



COMMUNICATIONS WORKERS OF AMERICA

**Health Care Excise Tax =
A Big Middle Class Tax Increase**

October 21, 2009

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Legislation recently passed by the Senate Finance Committee (SFC) that would raise \$201 billion for health care reform by imposing a 40 percent excise tax on insurance company health plans and self-insured plans offered by companies to their workers will 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 excise tax proponents that it will affect only “Cadillac” health plans like those enjoyed by Goldman Sachs executives, the tax is projected to affect up to one-third percent of health plans by 2019 – just seven years after it takes effect – according to an analysis by the Joint Committee on Taxation (JCT).¹ There would be a \$7,600 average tax increase between 2013 and 2019 on households affected by the tax. Middle income households making \$50,000 to \$75,000 would see their taxes increase 1.4 percentage points, whereas millionaires affected by the tax would see their taxes increase just 0.1 percentage point.

How the Finance Committee Excise Tax Works

- A 40 percent excise tax would be assessed on the value of health care plans exceeding \$21,000 for a family and \$8,000 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 – such as in construction and mining.
- These “thresholds” would increase annually at the rate of general inflation (CPI-U) plus one percentage point. CPI-U is projected to increase at about 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 one-half the rate at which employer plan costs are projected to increase (5.5 percent a year).² Therefore, year after year the excise tax would become more onerous as the cost

¹ Figures 1-6 in this report were prepared by CWA based on data in an October 16, 2009, letter to Rep. Joe Courtney (D-Conn.) from Tom Barthold, Chief of Staff at the Joint Committee on Taxation; available at <http://www.healthcarevoices.org/pages/impact-of-the-excise-tax-on-the-middle-class>

² CPI-U estimates from the CBO projected in “Long Term Budget Outlook Update,” August 2009; the median for the 7 years is 1.8%, plus one percentage point. CPI of 2% 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% a year, the same as in 2017-2018). Premium Growth Trend based on Watson-Wyatt estimate for employer plans (5.5% a year) provided to CWA.

increase in health plans far outstrips the legislation's inflation adjustment to the tax threshold.

How the Excise Tax Will Affect Middle Class Americans

Middle class families will be affected significantly by the excise tax in one of two ways:

1. Excise Taxes on the 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 SFC 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 \$58,000 over ten years. The average taxes over ten years that would be owed for each worker or retiree in the most popular plan are:

- \$19,300 for active worker family coverage
- \$7,200 for active worker single coverage
- \$8,500 for pre-Medicare retiree family 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. “[Employers] emphatically *do not* plan to absorb more health care costs or share any company savings (if there are any), according to recent Towers-Perrin survey of 433 human resource executives.³

2. Excise Taxes on Plans will Result in Benefit Cuts and Wage Increases to Offset Cost Shifting

The JCT and the Congressional Budget Office (CBO) assume that in response to a 40 percent excise tax, employers will cut benefits to get the price of their plans below the threshold and then increase workers' wages to offset those cuts. Workers will pay income and payroll taxes on these new wages, which will result in about \$142 billion (70 percent) of the \$200 billion windfall to the government projected in the legislation.⁴ In effect, workers' health care benefits will be taxed as new income. This is precisely the kind of tax on health care benefits proposed by Sen. John McCain during the 2008 presidential campaign for which he was lambasted by candidate Barack Obama and most other Democratic officials.

³ Towers-Perrin, “Health Care Reform: Leading Employers Weigh In,” Sept. 2009, p. 1.

⁴ *New York Times*, “Congress Split on a Health Tax on Costly Plans,” Oct. 13, 2009, p. 1.

CWA's analysis of the JCT data shows that the affects of the Finance Committee's legislation are dramatic, contrary to claims made by bill proponents:

- 34 percent of single plans and 31 percent of family plans will be affected by the tax in 2019, up from 19 percent and 14 percent, respectively, in 2013 when it takes effect. [Figure 1]
- 31 million taxpayers will be affected by the tax in 2019, up from 12.7 million taxpayers in 2013. [Figure 2] One-quarter of middle-class taxpayers making \$50,000 to \$100,000 will be affected by 2019. [Figure 5]
- \$1,318 will be the average tax increase paid in 2019 by all taxpayers affected, up from \$918 in 2013. [Figure 3] Extrapolating from the JCT data, CWA estimates that the total average tax paid by affected taxpayers will be \$7,640 between 2013 and 2019 – or \$1,000 a year.
- The tax is very regressive. For example, among taxpayers affected by the tax in 2019 a family making at least \$1 million a year will pay more than twice as much as a family making \$50,000 to \$75,000 (\$2,750 vs. \$1,200), but the wealthy family's income will be at least 14 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 0.1 percent increase in their taxes, whereas those affected households making \$50,000 to \$75,000 would see their taxes increase 1.4 percent. [Figure 6]

Background on JCT's Assumption that Employers Will Increase Wages as They Lower Health Benefits to Get Below the Threshold to Avoid the Excise Tax

Proponents of the excise tax claim that workers will not lose under the excise tax because any health benefits cuts will be offset by an increase in their wages. Based on years of bargaining with some of the nation's largest employers CWA does not believe this to be true, and so it seems do employers in a recent Towers-Perrin survey of 433 human resource executives⁵:

Employer Actions if Health Care Reform Increases Employer Costs

- 87% will reduce benefits
- 38% will increase prices for customers
- 30% will reduce employment
- 27% will reduce salaries/direct compensation
- 11% will accept reduced profits

⁵ Towers-Perrin, "Health Care Reform: Leading Employers Weigh In," Sept. 2009, Exhibits 10 and 11.

Employer Actions if Health Care Reform Increases Employee Costs

- 86% will do nothing
- 9% will increase pay or benefits to partly absorb the increase
- 1% will increase pay or benefits to fully absorb the increase

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

Besides the significant impact on the middle class, it is also important to note that an excise tax that results in significant benefit 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 Chevys than Cadillacs 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 employers’ ability to negotiate for lower administrative costs and payment rates to insurance companies that administer our plans.

Rather than Impose a New Tax on the Middle Class, There Are Better Alternatives to Raise \$201 Billion

There are numerous alternative options for raising the \$201 billion for health care reform proposed in the Finance Committee bill that would not penalize the middle class but instead promote a much more efficient health care system, reduce special interest subsidies, 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. 3200 in the House of Representatives, would

raise \$163 billion over ten years, according to the Congressional Budget Office,⁶ close to the \$201 billion raised by the excise tax.

- Levying a modest surtax on the wealthiest Americans – individuals earning more than \$280,000 a year or families earning more than \$350,000 a year – or 1.2 percent of U.S. taxpayers as proposed in H.R. 3200, would raise an estimated \$544 billion over ten years.⁷
- 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.⁸
- Implementing a strong public health insurance plan option to compete with private insurers, as proposed under H.R. 3200, would lower costs by about \$110 billion.⁹ The Senate Finance Committee bill has no public plan option.

⁶ Congressional Budget Office, “Preliminary Analysis of America’s Affordable Health Choices Act,” letter to Rep. Charles Rangel, July 17, 2009; <http://www.cbo.gov/ftpdocs/104xx/doc10464/hr3200.pdf>

⁷ Joint Committee on Taxation, “Estimated Effects of the Chairman’s Amendment in the Nature of a Substitute to the Revenue Provisions of H.R. 3200,” JCX-33-09, July 16, 2009.

<http://jct.gov/publications.html?func=startdown&id=3572>

⁸ President Obama’s 2010 Budget and White House announcements.

⁹ According to House Committee staff reports of a forthcoming CBO analysis of H.R. 3200.

Table 1: Excise Tax Owed Per Worker Over 10 Years on CWA Negotiated Health Care Plans Under Baucus Bill -- Most Popular Plan in Each State
October 21, 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	\$12,820	\$4,185	\$956	\$0
Arizona	\$13,623	\$4,395	\$956	\$0
Arkansas	\$16,257	\$9,247	\$0	\$0
California	\$13,361	\$8,015	\$0	\$0
Colorado	\$13,623	\$4,395	\$956	\$0
Connecticut	\$10,800	\$6,305	\$0	\$0
Delaware	\$21,374	\$5,985	\$28,296	\$3,832
Florida	\$0	\$0	\$0	\$0
Hawaii	\$13,361	\$8,015	\$0	\$0
Idaho	\$13,623	\$4,395	\$956	\$0
Illinois	\$5,809	\$4,199	\$0	\$0
Indiana	\$5,809	\$4,199	\$0	\$0
Iowa	\$13,623	\$4,395	\$956	\$0
Louisiana	\$0	\$0	\$0	\$0
Maine	\$58,528	\$18,954	\$34,148	\$4,596
Maryland	\$23,473	\$6,500	\$31,050	\$3,872
Massachusetts	\$58,528	\$18,954	\$34,148	\$4,596
Michigan	\$5,809	\$4,412	\$0	\$0
Minnesota	\$12,820	\$4,185	\$956	\$0
Missouri	\$16,257	\$9,247	\$0	\$0
Montana	\$13,623	\$4,395	\$956	\$0
Nebraska	\$13,623	\$4,395	\$956	\$0
Nevada	\$13,361	\$8,015	\$0	\$0
New Hampshire	\$58,528	\$18,954	\$34,148	\$4,596
New Jersey	\$24,218	\$11,062	\$223	\$0
New Mexico	\$13,623	\$4,395	\$956	\$0
New York	\$58,528	\$18,954	\$34,148	\$4,596
North Carolina	\$0	\$0	\$0	\$0
North Dakota	\$13,623	\$4,395	\$956	\$0
Ohio	\$5,809	\$4,412	\$0	\$0
Oklahoma	\$16,257	\$9,247	\$0	\$0
Oregon	\$13,623	\$4,395	\$956	\$0
Pennsylvania	\$21,374	\$5,985	\$28,296	\$3,832
Rhode Island	\$58,528	\$18,954	\$34,148	\$4,596
South Dakota	\$13,623	\$4,395	\$956	\$0
Texas	\$16,257	\$9,247	\$0	\$0
Utah	\$13,623	\$4,395	\$956	\$0
Vermont	\$58,528	\$18,954	\$34,148	\$4,596
Virginia	\$23,474	\$6,500	\$31,050	\$3,872
Washington	\$12,820	\$4,185	\$956	\$0
West Virginia	\$21,374	\$5,985	\$28,296	\$3,832
Wisconsin	\$5,809	\$4,199	\$0	\$0
Wyoming	\$12,820	\$4,185	\$956	\$0
Average	\$19,361	\$7,199	\$8,522	\$1,089

Source: Communications Workers of America Research Department

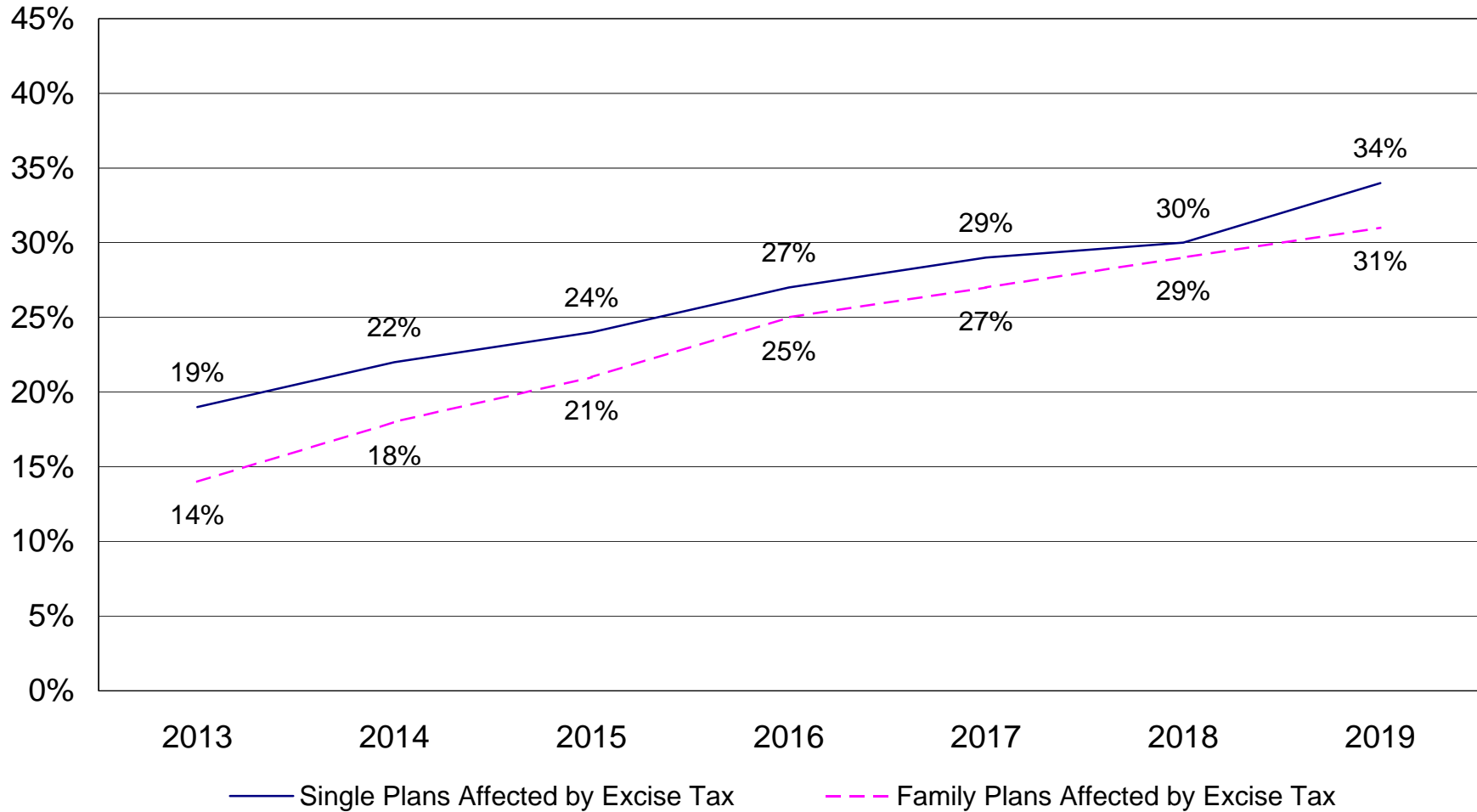
High-cost transition states. the threshold adjusted upwards in 2013 (20%), 2014 (10%), and 2015 (5%) for states in bold.

2013-2022 Tax Impact is based on a \$21,000 threshold for active worker family plan, \$8,000 for single active worker plan, \$26,000 for family retiree plan and \$9,850 for single retiree plan. The threshold is adjusted by CPI plus 1 percentage point. Estimates are from CBO projection in Long Term Budget Outlook Update (August 2009); the median for the 7 years is 2.8%. CPI of 2% assumed for 2020-2022. Pre-Medicare retiree coverage is a blended rate that combines the cost of pre-Medicare and Medicare retiree coverage weighted by the number of people in each plan.

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 5.5% per year based on Watson Wyatt estimate for employer plans, which is well below the current cost growth.

Figure 1

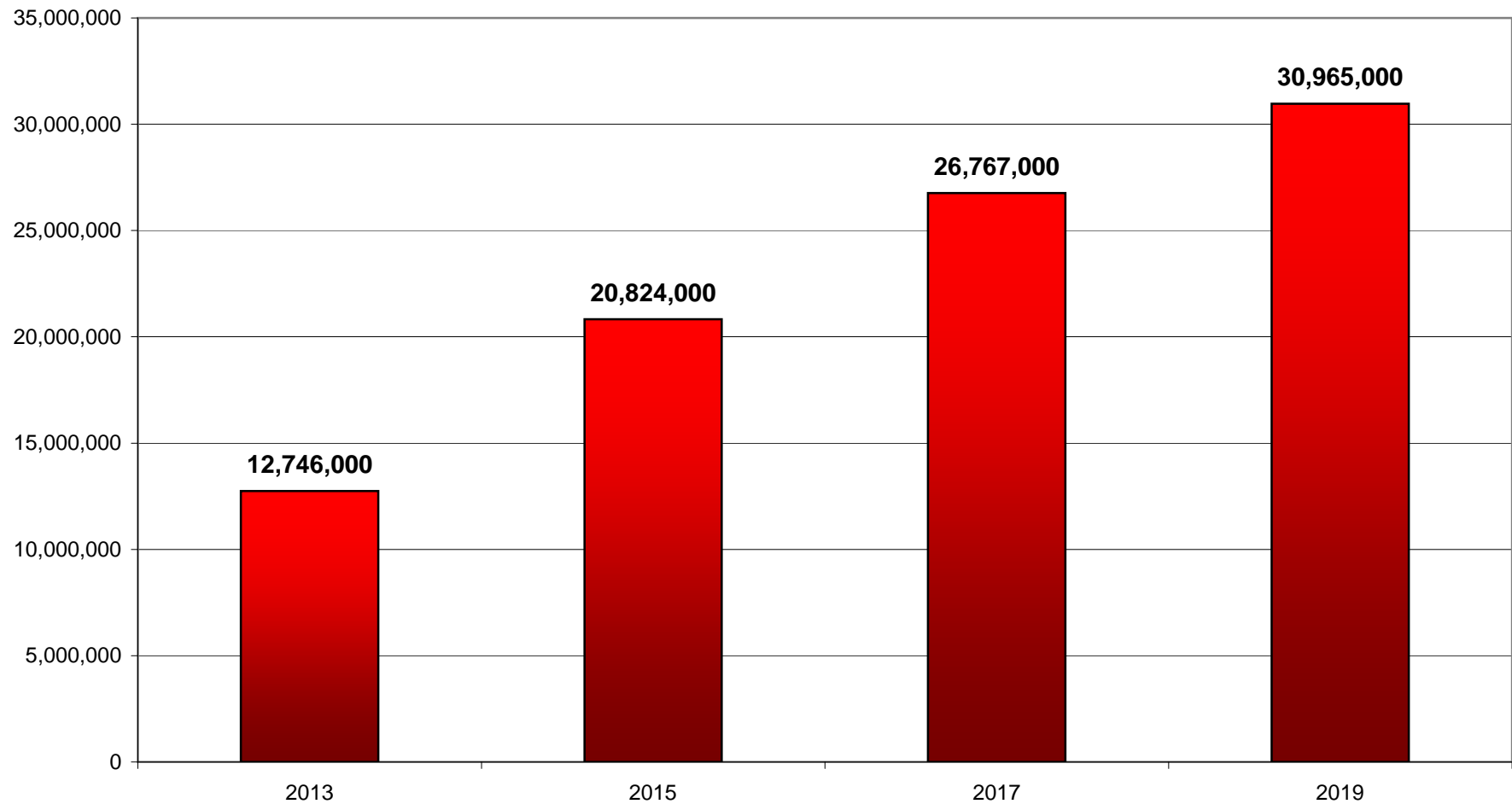
Percentage of Health Plans Affected by Senate Excise Tax on Insurers



Source: Communications Workers of America, based on Joint Committee on Taxation data of Oct. 7, 2009.

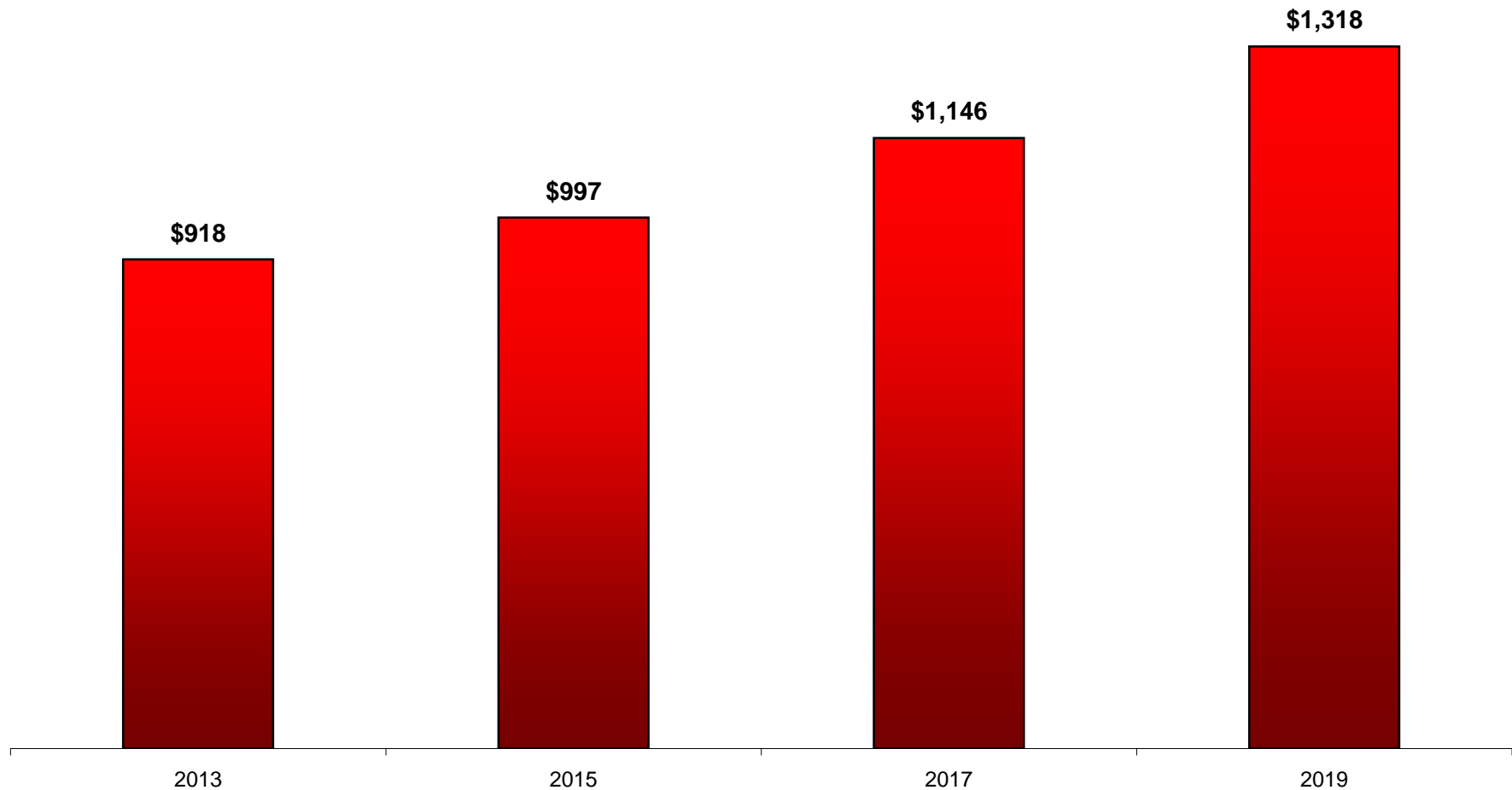
Figure 2

Number of Taxpayers Affected by Senate Excise Tax on Insurers



Source: Communications Workers of America, based on Joint Committee on Taxation data of Oct. 7, 2009.

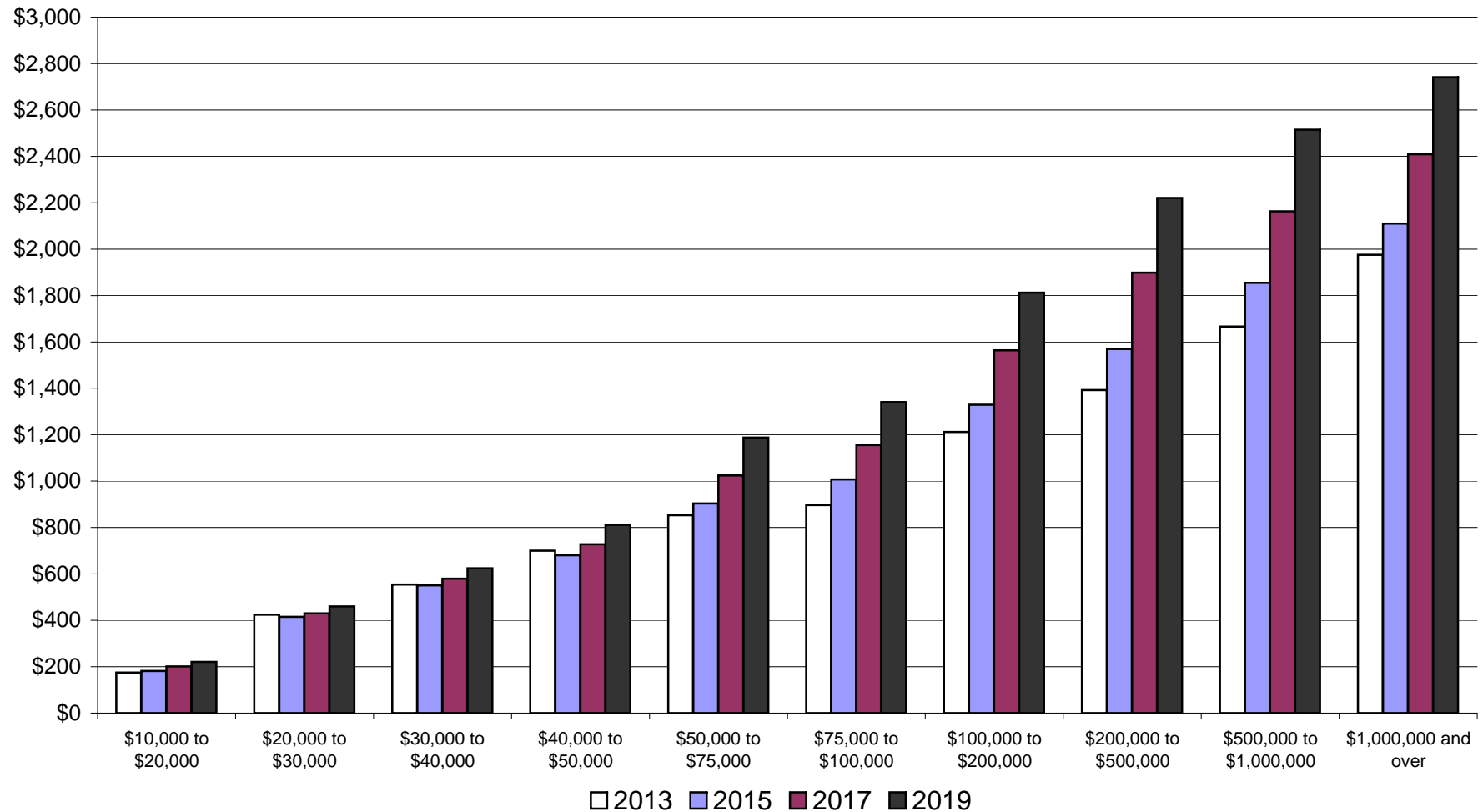
Figure 3
**Average Tax Increase* Among Taxpayers Affected by Senate
Excise Tax on Insurers**



* 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.

Source: Communications Workers of America, based on Joint Committee on Taxation data of Oct. 7, 2009.

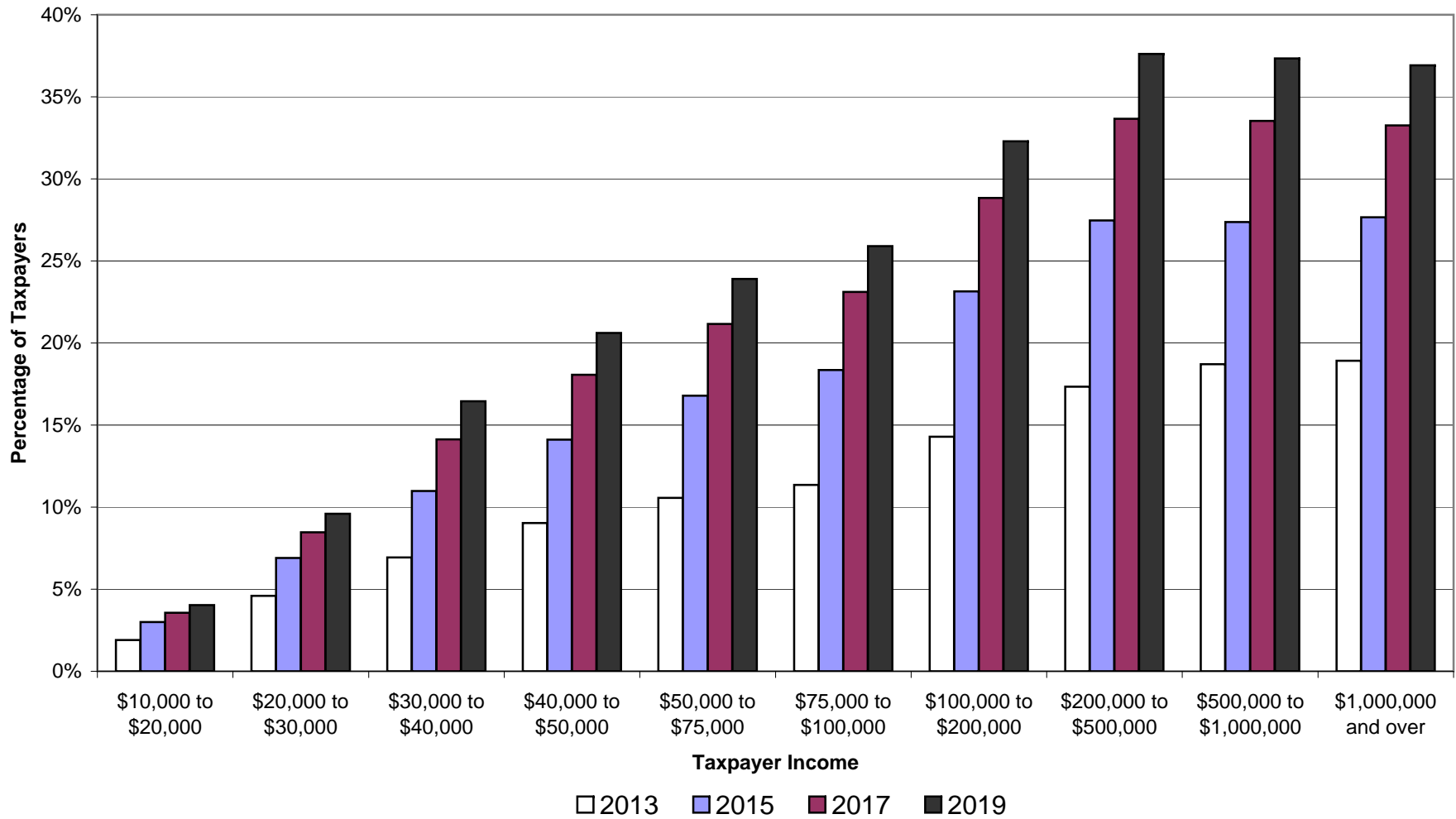
Figure 4
Average Tax Increase* Among Taxpayers Affected by Senate Excise Tax on Insurers by Income Group



* 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.

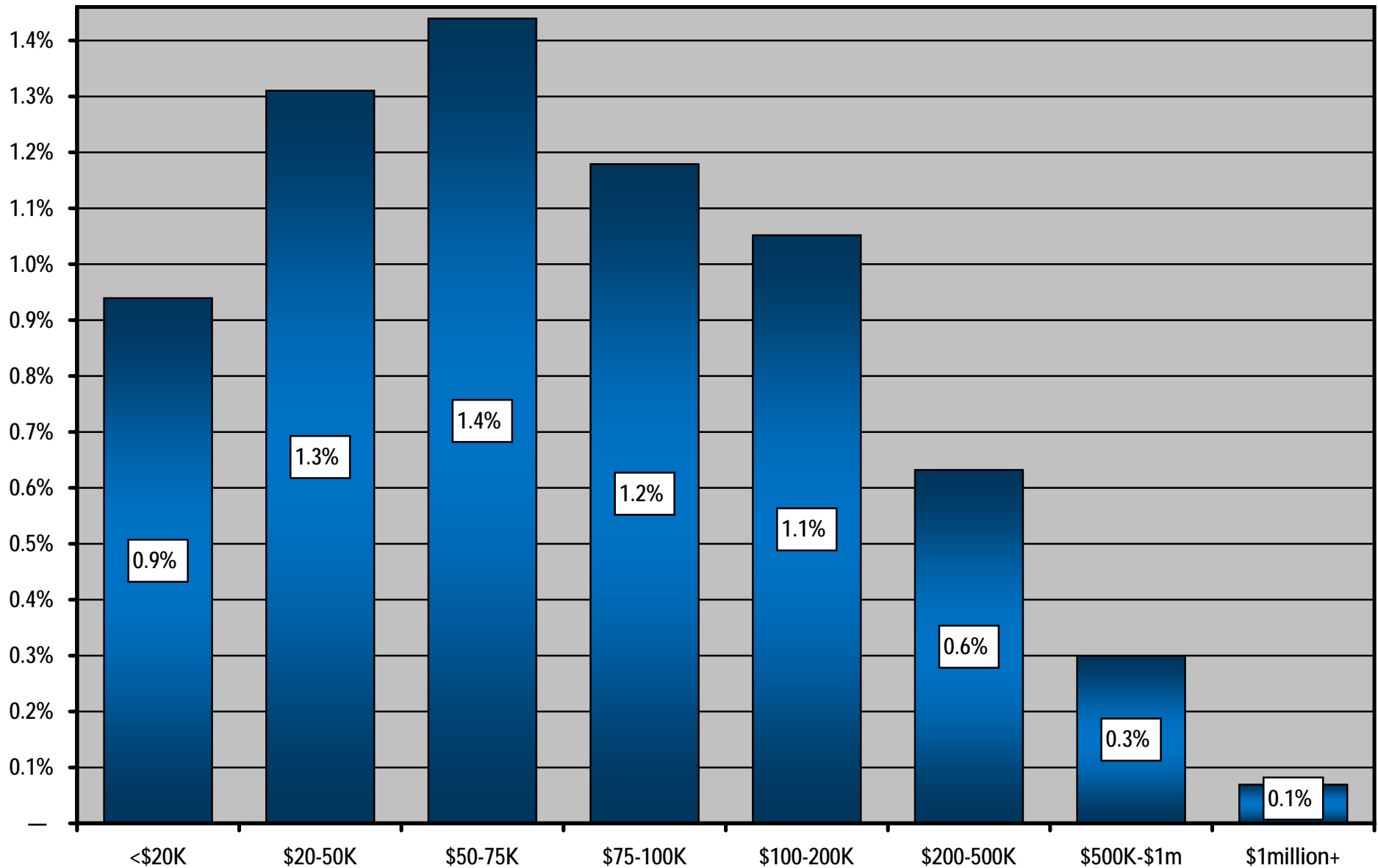
Source: Communications Workers of America, based on Joint Committee on Taxation data of Oct. 7, 2009.

Figure 5
Percentage of Taxpayers Affected by Senate Excise Tax on Insurers by Income Group



Source: Communications Workers of America, based on Joint Committee on Taxation data of Oct. 7, 2009.

Figure 6
Senate Finance Committee Health Insurance Excise Tax as
Shares of Income in 2019
(for tax payers affected only)



Source: Citizens for Tax Justice, Oct. 20, 2009, based on Joint Committee on Taxation data (Oct. 7, 2009).