Obama-backed health bill: “Cadillac” tax to target one in five plans

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Following the US Senate’s Christmas Eve passage of the Patient Protection and Affordable Care Act, the House and Senate will now work to reconcile their two versions of health care legislation.

The Senate bill, broadly backed by the Obama administration, proposes billions of dollars in cuts to the government-run Medicare program while ensuring the profits of the giant insurers and pharmaceuticals. Its provisions will result in reductions in care for tens of millions of Americans.

One of the components of the $871 billion Senate bill is an excise tax on so-called “Cadillac” health plans. Christina Romer, chair of the administration’s Council of Economic Advisers, has described this tax as “probably the number one item that health economists across the ideological spectrum believe is likely to stem the explosion of health care costs.”

It is highly likely that the Cadillac tax will be included in the final version of legislation that Obama expects to sign into law before the end of January. The measure got its nickname last summer, when Obama said it would be applied to high-priced “super, gold-plated Cadillac plans.” Obama senior adviser David Axelrod told the *New York Times* that the administration wanted to take aim at benefits “like the ones that the executives of Goldman Sachs have, the $40,000 policies.”

In reality, the Cadillac tax is not about going after Wall Street executives. It is, rather, a measure that will target millions of ordinary Americans, resulting in scaled-back benefits and increased co-payments and deductibles. As with other provisions in the Senate health care bill, the Obama administration supports it precisely for these cost-cutting features.

Under the provision, beginning in 2013, a 40 percent excise tax will be imposed on health care plans exceeding $23,000 annually for family coverage and $8,500 for individuals. According to the Congressional Budget Office, within three years of its implementation, the tax will affect nearly 20 percent of all workers with employer-provided health coverage, or some 31 million people.

The Congress’s Joint Committee on Taxation (JTC) estimates that within six years, the Cadillac tax will apply to about a fifth of all households earning $50,000 to $75,000 annually—hardly a “fat cat” demographic.

Supporters of the measure say the excise tax will raise nearly $150 billion over 10 years. These savings, however, are not expected to come, in the main, from tax revenues.

In a column in Tuesday’s *New York Times*, Bob Herbert explains: “The dirty little secret behind this onerous tax is that no one expects very many people to pay it. The idea is that rather than fork over 40 percent in taxes on the amount by which policies exceed the threshold, employers (and individuals who purchase health insurance on their own) will have little choice but to ratchet down the quality of their health plans.”

On the chopping block will be coverage included in these more expensive plans, including dental and vision care, comprehensive mental health care, and other vital services.

Proponents of the tax argue that the measure will mainly affect plans that offer “excessively generous” coverage to highly compensated employees. However, Beth Umland, research director of Mercer, an employee benefits consulting firm, told *Politics Daily* that it is likely to have the greatest impact on people utilizing the most health care, like new mothers and the chronically ill, as well as those who can least afford it.

Umland commented, “The lowest-paid workers tend to choose the most generous plans because they can't afford the out-of pocket expense of a higher deductible." A study by the policy journal *Health Affairs* also found that higher cost plans are often driven by demographic factors, such as the age, overall health or the propensity for accidents of its beneficiaries—and not so-called overutilization, as claimed by White House advisers.

Recent news reports profile the type of workers who will likely be affected by the Cadillac tax. The *Bulletin* of Bend, Oregon, cites the case of 52-year-old Mary Maddux, who is retiring this month from her $18,000-a-year job as a bus driver for Bend-La Pine Schools.

Ms. Maddux pays about $430 each month for her coverage. Her employer, the school district, contributes about $920 a month, bringing the total cost of her individual health policy to about $16,000 a year. Her plan includes a relatively low $5 co-pay, most prescription drugs cost her $15 or less, and she can see a specialist without getting a referral. Alternative therapies such as acupuncture and naturopathy are also covered.

She is already struggling to pay her share of the monthly premium. Under the Senate health bill, Maddux and her co-workers would likely be charged an additional $3,000 each year if their employer continued to offer the plan in its current form.

Denise Hall, deputy administrator for the Oregon Educators Benefit Board, told the *Bulletin* that most of the health insurance plans offered to the state's school employees would be affected.

Politics Daily says that Jim Huber, 59, would also be hit by the tax. Huber, a member of the United Steel Workers, makes a base salary of $42,000 as an electrician in a steel mill. The present health care benefits of all the workers in his mill would be subject to the Cadillac tax, and they could expect to either pay to cover the tax or see their benefits cut.

In fact, the Joint Committee on Taxation estimates that less than 18 percent of the projected $150 billion in savings will come from taxes levied on the Cadillac plans. The majority of employers will choose to cut workers' benefits rather than pay the surtax.

In a bit of fancy bookkeeping, the JCT also claims that the remaining 82 percent—or about $125 billion—in savings will come as a result of employers giving their workers raises to compensate for their reduced health benefits.

Bob Herbert notes in his column that supporters of the Cadillac tax claim that these funds are expected to "come from the income taxes paid by workers who have been given pay raises by employers who will have voluntarily handed over the money they saved by offering their employees less valuable health insurance plans."

The experience of millions of workers testifies to the farcical nature of such a claim, and a recent study by the consulting firm Mercer bears this out.

In November 2009, Mercer surveyed 465 employer health plan sponsors on how they expected to respond to the imposition of an excise tax on employee benefits. Sixty-three percent of employers surveyed said they would reduce health plan costs to avoid reaching the threshold for taxation.

Of those cutting benefits, 75 percent said they would increase deductibles and co-pays. Only 16 percent of respondents said they would convert their cost-savings into higher pay for workers.