

Talking Points on President Bush's Health Insurance Proposal

BACKGROUND

Employers are the primary source of health insurance in the United States today. More than 160 million people – approximately 60 percent of non-elderly Americans – rely on employer-sponsored coverage.

The President's plan would create a new tax deduction for people with health insurance worth \$7,500 for individuals and \$15,000 for families, regardless of the actual cost of the insurance. The Administration refers to this as a "standard deduction," creating confusion that it may be part of the current law standard deduction. It is not. It is a new deduction which is available to both itemizers and non-itemizers and is allowable in addition to otherwise allowable deductions.

In exchange for this new deduction, the President's plan would repeal several tax preferences for health expenses that exist today. Specifically, it would:

- Make employer-provided health insurance taxable income to workers;
- Eliminate the self-employed deduction for health insurance expenses;
- Eliminate the tax deduction for people who have spent more than 7.5% of their income on medical expenses (except for people age 65 and older); and
- Eliminate medical flexible spending accounts.

The only tax preference for health spending that would remain in law would be the pre-tax treatment of dollars put into Health Savings Accounts.

This will generally be a tax increase for anybody with a combination of employer-provided health insurance and out-of-pocket medical expenses in excess of \$15,000. The White House estimates that 20% of American people will immediately face a tax increase as a result of this policy. Over time, more people will see tax increases as the value of the deduction grows only with general inflation – not medical inflation which grows at a much higher rate.

TALKING POINTS

Bush's policy provides a much greater benefit to higher-income households, and will not benefit low-income families.

- 58 million Americans have no taxable income. A tax deduction approach is regressive. It is of little value to those with low-incomes and its value increases to workers as their incomes rise.
- For people without insurance, Bush's proposal provides much greater financial help to those with higher incomes and will not help lower-income uninsured gain coverage.

- The tax deduction being proposed by the President is equivalent to a “voucher” that can be used to purchase health insurance. The value of this voucher is nearly six times greater for higher income households than for low-income households. For example, a low-income person who was *previously uninsured* would receive \$1,200 (they only receive help from the payroll deduction as they pay no income taxes), hardly enough to purchase even the most basic insurance policy. In contrast, a higher income person who was *previously uninsured* would receive nearly \$6,000. The value of the voucher would be much less for people who have health insurance today.
- The Administration consistently overstates the value to low-income families. They assume that the employers will be generous and pass on their savings from the payroll tax exclusion to workers in the form of higher wages. There is no requirement they do so.
- Health Savings Accounts will continue to receive an extra tax incentive in that dollars put into those accounts will not be taxed. The people who can afford to put money into a health savings account are by definition people who are more well off.

This is a direct assault on employer-provided health care.

- The plan is effectively a cap on employer-provided coverage. Employers with older, sicker or endangered workforces (miners, steelworkers, auto-industry) pay higher insurance premiums not because they have “gold-plated” insurance, but because insurance companies charge them more for coverage. Those workers will face increased costs under the Presidents plan -- which could cause employers to drop coverage all together.
- Young healthy workers would have an incentive to purchase insurance outside of the employer’s plan, leaving only the older sicker workers in the employer risk pool. Ultimately, employer insurance would become unaffordable.

The proposal will increase costs to individuals and families.

- At a time when millions of people are struggling to afford the rising cost of medical care, the President is proposing to shift an even greater share of this cost to American families by pushing them into high deductible health plans and leaving them at risk for potentially unaffordable out-of-pocket costs.
- Over time, more people will see tax increases as the deduction grows only with general inflation – not medical inflation which grows at a much higher rate.

The President’s proposal discriminates against those who are sick.

- The individual insurance market discriminates against purchasers based on health status. Family history, genetic indicators, age and illness are all factors used by insurance companies to jack up rates or exclude coverage all together. Thus, people who are sick will face higher premiums and will pay more under the Bush plan.
- The President's definition of a "gold-plated health plan" appears to be anything that is not a high-deductible, catastrophic policy. If the President is successful, more people will be forced to pay an even greater share of their income to receive even the most basic medical care. This will shift a disproportionate amount of medical costs onto sick people, and at a time they can least afford it.
- Small businesses that currently offer health insurance to their workers would be less able to do so under the President's plan. If just one of their employees gets sick, the insurance premium would easily exceed the cap, thereby imposing tax penalties on all the workers or causing the small business to drop coverage all together.
- Any business that employs an at-risk workforce (considered more expensive by the insurance industry because of age, danger of their work, of illnesses associated with it) will find their premium costs increasing and thus their workers will pay more for their health care.

The President's proposal won't reduce the number of uninsured.

The Administration estimates their proposal will help only 3 million people who were previously uninsured, a minor drop in the bucket for the 47 million people who are uninsured today.

People who purchase the least amount of coverage will receive the greatest benefit.

- The tax benefit could far exceed the cost of health insurance for people who choose to purchase minimal coverage with a high deductible.
- Young, healthy workers will have an incentive to purchase only the most basic coverage, but if they are struck by an unexpected illness or injury, they will face high, out-of-pocket expenses which they may not be able to afford.
- Often unknown to purchasers, high deductible health plans typically exclude coverage for maternity care. Having to pay the cost of maternity care, labor, and delivery out-of-pocket could be financially devastating for a young couple.

President's plan will reduce people's Social Security benefits.

Because the deduction reduces people's wages by \$15,000 for Social Security benefit computation purposes, many people's future Social Security benefits will be reduced.