October 13, 2009

Congress Is Split on Effort to Tax Costly Health Plans

By DAVID M. HERSZENHORN and ROBERT PEAR

WASHINGTON — A proposed tax on high-cost, or "Cadillac," health insurance plans has touched off a fierce clash between the Senate and the House as they wrestle over how to pay for legislation that would provide health benefits to millions of uninsured Americans.

Supporters, including many senators, say that the tax is essential to tamping down medical spending and that over 10 years it would generate more than $200 billion, nearly a fourth of what is needed to pay for the legislation.

Critics, including House members and labor unions, say the tax would quickly spiral out of control and hit middle-class workers, people more closely associated with minivans than Cadillacs.

The tax, a provision of the bill to be voted on Tuesday by the Senate Finance Committee, is one of the few remaining proposals under consideration by Congress that budget experts say could lead directly to a reduction in health care spending over the long term, by prompting employers and employees to buy cheaper insurance. Whether it remains in the bill is emerging as a test of the commitment by President Obama and his party to slowing the steep rise of medical expenses.

It is also a prime example of the major differences still to be bridged by Democrats as health care legislation advances to floor debate in both houses.

Under the Finance Committee bill, the tax would be imposed beginning in 2013 on employer- sponsored health plans with total premiums exceeding $8,000 for individuals and $21,000 for families, regardless of whether the coverage was paid for by the employer, the individual or both. The tax would be paid by insurers, who would be expected to pass along the cost to customers.

Critics say that would mean an increase in premiums or in out-of-pocket expenses for employees, raising medical costs for individuals and families.

Supporters say the more likely prospect is that employers would bargain-hunt or take other steps to avoid the tax, putting pressure on insurers to offer cheaper coverage and slowing the rise in medical costs for everyone.

In a preliminary estimate, the Congressional Joint Committee on Taxation calculated that absent any such employer efforts, 14 percent of family health policies and 19 percent of individual policies would be hit by the tax in 2013. By 2019, according to the estimate, 37 percent of family policies and 41 percent of individual policies would be affected. Those numbers rise over time in these calculations because although the initial tax threshold would increase with the economy's overall inflation, premiums would be expected to rise even faster.

Many Democratic senators, led by the Finance Committee chairman, Max Baucus of Montana, like the idea of the tax, and Mr. Obama embraced it in his speech to Congress on Sept. 9.

"This reform will charge insurance companies a fee for their most expensive policies, which will encourage them to provide greater value for the money," the president said then. "This modest change could help hold down the cost of health care for all of us in the long run."

Congress has also heard from many economists, Republicans and Democrats alike, who support the tax.

But House Democrats, led by Speaker Nancy Pelosi and Representative Charles B. Rangel of New York, the chamber's chief tax-writer, oppose the idea, as do labor unions and businesses. Ms. Pelosi last week floated the idea of taxing insurers' "windfall profits" as a possible alternative, to supplement the House's main revenue raiser, an income tax surcharge on the nation's highest earners.

At least 173 House Democrats, two-thirds of the party caucus, have signed a letter to Ms. Pelosi voicing opposition to the insurance tax .

"The tax, supposedly aimed at Cadillac health plans, would affect millions of middle-class people," said Representative Joe Courtney, Democrat of Connecticut. "The American people soundly rejected the idea when it was proposed by Republicans in elections last year."

Under current law, employer-paid premiums for health insurance are not taxable. Experts say this provides a big government subsidy for such coverage, and an incentive for businesses to provide better benefits in lieu of higher wages.

In an unusual alliance reflecting the shared interest of some unions and businesses on the issue, the A.F.L.-C.I.O. and the United States Chamber of Commerce are mobilizing opposition to the tax.

James P. Gelfand, senior manager of health policy at the Chamber of Commerce, said that if the tax is imposed, “employers will have to reduce wages or benefits or increase cost-sharing.” And, he said, “employees will blame employers, not the government.”

Leaders of organized labor, which in recent years has often negotiated for benefits in place of raises, descended on Capitol Hill last week to lobby against the tax, which could hit many health plans covering unionized workers. Larry Cohen, president of the Communications Workers of America, said at least half his members would be in health plans subject to the tax in 2013.

John P. Yrchik, executive director of the Connecticut Education Association, has lobbied Mr. Courtney and other members of the state’s Congressional delegation, noting that the tax would affect teachers in 30 percent of Connecticut towns. In some towns, Mr. Yrchik said, health insurance premiums for teachers’ family policies already exceed $25,000.

Aides to Mr. Baucus, the Finance Committee chairman, said the tax had numerous benefits, and predicted that employers and employees would shop for health plans to avoid it, forcing insurers to rein in costs.

They also cited projections by the Joint Committee on Taxation that about $142 billion of the 10-year total of $201 billion to be raised by the proposal would come from increased income and payroll taxes — evidence, they said, that workers would receive increased wages if employers spent less on health benefits.

But the same expectation that employers would adjust their health plans to avoid the tax was cited by some critics as a potential harm for workers.

“Employers and insurers will reduce their benefits to avoid paying the proposed tax,” said Representative Pete Stark, the California Democrat who heads the Ways and Means Subcommittee on Health. “As a result, middle-class families will be forced to pay more for health care.”

Some experts said that the tax was a complicated, backdoor way to tax employer-provided health benefits, and a number of them maintained that simply ending the tax exemption for such benefits would be a better approach.

Others said the tax would have an uneven impact, falling harder on businesses that, for instance, have older employees or are situated in high-cost regions.

Robert H. Dobson, an actuary at Milliman, an employee benefits consulting firm, said, “The high cost of so-called Cadillac plans has as much to do with the characteristics of the covered population as it does with the richness of the benefits.”