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Excise Tax Loses Support Amid White House Push

By ROBERT PEAR

WASHINGTON — An agreement to tax high-cost, employer-sponsored health insurance plans, announced with fanfare by the White House and labor unions last month, is losing support from labor leaders, who say the proposal is too high a price to pay for the limited health care package they expect to emerge from Congress.

But the White House is still urging Congress to adopt the excise tax as a way to help pay for President Obama's ambitious health care proposals.

With support for the tax eroding, Congressional leaders are searching for alternative sources of revenue.

The search has some urgency because Mr. Obama has said he hopes House and Senate Democrats can resolve their differences and come up with a final version of the legislation before he convenes a bipartisan meeting on the issue on Feb. 25.

When the tax agreement was announced on Jan. 14, White House officials described it as a breakthrough that would help clear the way for passage of sweeping health legislation.

Besides producing a substantial amount of revenue, they said, the excise tax on the most expensive insurance plans would slow the growth of health costs by giving consumers a powerful incentive to shop for cheaper policies.

Under the agreement, which builds on a provision in the larger health bill passed by the Senate on Dec. 24, the federal government would impose a 40 percent tax on the value of employer-sponsored health coverage exceeding certain thresholds. To win the endorsement of labor leaders, White House officials agreed to changes in the tax that would lessen its impact on workers, including union members with collectively bargained health benefits.

But labor leaders have backed away from the proposal in the wake of the special Senate election in Massachusetts.

“I do not believe there will be an excise tax enacted,” said Larry Cohen, president of the Communications Workers of America. “It appears that the administration and Congress will be taking a much more modest approach to health care reform. The cost and value of such reform would not justify using an excise tax.”

A wide range of House Democrats continue to criticize the tax as bad policy, even with the changes negotiated by labor leaders and the White House.

Moreover, House Democrats said, the tax is bad politics because it would set the middle class against the poor — people struggling to keep health insurance against people struggling to get it.

Revenue raised by the tax would help finance coverage for people who are uninsured.

Reid H. Cherlin, a White House spokesman, said he was not aware of any erosion in support for the tax among administration officials.

“The president,” he said, “continues to believe that charging insurance companies a fee for their most expensive polices — an idea that has the support of experts from both parties — will help achieve the core goal of health insurance reform: putting downward pressure on long-term health costs while ensuring that we aren’t placing new burdens on hard-working middle-class families.”

But as a practical matter, labor leaders said, the excise tax was killed by the election in Massachusetts, where the Republican candidate, Scott Brown, won the Senate seat long held by Edward M. Kennedy.

In opinion polls and in conversations with lawmakers, Massachusetts voters expressed deep hostility to the excise tax.

Members of union households voted for Mr. Brown over his Democratic opponent, Martha Coakley, according to a telephone poll conducted on election night for the A.F.L.-C.I.O. He won 49 percent of the vote from union households, while she got 46 percent, the survey found.

Michael A. Podhorzer, deputy political director of the A.F.L.-C.I.O., said Massachusetts should be a warning to Democrats, like “a canary in a coal mine.”

“Fully 42 percent of voters believed the health care bill would tax employer health benefits, and these voters supported Brown by two to one,” Mr. Podhorzer said.

Because details of the proposed tax were complex and continually changing, it was difficult for people to know whether they would be affected. Technically, insurers would be responsible for paying the tax, but economists say the cost would be passed on to workers.

Senator Kent Conrad, Democrat of North Dakota, supports the tax but said the outlook for it was “very cloudy.”

The House speaker, Nancy Pelosi of California, said, “The excise tax has no support, very little support, in our caucus.”

At meetings of the House Democratic Caucus, lawmakers from Massachusetts, including Representatives Edward J. Markey and Richard E. Neal, said they were struck by the vehemence of opposition to the tax in their districts.

Mr. Markey recalled that a constituent had poked him in the chest and said: “Eddie, I’ve voted for you my whole life. But if you think you will tax my benefits and give the money to Ben Nelson in Nebraska, you’re crazy.” Senator Nelson, Democrat of Nebraska, voted for the bill after it was rewritten to provide extra Medicaid money to his state.

Labor leaders described the excise tax as part of a deal that emerged last month from marathon negotiations with the White House. Other provisions, not made public at the time, included a national health insurance exchange, or marketplace, and tougher penalties on employers who do not offer insurance to their employees.

The Senate bill called for an insurance exchange in each state. But labor leaders and administration officials said a single national exchange could exert more power over insurance companies and provide better protection to consumers.

Under the Senate bill, if an employer with more than 50 workers does not offer coverage, and if any of its workers obtain subsidized coverage through an exchange, the company would have to pay a penalty — a tax — of up to $750 for each full-time employee. Labor leaders and White House officials agreed that the penalty should be increased to about $2,000 per employee.

Congressional Democrats have not agreed on a source of revenue to replace the tax on high-cost health plans. One possibility is to increase the Medicare payroll tax and extend it to some investment income, like dividends and capital gains. The payroll tax now applies only to wages.

In its annual report last week, the president's Council of Economic Advisers defended the excise tax. Insurers, they said, will hold down premiums to avoid the tax, and workers will get higher wages because their health benefits will cost less.

But Denise Mitchell, a spokeswoman for the A.F.L.-C.I.O., said it was more likely that insurers would reduce premiums by cutting benefits and by charging higher co-payments and deductibles.