

# CWA's Health Care Reform Priorities



## CWA Legislative Fact Sheet

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### Overview

The Communications Workers of America broad principles for health care reform are that it should guarantee everyone quality affordable health care with comprehensive benefits; let workers keep the health coverage they currently have; significantly control costs; provide for a strong government role, especially with respect to enforcing the rules by which private insurance companies operate; improve quality; and be based on progressive financing.

The following are CWA's four specific priorities that will help achieve our principles for reform:

#### 1. Employers should be responsible for covering their workers.

To guarantee quality affordable health care for all we need to build on our current employer-based system by having employers cover their workers or else contribute to a public trust that covers those without employer coverage.

- Currently, 160 million workers and their dependents are covered by their employers. This will allow CWA members to keep the health care benefits and insurance plans that we have won through collective bargaining.
- The playing field will be leveled between those employers who provide good benefits and those who do not. Corporate freeloaders will be stopped – those businesses whose workers are covered as dependents or spouses by responsible firms.
- Costs will be significantly reduced for employers who currently provide coverage, as well as for their workers.
- To make coverage affordable subsidies will be needed for lower-wage small businesses and low-wage workers.

#### 2. Guarantee coverage for pre-Medicare retirees.

Many workers lose their job or retire early because of layoffs, forced buy-outs and medical conditions or because it's a negotiated benefit. There are real concerns that the country's economic woes could accelerate the trend of employers to drop coverage for those who are 55 to 64 and retired. They need to be guaranteed quality affordable coverage like everyone else.

- There are 3.2 million people aged 55-64 who are retired but not yet eligible for Medicare (age 65) who currently have employer-provided coverage. They are at great risk of losing their health benefits when they need them the most.

- Health care for pre-Medicare retirees is very costly and many corporations are either eliminating it or significantly limiting it.
- More employers may drop coverage for this population group unless measures are put in place to make coverage more affordable.
- There are options for ensuring that employers continue to provide coverage for this population group:
  - Allow employers of any size to buy into Medicare or to insure their pre-Medicare eligible retirees through a national health insurance exchange, which would offer a choice of private and public health insurance plans.
  - Subsidize employers who offer retiree coverage, similar to what is done under the Medicare Part D prescription drug program.
  - Have the government provide catastrophic reinsurance to cover the costs of high-cost patients.

### **3. Guarantee people a choice of private and public health insurance plans.**

Everyone should be able to select from several private health plans, as many can do now through their employer, and have the option of choosing a public health insurance plan similar to Medicare.

- Public health insurance plans control costs much better than private health insurance companies because of reduced administrative costs and stronger bargaining power with providers.
- A public health insurance plan will create competition in a private insurance market that is highly concentrated today.
- A public health insurance plan will give consumers another insurance choice, provide a wide choice of providers, and provide a guaranteed backup so that everyone can obtain quality health care.

### **4. Do not tax the health care benefits of working families.**

Making employer-provided health benefits part of taxable income will be a huge tax increase on workers and employers, penalize those who already have insurance, and force many people to lose health coverage.

- Fully taxing health care benefits will amount to a \$1 trillion tax increase over the next four years on workers and on employers who already provide coverage.
- Taxing health benefits will result in more uninsured people as employers and workers drop coverage due to rising costs.
- There are fairer ways to raise revenues:
  - President Obama proposed raising \$634 billion over ten years mostly by negotiating lower drug prices, cutting payments to private insurers in the Medicare program, and modestly increasing the taxes paid by families earning more than \$500,000 a year.
  - A trillion dollars over 10 years can be raised by expanding the Medicare tax to the non-wage income of the wealthy, reducing the tax subsidy for capital gains and dividends, eliminating other Wall Street subsidies and reducing tax incentives to invest offshore.

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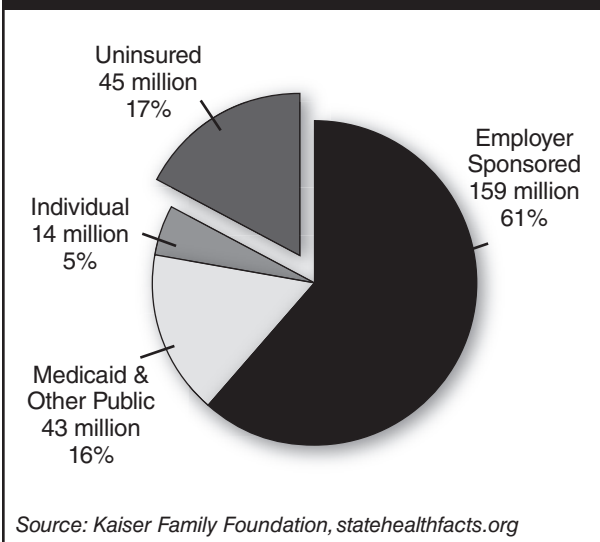
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# Priority One: Employers Should Be Responsible for Covering Their Workers

**E**mployers' response to rising health care costs has been to drop coverage, reduce benefits and shift costs onto employees. This strategy has failed to stem the rise in costs or in the number of uninsured.

To guarantee quality affordable health care for all we need to build on our current employer-based system by having employers cover their workers or else contribute to a public trust fund that covers those without employer coverage. Subsidies will be needed for lower-wage small businesses to help them afford coverage.

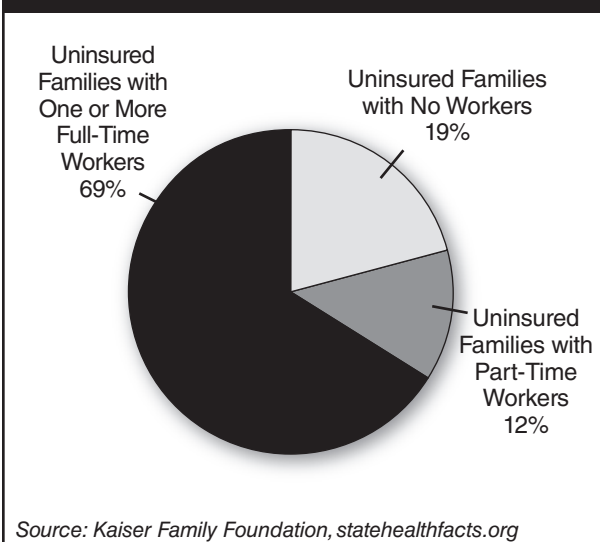
## Health Insurance Coverage of the Non-Elderly (0-64 years) — 2008



## Employers already cover most non-elderly Americans

- Virtually all seniors 65 and older are covered by Medicare.
- 61% of those under 65—159 million out of 261 million—are covered through their own employer or a family member's employer.
- 21% or 57 million people are covered by public health insurance plans such as Medicaid or are individuals with private insurance.
- 17% or 45 million people don't have any coverage at all.

## Uninsured by Family Work Status — 2007



## Requiring all employers to provide coverage will significantly reduce the number of uninsured

Requiring all employers to provide coverage or to pay into a public trust fund would cover most of the uninsured:

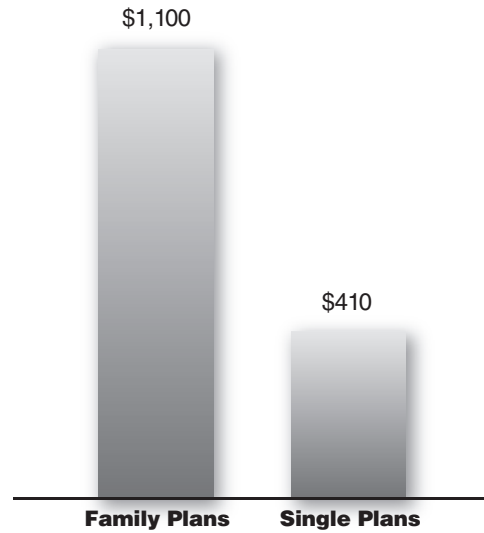
- 69% or 31 million of the uninsured already live in families with at least one full-time worker.
- 12% (5.4 million) live in families with part-time workers.
- 19% (8.4 million) live in families with no workers.

Employers should be required to cover part-time workers based on the amount of time they work. Low-income families and families with no workers or with part-time workers should receive subsidies on a sliding scale to make coverage affordable.

## Requiring employers to cover their workers will reduce premium costs for everyone

Uninsured people (mostly lower-income workers) use the health care system when they are sick or injured. Often they pay part of these costs, sometimes bankrupting their families. Various government programs also pick up some of the tab. But the rest of the bill is built into the insurance premiums paid by individuals and employers.

### Costs of the Uninsured Passed on to Health Care Premiums — 2009

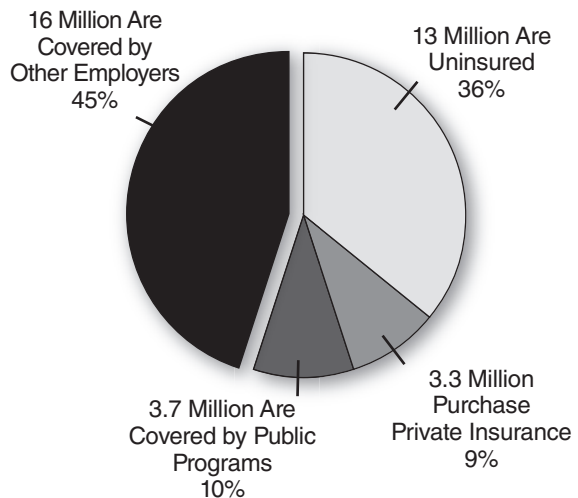


Source: Center for American Progress, "The Cost Shift from the Uninsured," March 24, 2009.

## Requiring employers to cover their workers will prevent free-loading by companies that don't provide coverage

- There are 36 million workers not insured by their own employer.
- 45% of them (16 million) are insured through their partners' employers.
- It costs responsible employers **\$31 billion a year in extra costs to cover those workers who are employed elsewhere.**

### Health Care Coverage of Employees Not Insured by Own Employers — 2005



Source: S.R. Collins, K. Davis, and A. Ho, "A Shared Responsibility: U.S. Employers and the Provision of Health Insurance to Employees," Inquiry 42 (Spring 2005), pages 6-15.

### Estimated Taxpayer Expenditures for Medicaid Recipients in Working Families

	Medicaid Population	Average Per Capita Spending	Medicaid Expenditures
<b>Working adults</b>	8.1 million	\$2,102	\$17 billion
<b>Children in working households</b>	16.3 million	\$1,617	\$26.4 billion
<b>Total</b>	<b>24.4 million</b>		<b>\$43.4 billion</b>

Note: The latest available figures on the Medicaid population are for 2007. The latest figures on Medicaid expenditures are for 2005, which authors updated to 2007.

Sources: 2007 Consumer Population Survey, March 2008; Medicaid Statistical Information System.

### Requiring employers to cover their workers will prevent freeloading by companies on public health plans like Medicaid

24.4 million adults and children receiving Medicaid live in working families. Instead of obtaining coverage through their employers, they rely on Medicaid. Taxpayers provide an estimated \$43 billion a year to cover them. Requiring employers to either cover their employees (and their dependents) or pay into a public trust fund to provide coverage would stop this shifting of costs onto taxpayers.

### AT&T and Verizon Savings if All Employers Provided Coverage and the Uninsured Were Covered

Category	AT&T Savings	Verizon Savings
<b>Up to 8% saved by not having to cover other employers' workers</b>	\$440 million	\$378 million
<b>Up to 3% saved by reduced premiums that no longer include costs of the uninsured</b>	\$165 million	\$141 million
<b>Total Savings</b>	<b>\$605 million</b>	<b>\$519 million</b>

Note: Total 2008 health care expenses at AT&T for management and non-management were \$5.5 billion. Total expenses for non-management at Verizon for 2006 were \$4.2 billion. This figure was adjusted for 2008 by taking into account the percentage increase in average health care premiums for large employers for 2007 and 2008.

Sources: Total health care expenses at AT&T for 2008 and at Verizon for 2006 provided by the companies to CWA. Verizon figures were adjusted using data from the Kaiser Foundation, "Employer Health Benefits: 2008 Annual Survey," p. 30. Percentage savings for employers from not having to cover other employers' workers and from reduced premiums due to no longer including the costs of the uninsured are from James Winkler, "Testimony on Behalf of Hewitt Associates LLC," to the U.S. House Committee on Education and Labor, March 10, 2009.

### AT&T and Verizon would save a combined \$1.2 billion a year if all employers provided insurance and the uninsured were covered

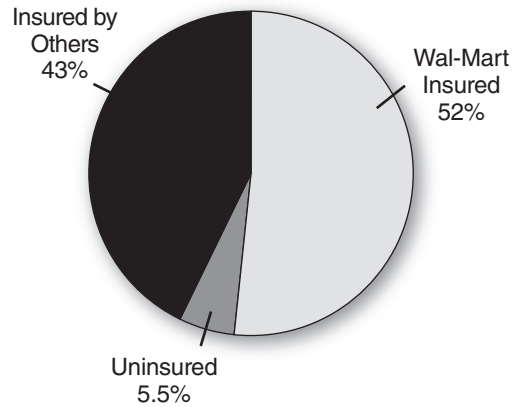
Requiring all employers to cover their own workers would save \$31 billion for employers that currently provide health care benefits. Billions more would be saved from reduced premiums that no longer include the costs of the uninsured. AT&T and Verizon provide examples of such savings.

**Companies like Wal-Mart would no longer be able to freeload on other employers and the public**

Wal-Mart is a prime example of how a large employer can shift the responsibility and cost of health care coverage onto others.

- Wal-Mart only covers 733,000 workers or 52% of its workforce. The average for employers with more than 5,000 workers is 64%.
- Approximately 604,000, or 43%, of Wal-Mart's workers are covered by other sources such as public health plans like Medicaid or by other companies when their employees claim Wal-Mart employees as spouses or dependents.
- Wal-Mart tops the list of companies with the most employees enrolled in state-funded health care programs in every one of the 24 states that collects such data.

**Source of Health Insurance Coverage for Wal-Mart Employees — 2008**

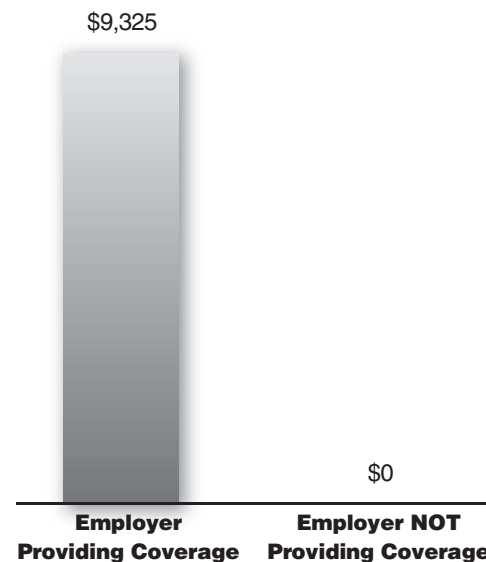


Source: Washington Post, 2/13/09; NY Times 2/13/08; Kaiser Family Foundation, "Employer Health Benefits, 2008 Annual Survey;" Wal-Mart Watch, 2/13/09.

**Requiring all employers to provide health care would level the playing field between those that do and those that don't**

Firms that do not pay for health insurance have a significant competitive advantage over firms that do provide insurance. The average cost of health benefits in 2005 (the latest year available) was \$2.59 per hour for employers who provided individual coverage and more than \$6 per hour for family coverage. Health care costs account for 11% of payroll for employers who provide benefits giving any competitor that does not provide such benefits a major cost advantage.

**Average Cost of Family Coverage for Employers — 2008**



Source: Kaiser Family Foundation, "Employer Health Insurance Costs and Worker Compensation," March 2008; Kaiser Family Foundation, "Employer Health Benefits, 2008 Annual Survey."

## **Health care reform should make health insurance affordable to small businesses**

- 13.2 million workers employed in firms with less than 100 employees are uninsured.
- The most important reason cited by small firms (48%) for not providing insurance is the cost of premiums.
- As a candidate, Barack Obama identified a number of ways to help make health insurance affordable to small businesses including:
  - A refundable Health Care Tax Credit of up to 50% on health care premiums paid by small businesses. To qualify a small business would have to offer a quality plan and cover a meaningful share of employee premiums.
  - Creating a national health insurance exchange, which would allow firms to insure their workers through a public health insurance plan, which would have lower administrative costs and greater bargaining power with providers, or through private health plans, which would pool many participants together to reduce insurance costs on any one company.
  - Reimburse plans for a portion of any catastrophic health care costs in the event of an employee's serious illness or injury.

*Source: Kaiser Family Foundation, "Employer Health Benefits, 2008 Annual Survey"; Kaiser Family Foundation, The Uninsured: A Primer, Supplemental Data Tables, October 2008; Obama-Biden Campaign, "Senator Barack Obama Announces Plan to Provide a New Health Care Tax Credit for Small Businesses," July 13, 2008.*

## Priority Two: Guarantee Coverage for Pre-Medicare Retirees

There are two sets of retirees: those who are and who are not eligible for Medicare. At a number of CWA's large employers "wrap around" benefits for Medicare-eligible retirees (those over 65 years of age) have been negotiated. These retirees get the basic Medicare package and the company pays for the cost of the additional health care benefits we have won.

However, companies are increasingly reducing or eliminating retiree coverage. Pre-Medicare eligible retirees are much more vulnerable since their medical costs are high, Medicare does not cover them and finding work with health care benefits is difficult at their age.

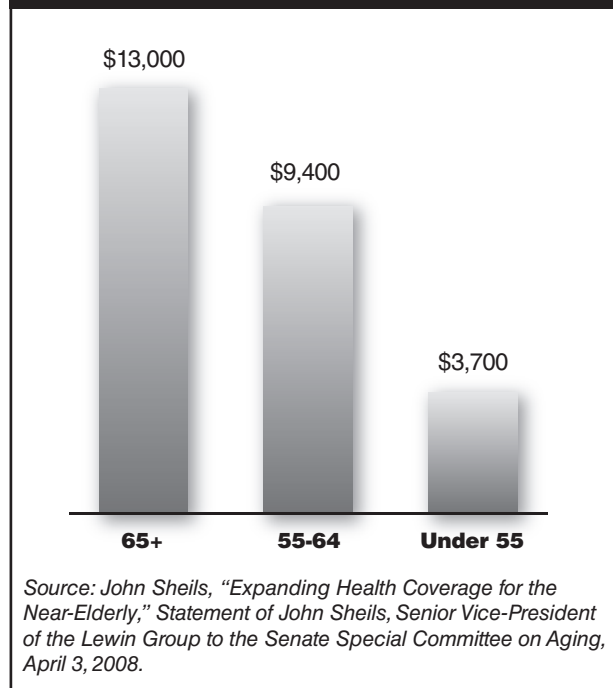
Health care reform must guarantee that all retirees not experience a decline in the level of their benefits. For Medicare-eligible workers this is not a problem if employers continue to provide "wrap around" coverage. There are policy options to cover pre-Medicare retirees; this needs to become a priority in the drafting of health care legislation.

### Health care costs for people over 55 are high

It is much more costly to provide health care for people older than 55 because they have more chronic diseases that are expensive to treat.

The average annual health care cost for people 55 to 64 is 2½ times greater than spending for those under 55—\$9,400 a year compared with \$3,700 a year.

**Average per Person Total Spending on Health Care — 2007**



**Cost of Health Care at Verizon (East) — 2006**

	Active Workers (All Ages)	Medicare Eligible Retirees (65 and older)	Pre-Medicare Retirees (55 to 64)
Individual	\$5,200	\$5,700	\$10,300
Plus 1	\$10,400	\$11,300	\$20,600
Family	\$12,900	\$17,000	\$26,000

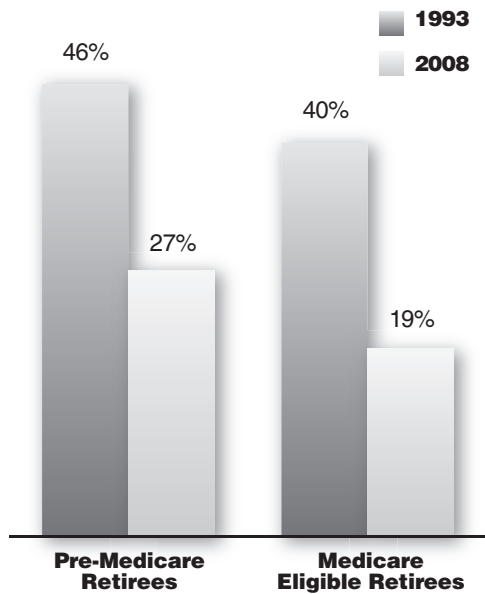
Source: CWA Research Department

**Pre-Medicare retirees are the most expensive group to cover for employers**

The highest cost age group for employers to cover is pre-Medicare retirees between 55 to 64 years old. It costs Verizon twice as much to cover these retirees as it does to cover active workers.

Medicare retirees cost much less because the government pays for most of their health care. CWA has been able to get Verizon to pay for supplemental benefits that are in addition to the basic benefits that Medicare provides.

**Coverage for Retirees at Large Companies (500 or more employees)**



Source: Mercer's National Survey of Employer-Sponsored Health Plans, Figure 7, 2008.  
[www.mercer.com/summary.htm?siteLanguage=100&idContent=1328445](http://www.mercer.com/summary.htm?siteLanguage=100&idContent=1328445)

**Many companies are eliminating retiree health coverage**

Corporations have been drastically reducing retiree coverage in recent years due in part to escalating costs and the fact that non-union competitors offer fewer benefits.

## Some CWA employers are cutting retiree coverage

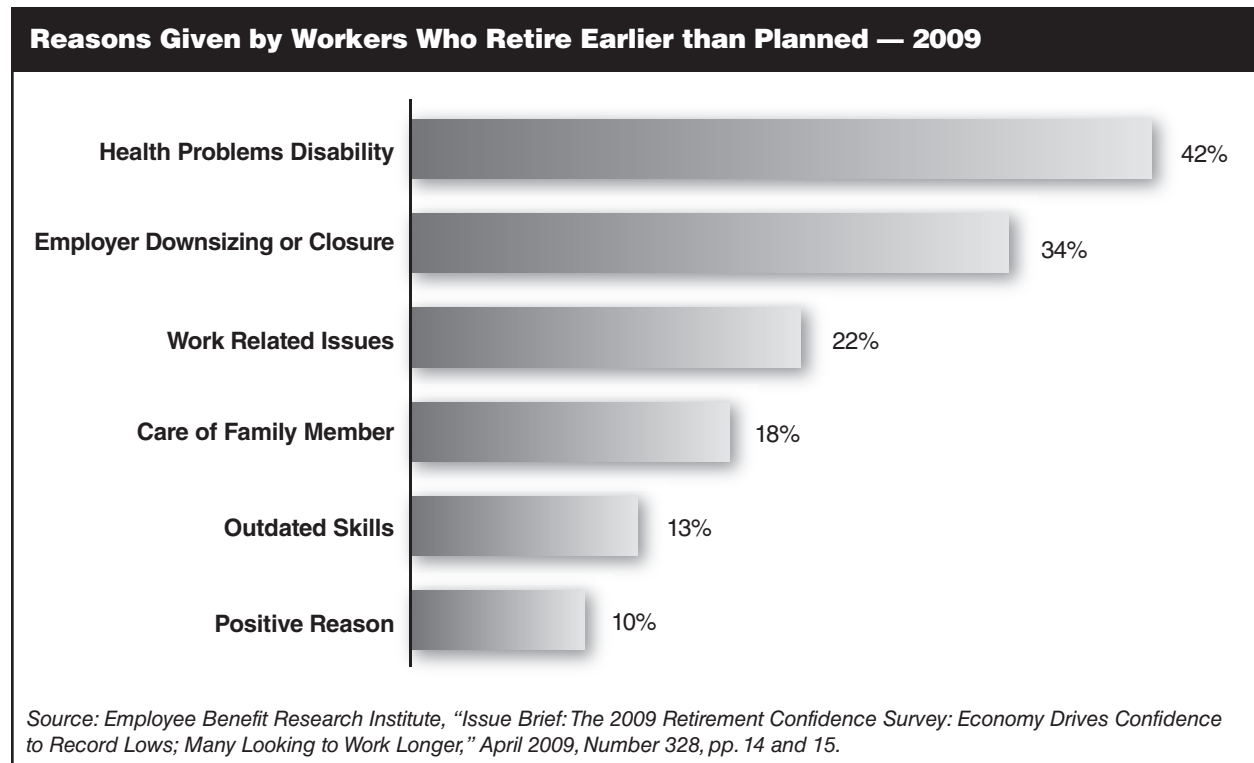
It is difficult enough to negotiate and maintain health care benefits for CWA's active members. It is even more difficult to maintain health benefits for retirees—especially because by law, retiree benefits are not a mandatory subject of bargaining.

- **Verizon (East):** Although CWA has been able to maintain low health care costs for active members compared with other employers, new hires will receive a *one-time* cash benefit equal to \$430 per year of service for retiree health care. After 30 years of service that's worth \$12,900, barely enough to buy a one-year policy *today*.
- **AT&T:** During 2009 negotiations management has proposed to increase by two to three times the amount that employees pay for health care in 2010. Management also has refused to negotiate over retiree health benefits.
- **Cincinnati Bell:** The company no longer provides retiree health benefits to those 65 and older who are covered by Medicare. For retirees who are 65, the company will pay up to a cap, equal to 2009 costs, but no more. Retirees must pay all costs over the cap.
- **Embarq:** The company no longer offers benefits to retirees over 65.

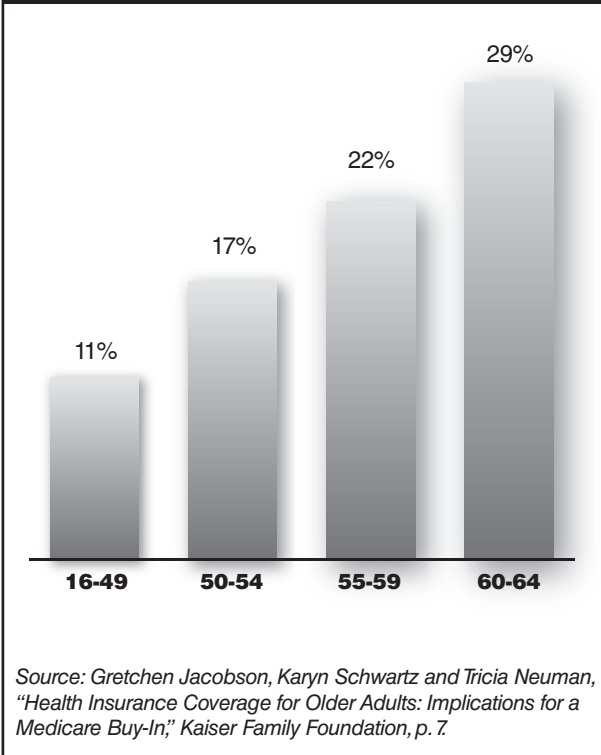
Source: CWA Research Department

## Most workers retire earlier than planned because they have to

Almost half of retirees (47% in 2009) leave the work force earlier than planned. **Only 10% of workers surveyed offer only positive reasons for early retirement.**



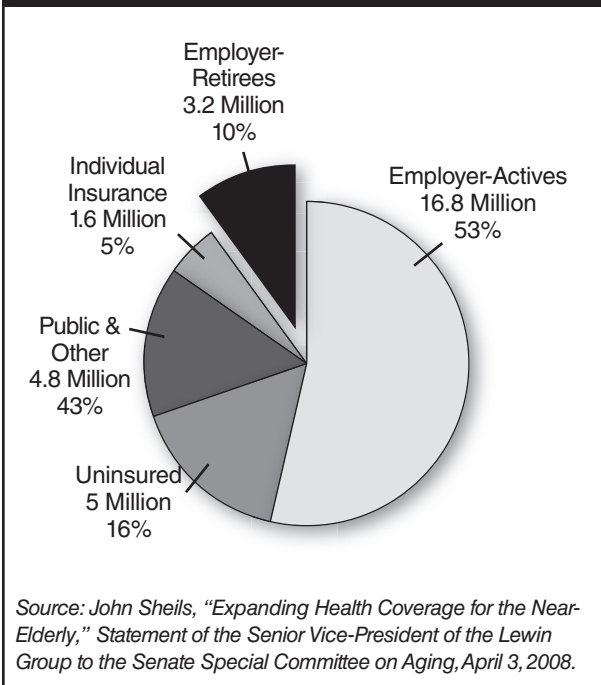
**Denial Rates for Insurance Coverage by Age Group — 2006**



**Insurance companies deny coverage for people age 55-64 more than any other age group**

Insurance companies deny coverage to older adults more than to any other age group because medical problems tend to increase with age.

**Primary Source of Health Insurance for People Age 55-64 — 2005-2007**



**Health care reform must help pre-Medicare retirees who account for only 10% of the 55-64 age group**

The requirement that employers either provide health care for their employees or pay into a public fund that would cover the uninsured would ensure that 90% of the 55-64 age group would obtain health insurance. However, the 3.2 million, or 10%, who are retirees that obtain health care coverage from their former employers face a substantial risk that they will lose their coverage with or without health care reform. The cost of individual insurance would be prohibitive for most, and it would be difficult to find a new job with good benefits at that age.

## There are options for providing support to employers to cover pre-Medicare retirees

CWA has worked tirelessly over the years to secure good benefits for retirees. We want to preserve those benefits by helping Congress to craft a proposal for pre-Medicare retirees whose coverage is most in jeopardy with employers. Ultimately, the legislation may include several approaches. Here are some being considered:

- **Medicare or public health insurance plan buy-in:** Allow employers of any size to buy into Medicare to cover their per-Medicare eligible retirees, or allow them to insure their pre-Medicare retirees through a national health insurance exchange, which would offer a choice of private and public health insurance plans.

This proposal would result in substantial savings since Medicare costs per enrollee, while increasing, are rising at a much lower rate than private insurance and employer-sponsored plans. This is due to Medicare's lower administrative costs and larger price discounts negotiated with providers. A new public health insurance plan should be able to achieve the significant cost savings that Medicare gets compared with private insurance.

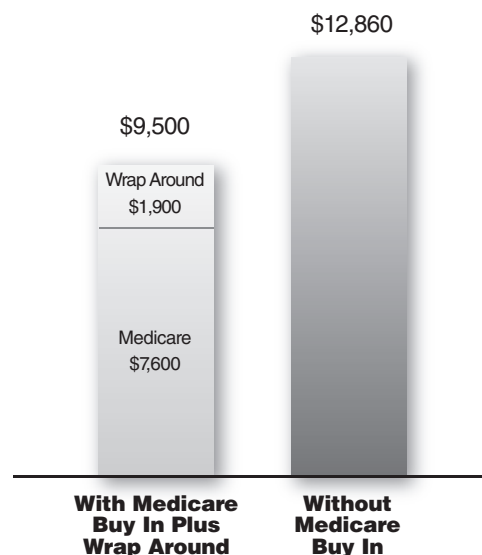
- **Subsidize employers who offer retiree health coverage:** Under the Medicare Part D prescription drug program, employers are eligible to receive a 28% subsidy for some of the costs of covering prescription drug benefits. This provision was enacted as an incentive to keep employers from abandoning their prescription drug coverage. A similar incentive could be considered for retiree health benefits.

- **Catastrophic reinsurance:** The government would pick up the cost of coverage for an individual's care that exceeds a certain high amount in a year, for example, \$50,000. The reinsurance would provide cost relief to employers who offer retiree health insurance because such high costs are typically incurred by older workers.

## Allowing people aged 55-64 to buy into Medicare would save some employers huge sums

A Medicare buy-in would result in substantial savings to employers who cover pre-Medicare retirees. Medicare's costs per enrollee are rising much slower than private insurance or company self-insurance costs because Medicare has much lower administrative costs and negotiates much lower prices with hospitals and doctors. For example, with a Medicare buy-in, CWA estimates Verizon would save \$3,360 for each pre-Medicare eligible retiree or \$122 million in 2011. This includes its costs for a "wrap-around" that would maintain current benefit levels. (This estimate assumes that the number of early retirees at Verizon remains at the 2007 level.)

### Cost to Verizon for Each Pre-Medicare Retiree with Single Coverage With and Without a Medicare Buy-In — 2011 projection



Note: The cost of Medicare in 2011 was developed by the Congressional Budget Office. It was assumed that Verizon's wrap around would cost an additional 25% instead of the average 15% difference between Medicare and the typical employment-based insurance plan for the non-elderly population. Verizon's cost without reform was based on adjusting Verizon's 2006 premium by actual and projected annual premium inflation figures.

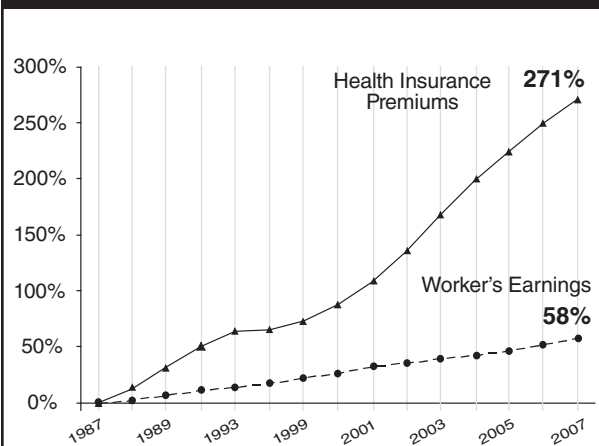
Source: Congressional Budget Office, Key Issues in Analyzing Major Health Insurance Proposals, December 2008; CWA Research Department calculations.

## Priority Three: Guarantee People a Choice of Private and Public Health Insurance Plans

The current system is failing to control costs and insurance company abuses. In their search for profits, insurance companies routinely deny or delay care to those who need it. Meanwhile, CWA members do not want to lose the good benefits we have, but we also want more health care choices.

These issues can be addressed by guaranteeing a choice between private insurance plans and a public health insurance plan similar to Medicare. Workers should be able to continue to get good coverage from their employers as they do now, and have the option of choosing a public health insurance plan if they wish. Both private and public plans would have to provide a standard comprehensive benefits package with a wide choice of doctors.

### Increases in Health Insurance Premiums and Workers' Earnings — 1988-2007

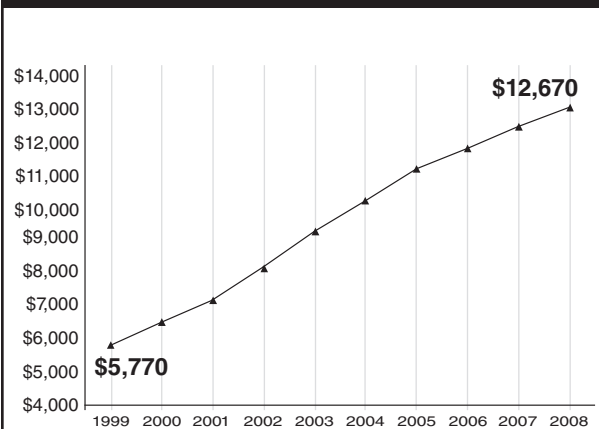


Source: Kaiser Family Foundation, "Employer Health Benefits: 2007 Annual Survey."

### Corporations have failed to control the rise in health care costs

Over the last two decades health insurance premiums have increased more than 270% while wages have increased only 58%. Adjusting for inflation, wages have remained flat. Corporations have successfully held down wages (one of the reasons for our current economic crisis) in part because they spent more and more for workers' health insurance premiums.

### Average Annual Premiums for Covered Workers with Family Coverage — 1999-2008



Source: Kaiser Family Foundation, "Employer Health Benefits: 2008 Annual Survey," Exhibit 1.9, p. 30.

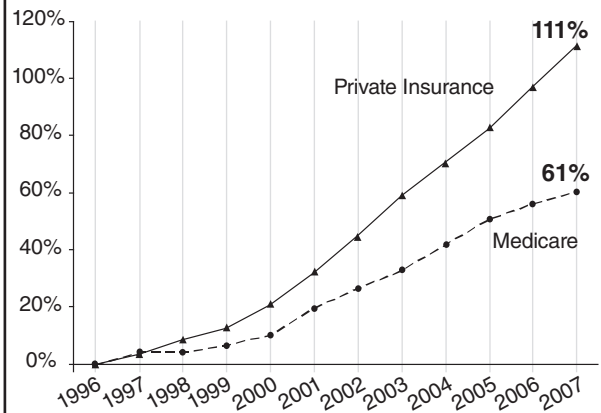
### Private health insurers have failed to contain skyrocketing health care costs

The average annual cost of covering workers has increased by 120% over the last nine years, or by 13% a year. That's four times the rate of inflation.

## Public health insurance plans control costs much better than private plans

Medicare, a public health insurance plan, has been much more successful at controlling costs than private insurers. The chart looks at the cumulative annual growth rates in per enrollee Medicare and private health insurance costs from 1997-2007. The cumulative growth rate per enrollee for private insurance was 111% while Medicare's was only 61%.

### Cumulative Growth in Per Enrollee Payments by Medicare and Private Insurers — 1997-2007



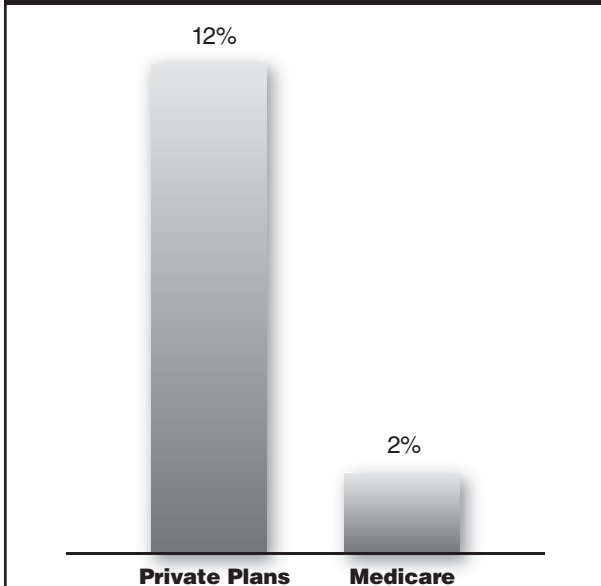
Payment data is for comparable services

Source: Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group, "National Health Expenditures," Table 13, 2008.

## A public health insurance plan has much lower administrative costs

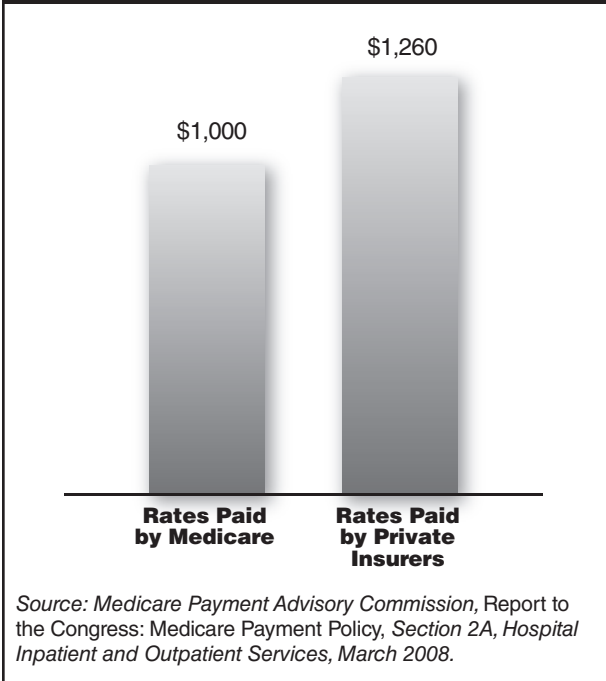
Administrative costs include the cost of administration, marketing, executive salaries and profits. Private insurance companies have very high administrative costs relative to public insurance plans such as Medicare.

### Administrative Costs for Medicare and Private Insurance Companies — 2006



Source: Congressional Budget Office, Key Issues in Analyzing Major Health Insurance Proposals, December 2008.

**Hospital Rates Paid by Medicare and Private Insurance Companies — 2006**

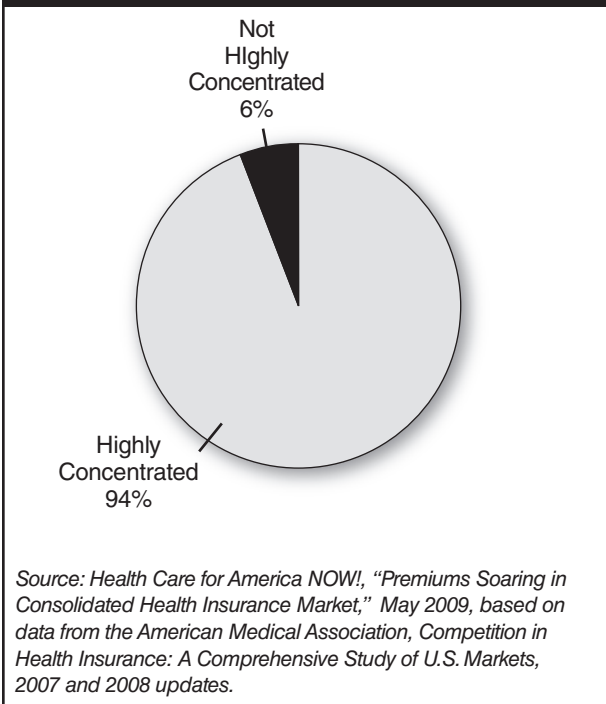


**Public health insurance plans have greater bargaining power to control costs**

Medicare uses its leverage to get lower rates from hospitals and physicians than private insurance companies. A new public health insurance plan for people under 65 will have the power and incentive to re-shape market practices to reduce costs and promote greater efficiency and higher quality. This would provide an important incentive for private insurers to become more efficient and to bargain more effectively with hospitals and doctors.

As the chart shows, for every \$1,000 paid by Medicare to hospitals private insurers pay \$1,260 for comparable services.

**Percentage of Statewide Health Insurance Markets Deemed “Highly Concentrated”**



**A public health insurance plan will insert competition into the highly concentrated private insurance industry**

The private health insurance industry is highly concentrated, which is a major cause of spiraling health care costs. Without competition, insurers can reap substantial profits and have little incentive to lower their premiums or to constrain costs. Instead they can easily pass those higher costs onto consumers and employers.

Ninety-four percent of state health insurance markets, which is where insurance companies are regulated, are highly concentrated based on U.S. Department of Justice guidelines. Two companies alone—UnitedHealth and Wellpoint—control 36% of the national market.

## Providing the option of a public health insurance plan will give consumers more choices

Just like Medicare guarantees that seniors will be covered, a public health insurance plan would guarantee that everyone under 65 years of age can be covered. They would get an affordable plan that includes a standard, comprehensive benefits package and a wide choice of doctors.

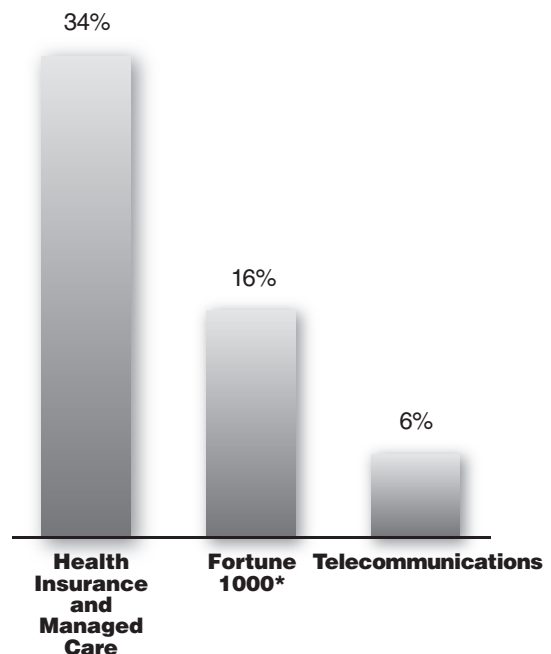
- **Choice:** Virtually all hospitals and 97% of physicians participate in Medicare. And people get to choose the doctor they want.
- **Satisfaction:** 80% of people with Medicare are either “extremely” or “very satisfied” with their health care and access to physicians, a higher rate than for 50-to-64 year olds with private insurance.
- **No Waiting:** People with Medicare are more likely to say they never had to wait for doctors’ appointments.
- **Finding Doctors:** Nine out of ten people with Medicare say they have “no problem” finding a doctor or specialist to treat them.

Source: Medicare Payment Advisory Commission, “A Data Book: Healthcare Spending and the Medicare Program; Section 5: Access to Care in the Medicare Program,” June 2008, Chart 5-3, p. 55; AARP, “Access to Physicians Survey,” February, 2007.

## A public health insurance plan will be concerned with care, not profits

Private health insurance companies always find ways to put profits before people. They seek to avoid covering people who need a lot of medical care and they often deny claims from their policyholders who need care.

### Average Annual Growth in Industry Profits — 2002 to 2007



\* This is the median or mid-point for all the industrial sectors contained in the Fortune 1000 list of companies.

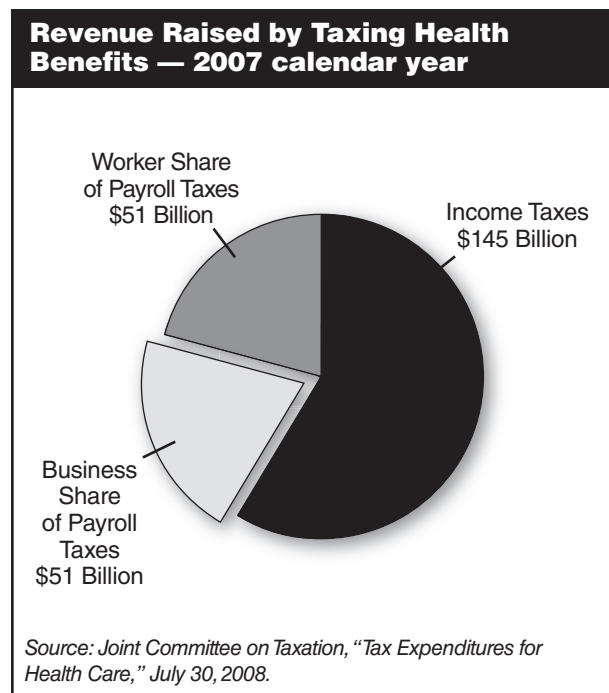
Source: Fortune, May 8, 2008.

## Priority Four: Do not Tax the Health Care Benefits of Working Families

Unlike wages, health-insurance premiums are not subject to either income taxes paid by workers or the 7.5% payroll tax paid both by workers and employers. However, there are proposals in Congress to:

- 1) End this benefit by entirely taxing health insurance premiums paid by employers
- 2) Limit this benefit by taxing those above a higher income level, such as \$100,000, or above a certain benefit level, such as \$11,500 for family coverage

CWA opposes such proposals. Making employer-provided health benefits part of taxable income will be a huge tax increase on workers and employers, penalize those who already have insurance, and force many people to lose health coverage.



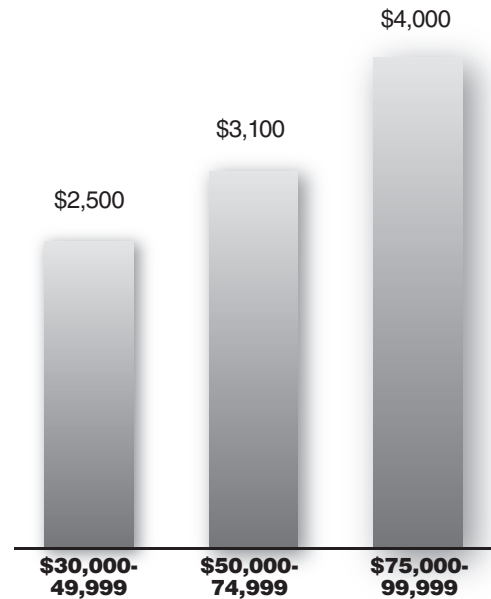
### Workers and employers will be subject to a \$1 trillion tax increase over 4 years if health benefits are fully taxed

- Taxing all employer-provided health care benefits will generate \$246 billion a year.
- \$196 billion a year would be raised through additional income and payroll taxes on workers.
- \$51 billion would be paid by businesses through the payroll tax.

**Taxing all health benefits will result in significant tax increases on the middle class**

Tax increases of \$2,500 to \$4,000 a year will be imposed on the vast middle class if all health benefits are taxed as income. This would affect the 52% of taxpayers with family incomes of \$30,000 to \$100,000 a year. The total taxes levied on this group would amount to \$135 billion a year.

**Tax Increases by Income Bracket if Health Care Benefits are Taxed — 2007 calendar year**

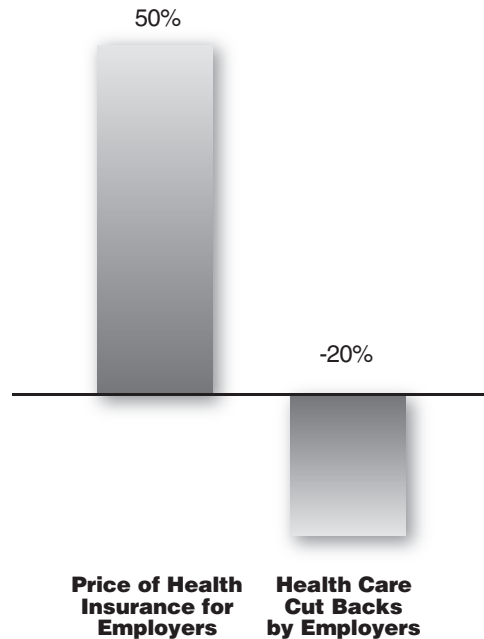


Source: Joint Committee on Taxation, "Tax Expenditures for Health Care," July 30, 2008.

**Taxing health benefits will lead to higher premiums, benefit cuts and lost coverage**

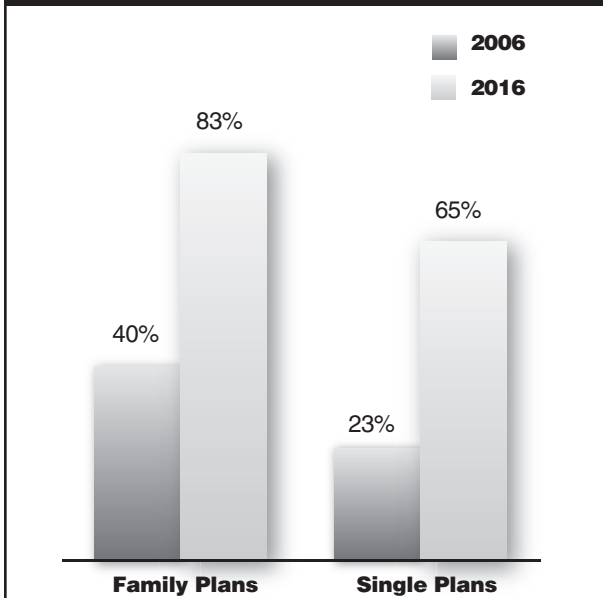
- The Congressional Budget Office estimated that fully taxing health benefits would increase the price of health insurance for employers by 50% because they would have to pay an average of 30% more in taxes—just to provide the same coverage.
- The budget office also estimated that employers would respond by reducing their expenses by 20% by dropping coverage, cutting benefits and shifting costs to workers.

**Increase in the Price of Health Insurance to Employers If Health Benefits Are Taxed and Resulting Cut Backs**



Source: Congressional Budget Office, Key Issues in Analyzing Major Health Insurance Proposals, December 2008, pp. 85-86.

**Projected Percent of Enrolled Employees Affected by Taxing Health Care Benefits Above a Cap — 2006-2016**



Note: The 2006 caps of \$5,000 for individual and \$11,500 for family plans would rise to \$6,200 and \$14,300 respectively by 2016.

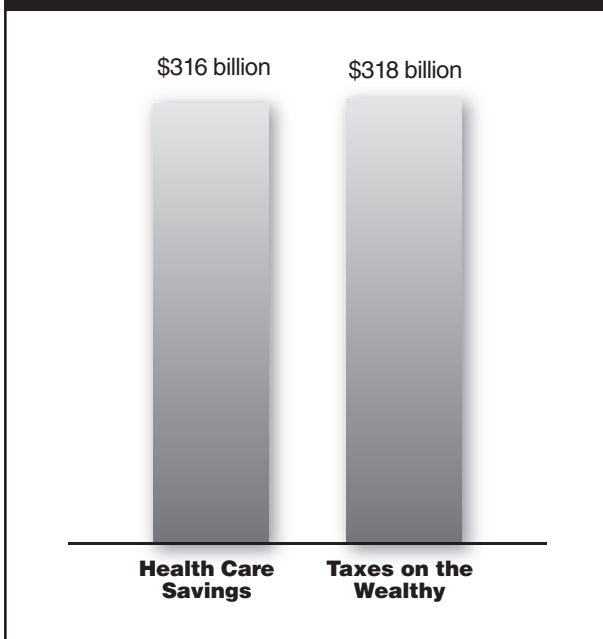
Source: Elise Gould and Alexandra Minicozzi, "Who is Adversely Affected by Limiting the Tax Exclusion of Employment-Based Premiums?" Economic Policy Institute, March 2009.

**Capping the amount of health benefits subject to taxation will affect most Americans over time**

Some politicians have proposed to limit, rather than eliminate, the tax exclusion by taxing only the amount of health care premiums above a certain cap. President Bush's bipartisan Advisory Panel on Federal Tax Reform proposed a cap of \$5,000 for individual and \$11,500 for family plans. These caps would have increased along with the general rate of inflation.

- The average increase in taxable income caused by such a cap would have ranged from \$1,300 for workers with single plans to \$2,700 for workers with family plans in 2006.
- Such policies create a slippery slope as more and more workers would be affected over time as illustrated by the chart.

**Obama's Plan to Raise Revenue from Insurance and Drug Companies and Taxing Wealthier Americans**



Source: Office of Management and Budget, Renewing America's Promise, 2009.

**There are better alternatives than taxing the middle class—a proposal by President Obama would raise \$634 billion over 10 years**

President Obama proposed two ways to raise \$634 billion over 10 years, which would be a huge down-payment on health care reform:

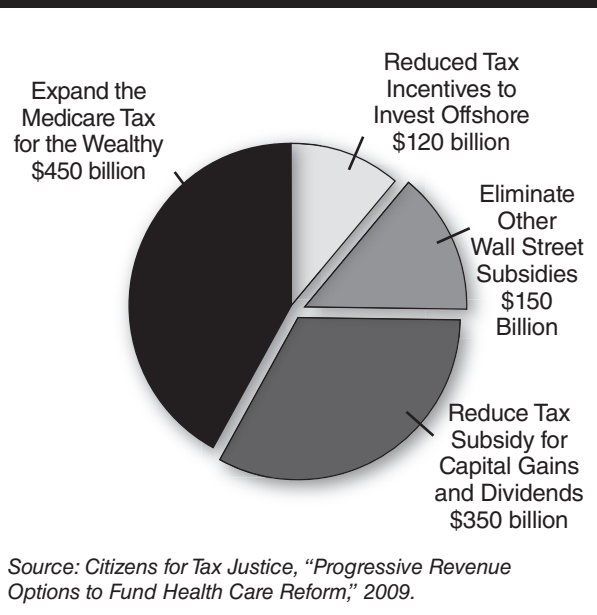
- \$316 billion can be raised primarily by negotiating lower drug prices and ending government over-payments to insurance companies under Medicare.
- \$318 billion can be raised by modestly increasing the taxes paid by individuals earning more than \$250,000 and by families earning more than \$500,000 a year.

## Other progressive tax reform options could generate \$1 trillion over 10 years

Health care reform could be funded by progressive tax reforms that would raise significant revenue, eliminate special interest loopholes and deductions and make the federal tax code fairer. Below are just a few, among many, progressive tax reform options, that could be considered.

- **\$450 billion:** Apply the current 1.45% Medicare tax levied on wage income to the non-wage income of the wealthy and increase the rate applied to income over \$250,000 to 2.5%.
- **\$350 billion:** Reduce the tax subsidy given to investment income by raising the top rate for capital gains and dividends from 20% to 28%.
- **\$150 billion:** Eliminate other tax subsidies for Wall Street including ones that allow corporations to obtain preferential tax treatment for executive compensation.
- **\$120 billion:** Reduce tax incentives to invest offshore.

### Selected Options to Raise \$1 Trillion to Fund Health Care Reform — 2012-2020





Communications Workers of America  
501 Third Street, NW  
Washington, DC 20001

[www.cwa-union.org](http://www.cwa-union.org)