

Employer Plans A Tax Target

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Employer health plans a target again in D.C.

Eliminating or reducing tax breaks being considered by both parties

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WASHINGTON - Job-based health care benefits could wind up on the chopping block if President Barack Obama and congressional Republicans get serious about cutting the deficit.

Budget proposals from leaders in both parties have urged shrinking or eliminating tax breaks that help make employer health insurance the leading source of coverage in the nation and a middle-class mainstay.

The idea isn't to just raise revenue, economists say, but finally to turn Americans into frugal health care consumers by having them face the full costs of their medical decisions.

Such a re-engineering was rejected by Democrats only a few months ago, at the height of the health care overhaul debate. But Washington has changed, with Republicans back in power and widespread fears that the burden of government debt may drag down the economy.

"There is no short-term prospect of enactment," former Senate Majority Leader Tom Daschle , a leading Democratic adviser on health care. "However, in a tax reform (and) deficit reducing context in the long term, the prospects are much better," said Daschle. He opposes repealing the tax break by itself, but says he would be "willing to look" at it with other changes that improve access to quality health care while reducing costs.

Labor unions believed they had squelched any such talk. Now, they're preparing for another fight.

Tampering with health care tax breaks is "a terrible step in the wrong direction," said Mary Kay Henry , the new president of the Service Employees International Union, which represents many hospital workers. "We want the middle class stabilized, not destabilized."

Employer-provided health insurance is part of a worker's compensation. Unlike wages, it isn't subject to income and payroll taxes.

Repealing the tax break would raise several hundred billion dollars a year, depending on how it's done. Many economists believe employers would boost pay if they didn't provide health care. Proponents of repeal usually call for a tax credit to offset part of the cost of individually purchasing coverage.

The leaders of Obama's deficit commission - Democrat Erskine Bowles , a former Clinton White House chief of staff, and Alan Simpson , a former GOP senator from Wyoming - have proposed to limit the tax break or eliminate it along with other cherished deductions, such as the one for mortgage interest. That would allow for a big cut in tax rates.

The commission is supposed to report its plan on Wednesday. It's unclear if leaders have the votes to back their sweeping changes.

A separate group, the Bipartisan Policy Center, is proposing to cap the health care tax break in 2018 and eliminate it over the next 10 years. That's part of a deficit reduction strategy from Democrat Alice Rivlin , a former Federal Reserve vice chairman, and former Sen. Pete Domenici , R-N.M., who once led the Senate Budget Committee.

"The problem of rising debt is so serious that Republicans and Democrats are going to have to go back and look at almost everything to see how we solve this," said Rivlin.

Simpson calls the health care tax break a "tax earmark." He said that "you cannot get anything done in this game unless you deal with every single aspect of the federal budget, and the biggest thing to wrap our arms around is health care."

Democrats struggled with proposals to curb the tax break during the health care debate, but strong opposition from organized labor won out. The compromise was a tax on high-cost health insurance plans, which won't go into effect until 2018.

In a twist, the health care law eventually may make it easier to pry people away from employer insurance, a system that dates to World War II and has sustained three generations.

Starting in 2014, new insurance markets will make it easier for people to buy coverage on their own. These state-based "exchanges" would work like the federal employee health plan. Taxpayer subsidies will help individuals and families with low to moderate incomes pay premiums.

"Before health reform, a declining role for employers would have raised concerns," Rivlin and Domenici said in their proposal. But well-run exchanges "will provide a viable - perhaps even superior - alternative."