 8, 2009; analyzed by Communications Workers of America.

Figure 4
Average Tax Increase* Among Households Affected by Senate Excise Tax on Health Plans by Income Group

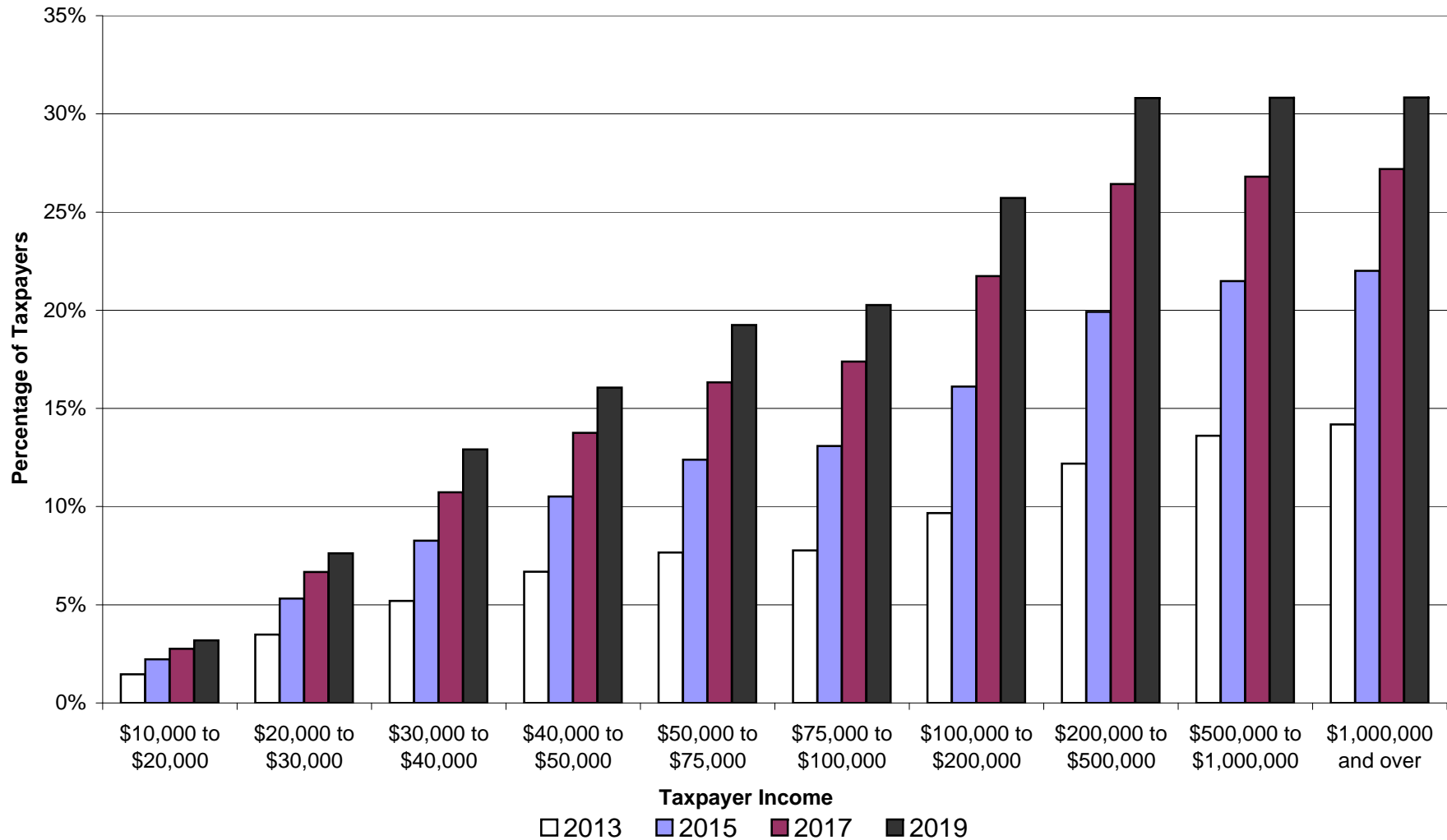


* Taxpayers are expected to pay higher taxes because employers are expected to replace a portion of health care benefits with higher wages and other compensation to avoid the excise tax. Taxpayers will have higher tax liabilities because health care benefits are exempt from taxation but wages are taxable.

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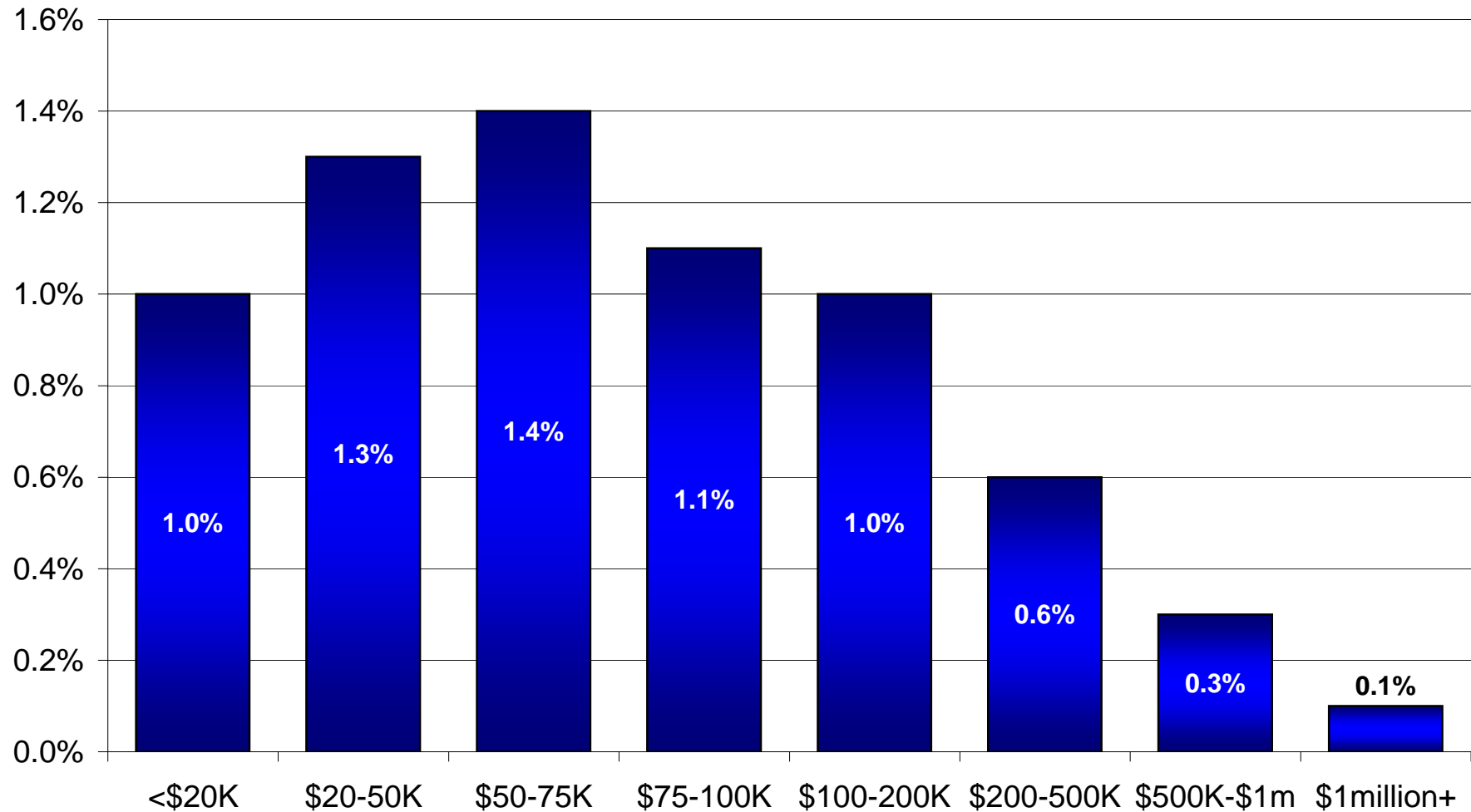
Figure 5

Percentage of Households Affected by Senate Excise Tax on Health Plans by Income Group



Source: Joint Committee on Taxation data provided to Rep. Joe Courtney, Dec. 8, 2009; analyzed by Communications Workers of America.

Senate Excise Tax as Shares of Income in 2019 (for taxpayers affected only)



Source: Citizens for Tax Justice, Dec. 11, 2009, based on Joint Committee on Taxation data (Nov. 19, 2009)