



Excise Tax on Insurance Plans is a Tax on Workers' Health Benefits by Another Name

CWA Opposes the Senate Finance Committee's excise tax on "higher-cost" health care plans offered by insurance companies, self-insured plans, Taft-Hartley plans, and VEBAs.

The Senate Finance Committee's excise tax, supposedly aimed at insurance companies, will also apply to employer and union health plans and be directly passed onto working families. To avoid the tax, employers will be motivated to significantly cut benefits on *active workers* and to eliminate coverage altogether for *pre-Medicare retirees*. It will have the same or similar effect as the health benefits tax proposed by Sen. John McCain during the 2008 presidential campaign. It makes much more sense to pay for health care reform through progressive financing measures rather than to tax working families.

The excise tax would work as follows:

- A 40% excise tax would be assessed on the value of health care plans that exceed \$21,000 for a family and \$8,000 for an individual starting in 2013. (The threshold for pre-Medicare retiree plans and for workers in high-risk industries would be higher, \$26,000 and \$9,850.) These values include all health care coverage including dental, vision, supplementary coverage and the amount that *employees* put into a flexible spending arrangement for medical expenses under a cafeteria plan (Health FSA).
- These "thresholds" would increase at the rate of general inflation (CPI-U) plus one percentage point. This is well below the rate of medical inflation and about one-half the rate at which employer and union plan costs are increasing.
- To cushion the transition, in the 17 highest cost states in 2012 the "threshold" would be increased by 20%, 10% and 5% over the first three years, regardless of the CPI. While helpful, this transition will have a limited effect.
- The excise tax is projected to raise up to \$205 billion over 10 years – a primary justification given for it. The other rationale given is that it will make employers more efficient purchasers of health care, thereby putting downward pressure on the cost of insurance plans in the long run.

Excise Tax Will Hit CWA-Negotiated Health Plans Hard Leading to Pressure for Major Health Benefit Concessions

CWA estimates that in 42 of 43 states examined, over 10 years (2013-2022) the average excise taxes assessed on our most popular plans will be:

- \$19,300 per active worker in the family coverage plan
- \$7,200 per active worker in single coverage plan
- \$8,500 per pre-Medicare retiree in the family coverage plan
- \$1,100 per pre-Medicare retiree in the single coverage plan

Effect of Excise Tax on CWA-Negotiated Health Care Plans			
Based on the Most Popular Plans in 43 States Examined			
	Average Plan Premium Equivalents		Average Tax Impact Per Worker 2013-2022
	2009	2013	
Family Plan – Actives	\$16,796	\$22,070	\$19,338
Single Plan – Actives	\$6,367	\$8,413	\$7,191
Family Plan – Retirees	\$15,764	\$20,793	\$8,532
Single Plan – Retirees	\$5,267	\$7,050	\$1,088

Source: Communications Workers of America Research Department

Page 5 contains a table of all 43 states.

- The response of employers to a 40% tax on benefits above the threshold will be unequivocal – they will demand reductions in benefits to get below the threshold.** In the face of premium cost increases averaging 6% or more a year for a decade, CWA has worked with employers to reduce health care costs, often cutting benefits. The magnitude of the cuts that would need to occur as a result of the excise tax would be devastating. Moreover, this will skew the risk profile in the Exchange making costs much higher for everyone.
- Pre-Medicare retirees are at grave risk:** The excise tax will put tremendous pressure on employers to drop pre-Medicare retiree coverage altogether – typically the most costly group to cover. If that happens, under the Senate Finance Committee’s bill these 55-to-64-year-old retirees will have to buy coverage through the National Health Insurance Exchange where they would face rates up to five times higher than those charged young people when their income is fast declining. The shift of these older and more costly workers into the Exchange would skew the risk pool and ultimately make it more costly to cover everyone in the Exchange.
- Even if the threshold increases at the rate of private-sector health plan inflation, CWA members could face huge benefit cuts.** Over a decade the excise tax bite could grow exponentially no matter what inflation amount is used to adjust the threshold as evidenced by the detailed table showing the effect on plans in 43 states. The lower the inflation figure used the higher the tax placed on health plans. The legislation assumes the threshold will grow at the lowest and most devastating level – the Consumer Price Index plus one percentage point. CPI is projected to increase only at about 1.9% a year over the next 10 years.¹ Medical inflation is projected to increase at about 3.8% a year over the next decade, which would provide limited relief from the excise tax.² Even if the threshold were adjusted at the rate that private sector plan and union plan costs are increasing – the Premium Growth Trend – conservatively estimated at 5.5%,³ plans would take a huge tax hit.

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

- **CWA negotiated health care plans are not “Cadillac Plans,” offering “excessive” benefits.** The benefits in these plans 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.
- **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 plans.

Taxing Health Benefits—by any Name—is a 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,” while 41 percent were in favor.⁴ Some 34 percent strongly opposed the tax.
- By a margin of 59% to 33%, likely voters oppose requiring “people with expensive health plans with more generous benefits than a standard plan to pay taxes on a portion of that plan’s costs.”⁵
- Health care was a deciding factor for many voters in 2008 and taxing health benefits was the clear dividing line between candidates Obama and McCain.
- Opponents of reform will use “taxation of health care benefits” as a rallying cry to turn the public against reform and to defeat candidates in 2010 who vote for such a proposal. Potential long-range cost savings from reform will not be enough to blunt the immediate impact of a large tax increase and/or benefit cut on families.

Rather than Impose a Hidden Tax on the Middle Class, Congress Should Cut Subsidies to Drug and Insurance Companies and Increase Taxes on the Wealthy

There are numerous alternative options for paying for health care reform that do 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.

Recommendations from President Obama: President Obama has proposed raising \$950 billion in new revenues over the next 10 years. His proposals include:⁶

- **\$177 billion:** Reduce the 14% subsidy to private insurance companies that participate in the **Medicare Advantage** program.
- **\$30-80 billion:** Negotiate **deeper prescription drug price discounts** for the Medicare and Medicaid programs and to benefit seniors participating in Medicare Part D.
- **\$106 billion:** Reduce **hospital subsidies for uncompensated care** as the uninsured get covered through health reform.
- **\$318 billion:** Modestly increase the taxes paid by individuals earning more than \$250,000 and by families earning more than \$500,000 a year by **limiting their charitable deductions.**

Other Progressive Tax Reform Options Could Generate \$1 Trillion Over 10 Years: These progressive tax reforms would raise significant revenue, eliminate special interest loopholes and deductions and make the federal tax code much fairer:⁷

- **\$450 billion:** Apply the current 1.45% Medicare tax levied on wage income to the non-wage income of the wealthy and increase the rate applied to income over \$250,000 to 2.5%. (\$38 billion a year can be raised without raising the tax to 2.5%.) Currently, income from investments is not subject to the Medicare tax above \$107,000 a year but workers' wages are subject to the tax.
- **\$350 billion:** Reduce the tax subsidy given to investment income by **raising the top rate for capital gains and dividends from 20% to 28%**, bringing taxes on investment income more in line with taxes on wages.
- **\$150 billion:** Eliminate other tax subsidies for Wall Street such as those that allow corporations to obtain preferential tax treatment for executive compensation.
- **\$120 billion:** Reduce tax incentives to invest offshore to help keep jobs at home and to discourage shifting profits overseas to avoid taxes.

¹ Congressional Budget Office, "Long Term Budget Outlook," June 2009.

² Center for Medicare and Medicaid Services, Office of the Actuary, "National Health Expenditure Projections 2008-2018," Table 1.

³ Premium growth trend based on Watson-Wyatt estimate of employer plan growth of 5.5% in future years. Watson-Wyatt correspondence with CWA. July, 2009.

⁴ Lake Research Partners, September 18-20, 2009.

⁵ NBC News/Wall Street Journal, June 12-15, 2009.

⁶ President Obama's 2010 Budget and White House announcements.

⁷ Citizens for Tax Justice, "Progressive Revenue Options to Fund Health Care Reform," 2009.

Excise Tax Owed Per Worker Over 10 Years on CWA-Negotiated Health Care Plans – Most Popular Plan in Each State, Oct. 16, 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	\$12,799	\$4,183	\$1,012	\$0
Arizona	\$13,593	\$4,383	\$1,012	\$0
Arkansas	\$16,228	\$9,236	\$0	\$0
California	\$13,332	\$8,004	\$0	\$0
Colorado	\$13,593	\$4,383	\$1,012	\$0
Connecticut	\$10,797	\$6,297	\$0	\$0
Delaware	\$21,343	\$5,977	\$28,257	\$3,830
Florida	\$0	\$0	\$0	\$0
Hawaii	\$13,332	\$8,004	\$0	\$0
Idaho	\$13,593	\$4,383	\$1,012	\$0
Illinois	\$5,806	\$4,198	\$0	\$0
Indiana	\$5,806	\$4,198	\$0	\$0
Iowa	\$13,593	\$4,383	\$1,012	\$0
Louisiana	\$0	\$0	\$0	\$0
Maine	\$58,497	\$18,942	\$34,110	\$4,595
Maryland	\$23,444	\$6,489	\$31,014	\$3,862
Massachusetts	\$58,497	\$18,942	\$34,110	\$4,595
Michigan	\$5,806	\$4,401	\$0	\$0
Minnesota	\$12,799	\$4,183	\$1,012	\$0
Missouri	\$16,228	\$9,236	\$0	\$0
Montana	\$13,593	\$4,383	\$1,012	\$0
Nebraska	\$13,593	\$4,383	\$1,012	\$0
Nevada	\$13,332	\$8,004	\$0	\$0
New Hampshire	\$58,497	\$18,942	\$34,110	\$4,595
New Jersey	\$24,187	\$11,051	\$249	\$0
New Mexico	\$13,593	\$4,383	\$1,012	\$0
New York	\$58,497	\$18,942	\$34,110	\$4,595
North Carolina	\$0	\$0	\$0	\$0
North Dakota	\$13,593	\$4,383	\$1,012	\$0
Ohio	\$5,806	\$4,401	\$0	\$0
Oklahoma	\$16,228	\$9,236	\$0	\$0
Oregon	\$13,593	\$4,383	\$1,012	\$0
Pennsylvania	\$21,343	\$5,977	\$28,257	\$3,830
Rhode Island	\$58,497	\$18,942	\$34,110	\$4,595
South Dakota	\$13,593	\$4,383	\$1,012	\$0
Texas	\$16,228	\$9,236	\$0	\$0
Utah	\$13,593	\$4,383	\$1,012	\$0
Vermont	\$58,497	\$18,942	\$34,110	\$4,595
Virginia	\$23,445	\$6,489	\$31,014	\$3,862
Washington	\$12,799	\$4,183	\$1,012	\$0
West Virginia	\$21,343	\$5,977	\$28,257	\$3,830
Wisconsin	\$5,806	\$4,198	\$0	\$0
Wyoming	\$12,799	\$4,183	\$1,012	\$0
Average	\$19,338	\$7,191	\$8,532	\$1,088

Source: Communications Workers of America Research Department

Bold states are the high-cost transition states. In these states the threshold is adjusted upwards in 2013 (20%), 2014 (10%), and 2015 (5%). **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 from CBO projected in Long Term Budget Outlook (June 2009); the median for the 10 years is 2.9%. 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 (single) and \$1019 (family) per year. 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.