The Missouri Budget Project

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Financing Health Care Reform: You Get What You Pay For

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Background

President Obama has asked the Congress to pass health care reform by October, 2009. A Tri-Committee proposal has been put forth in the U.S. House that creates comprehensive health care reform and increases access to affordable health care for an estimated 600,000 Missourians, 92,800 Missouri seniors and 135,000 small businesses.[1] The proposal is estimated to cost $1 trillion dollars over 10 years. The Congress and President have stated that they are committed to ensuring that health care reform is fully funded. As a result, the proposals before Congress include financing measures.

The current House Proposal would pay for half of the cost through savings achieved by reducing duplication and increasing efficiencies, including:

- Reducing Overpayments in the Medicare Advantage Plan,
- Enhanced Negotiating of Prescription Drug Prices and Rebates,
- Payment reforms in Medicaid and Medicare to reduce duplication, and
- Increased emphasis on prevention and disease management to reduce costs.

The remaining revenues needed to finance health care reform would be funded through tax reform that brings in new revenues, discussed further in this brief.

Proposals to Fairly and Adequately Finance Health Care Reform:

The tax proposals being considered as part of the health care reform package not only bring needed revenue for new services, but would also correct some of the imbalance created by tax changes of the last decade:

1. **Apply a health care surcharge on the top 1.2 percent of earners.[2]**

Households with adjusted gross income in excess of $280,000 (single) or $350,000 (couple) would pay a graduated surcharge between 1 and 5.4 percent.

2. **Apply the current individual portion of the Medicare tax (1.45 percent) to all adjusted gross income.**

Currently this tax is paid only on earned income. Investment income is not taxed.
Revenue Impact in 2012: $38.1 billion[3]

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[1] House Energy and Commerce Committee and Families USA estimates

[2] This proposal is included in the current America's Affordable Health Choices Act of 2009

3. **Add an additional surcharge of 1.05% on earned income in excess of $200,000 for an individual and $250,000 for a couple.**

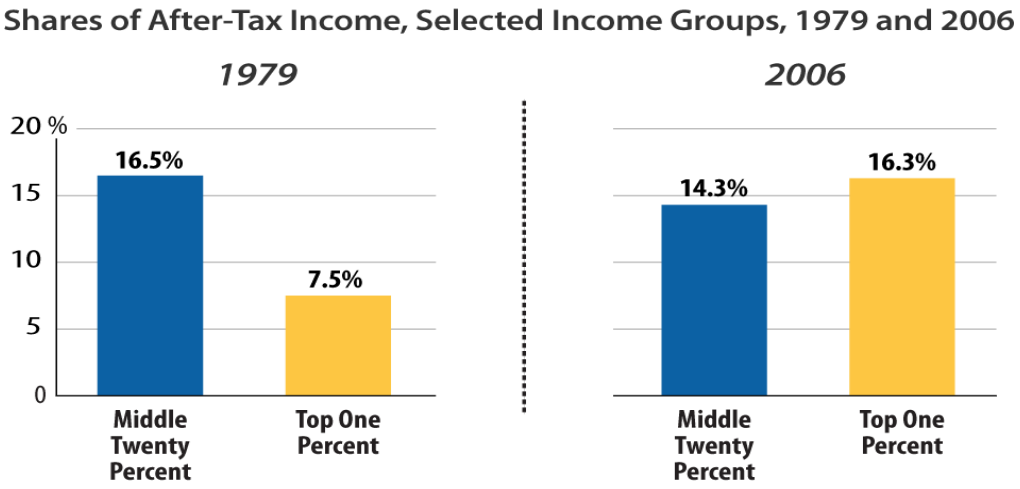
Revenue impact in 2012: $7.2 billion[4]

4. **Make both of the above changes in options 2 and 3, but exclude earnings under $50,000 (individuals) and under $100,000 (couples).**

Revenue impact in 2012: $44.7 billion[5] Individuals with the top 5 percent of income pay 80 percent of the cost in this option.

These proposals would provide the needed revenue to fund increased access to quality, affordable health care and would have the added benefit of correcting some of the imbalance created by tax changes of the last decade:

Over the last thirty years, the United States has witnessed a growing disparity in income. In 1979, the middle income quintile (20 percent) of households received 16.5 percent of the total U.S. income. By 2006, this share dropped to 14.3 percent. In 1979 the top 1 percent of income households received 7.5 percent of total U.S. income. By 2006, their share of total income grew to 16.1 percent.[6] See Graph below.



Tax cuts enacted since 2001 contributed further to growing income disparity. By 2006, the after tax income of the top 1 percent of households grew by 256 percent compared to 1979, while the after tax income of the middle quintile grew by only 21 percent over the same period. Further, the tax cuts enacted after 2001 contributed to 49 percent of the deficit in 2008[7]

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[3] Institute for Tax and Economic Policy tax model
[4] Ibid
[5] ibid
[6] Congressional Budget Office
[7] Center on Budget and Policy Priorities calculations based on Congressional Budget Office data

Limiting Preferential Treatment of Select Benefits:
The nation's current tax-related health insurance structure also produces inequitable benefits and benefits that are poorly targeted.[8] For example, higher income individuals receive most of the benefit of health savings accounts, flexible savings accounts, and employer-sponsored health insurance benefits. Because these benefits aren't taxed, they are, in effect, a tax subsidy that most favors those with the highest incomes. There is also some evidence that these benefits are inefficient, and sometimes encourage the purchase of unnecessary services[9].

Preferential treatment of healthcare benefits could be limited in ways that would generate revenue and yet protect middle and lower income households.[10] Changes in these benefits require more study and also have a smaller fiscal impact that those outlined above. They include: repealing Health Savings Accounts (Revenue impact in 2012, $1.1 billion[11]); Eliminate Flexible Savings Accounts (No revenue estimates available); and taxing some or all of employer-provided health care benefits (Revenue estimates vary according to whether some or all of these benefits are taxed).

Impact on Missouri: Missourians Can't Afford the Status Quo

Roughly 3.5 million residents have health insurance through their employer.[12] The average family premium is $12,925, about the same as annual earnings of a minimum wage worker. [13] Of the 13 percent of Missourians without insurance, 72 percent live in families with at least one full-time worker. [14] The opportunity to secure health care coverage is even more limited for those with lower incomes, pre-existing or chronic conditions.

In addition, Missouri ranks poorly in measures of health risks that could be ameliorated with adequate health care coverage, including smoking and obesity among children and adults. The legislature already cut more than 100,000 very low income Missourians from health care to balance the budget. Every day of delay puts Missouri families and economic vitality at risk.

Recommendations
The Missouri Budget Project recommends that the Congress present a financing proposal that is adequate to support the goals of health care reform, sustainable and equitable.

The Mission of the Missouri Budget Project is to advance public policies that improve economic opportunities for all Missourians, particularly low and middle income families, by providing reliable and objective research, analysis and advocacy. Contact the MBP through our website at www.mobudget.org

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[8] Paul Van de Water, *Limiting the Tax Exclusion for Employer-Sponsored insurance Can Help Pay for Health Care Reform.* Center on Budget and Policy Priorities, June 4, 2009. www.cbpp.org
[9] Ibid at 8.
[10] Ibid at 8.
[11] Congressional budget Office
[12] U.S. Census bureau, Current Population Survey, HIA-4 Health Insurance Coverage Status and Type of Coverage by State-all Persons: 1999-2007, 2007.
[13] Center for Financing, Access and cost Trends, AHRQ, Medical Expenditure Panel Survey-Insurance Component, 2006, Table X.S. Projected 2009 premiums based on Centers for Medicare and Medicaid Serivces, "National Health Expenditure Data," available at http://www.cms.hhs.gov/nationalhealthexpenddata.
[14] U.S. Census bureau, Current Population Survey, Annual Social and Economic Supplements, March 2007 and 2008.