

Paying for Healthcare Reform

Many of the controversial items being considered in the current healthcare reform debate, including how to pay for reform, are going to require tough political decisions, and quite frankly, more leadership than is currently being displayed. Politicians love to tell their constituents that they can fix all of their problems, and that they won't have to sacrifice anything in return. This is why politicians are so reluctant of the idea of taxing a portion of employer sponsored health benefits, even though many of them would agree that not only is it necessary in order to pay for reform, it would also help to lower the long term overall costs of health care.

The current tax treatment of employer sponsored health benefits is unfair to workers paying for their own health insurance, is extremely regressive, and leads to over consumption of healthcare which ultimately drives up the overall costs.

I don't like to pull out the "fair" card, but the inequity in the way that healthcare benefits are treated for tax purposes under the current system is hard to ignore. While the premiums paid for employer-sponsored health insurance are exempt from both income taxes and payroll taxes and the premiums of self-employed individuals are exempt from income taxes but not from payroll taxes, the premiums of those individuals paying for their own insurance through the individual market are exempt from income taxes only if they itemize their deductions and their medical expenses are more than 7.5 percent of their adjusted gross income (CBO). Whew, let me put that a little more simply: Joe who works for a large corporation doesn't pay taxes on his healthcare premiums, while Joe who works for a small business that doesn't provide insurance, does.

A Congressional Budget Office report analyzing different health reform proposals released late last year illustrates the disparity by comparing two workers who both received \$40,000 total compensation. The first receives \$5,000 of employment based health insurance, and the second pays \$5,000 for individual health insurance. The individual paying for their own insurance ends up paying \$1,407 more in taxes than the individual with employer sponsored insurance. To me, this is not fair.

The current system of taxing health care benefits is also tremendously regressive because the exclusion is worth much more to individuals in the higher tax brackets who, generally speaking, tend to have more generous benefits in the first place. Capping the tax break on these "gold plated" or "Cadillac" plans has the potential to raise significant revenues, helping to pay for an overall reform bill with minimal impact on the middle class and lower income Americans.

The current tax treatment of health insurance premiums also adds to the overall costs of healthcare through over consumption. Naturally, people favor compensation that is not taxed, which can lead to them purchasing more insurance than they actually need. Eliminating the tax exclusion on a portion of the most generous plans would raise the awareness of the costs of health insurance, and encourage some people to purchase less expensive health care.

There is no doubt that restructuring the current tax exemptions for health insurance premiums would raise the taxes of some middle class Americans, something that President Obama vowed not to do in last fall's campaign. Do I want to see middle class Americans pay more in taxes? No, I don't, but this must be weighed with the long term benefits they would see as part of reform that lowers the costs and improves the quality of healthcare for all American families.

In a perfect world, I would like to see all Americans receive equal tax treatment, and everyone would receive a 100% deduction on their health insurance premiums. But if America is going to see real reform it has to be paid for, and to pay for it I believe you have to cap the tax exclusion on health care benefits. This won't be easy, and is going to take political will and leadership.