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GOP's Obamacare plan could cost middle class billions in taxes on coverage from employers

Katie Leslie

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President Donald Trump campaigned on a promise to repeal the Affordable Care Act and help America's workers.

But some of the GOP proposals to replace Obamacare would hit middle-class Americans right in the wallet, according to several health care experts, employer groups and even a few Republican lawmakers.

At issue is the longstanding tax exclusion for employer-sponsored health insurance, more than \$250 billion that Americans who receive insurance from their jobs don't pay in federal income or payroll taxes annually, according to 2016 figures from the nonpartisan Congressional Budget Office.

Though Republicans have yet to coalesce behind a single replacement bill, prominent proposals from Speaker Paul Ryan and congressman-turned-Health and Human Services Secretary Tom Price are among those that would put a cap on how much of an employee's plan can be tax-exempt.

Critics of the exclusion note that it's the federal government's largest tax subsidy, a giveaway born in the 1940s that has led millions of Americans to be tethered to their employers for health benefits. What's more, the exclusion encourages employers to offer overly generous coverage, which effectively drives up health care costs for everyone.

Opponents of capping the tax exclusion now, however, argue that employers will simply pass the costs to the worker.

Many are already likening the GOP proposals to the so-called Cadillac plan tax, a hotly contested 40 percent excise tax under Obamacare that was met with such opposition that its implementation was delayed until 2020.

"This replacement effectively does the same thing, but instead of taxing the plan, it taxes people," said Mike Thompson, president and chief executive of the National Alliance of Healthcare Purchaser Coalitions. "Either way, somebody is going to end up paying that tax."

Employer and union groups are already sounding the alarm. Last week, a group of major employers urged Trump in a letter to keep the exclusion intact, calling it a "direct tax increase"

on middle-class workers. Employers provide health insurance to roughly 177 million Americans, the group noted.

Joseph Antos, an economist with the American Enterprise Institute, is among those who argue that lawmakers should consider capping the exclusion. The tax break has led businesses to develop take-it-or-leave-it, costly health insurance plans that not only hurt the average worker's bank account but drive up costs systemwide.

"We're locking people into coverage that isn't right for them," he said. "They're spending their own money — they just don't know it."

But Antos acknowledged the political peril in taking on the issue.

"It's a tax no matter what you call it, and it's clearly on the people who ultimately pay the taxes, which is, in this case, employees," he said. "Politically, it's a real loser. Conceptually, it's a really good idea."

Some experts expect Trump to favor as a replacement the measure Price pushed in recent years, which he called the Empowering Patients First Act.

Price's bill would limit the exclusion to \$8,000 for individual policies and \$20,000 for families.

Another GOP proposal, from Senate Finance Committee Chairman Orrin Hatch and North Carolina Sen. Richard Burr, proposes capping the exclusion at \$12,000 for individuals and \$30,000 for families. That plan hasn't been reintroduced in the current Congress.

House Ways and Means Committee Chairman Kevin Brady, R-The Woodlands, left open the possibility of a cap in the plan he's helping craft with Republican House leaders.

House Ways and Means Chairman Kevin Brady, R-The Woodlands, is working on a plan with GOP House leaders. (J. Scott Applewhite/The Associated Press)

The measure is "included in a range of options" to help finance a personal tax credit that Americans could use to buy portable, affordable health care, Brady said.

The overarching goal is to help people who don't receive employer-provided insurance, such as small business owners or early retirees.

GOP aides said such a cap would affect a small number of Americans — not everyone who receives employer-provided health insurance. And they note that the middle class is already bearing the financial brunt of the failures of Obamacare, with rising premiums and increasing deductibles.

"The proposal is to give more Americans the flexibility to use it outside of work and to find a way to redesign it that preserves employer-sponsored health care, which is critically important, and do it at a very high limit where the vast majority of Americans still see no difference in their health care," Brady told reporters.

Ryan's Better Way agenda predicts that ending the tax break "will reduce the incentive for employers to divert compensation from wages to ever-larger benefit plans," increase take-home pay and, by lowering "overuse" of services, reduce health care costs.

Republican leaders are rebutting the comparison to the Cadillac tax in documents about Ryan's health care proposal, calling it a "far cry" from Obamacare's controversial provision.

But they could lose in the court of public opinion.

If it's not a GOP form of a Cadillac tax, "what the heck is your cap on the exclusion then?" said Michael Cannon, director of health policy studies at the libertarian-leaning Cato Institute.

He expects "immense political push-back" to such proposals.

"Most workers will just see 'tax hike' and say 'no thanks,'" Cannon said. "That's why the Cadillac tax has been delayed and probably won't take effect, and why Ryan's Cadillac tax is not going to work. Not only is it like Obamacare, it's likely to fail."

Cannon supports overhauling the employer-sponsored system entirely so that many Americans don't have to rely on their employers for health insurance. But in the short term, he argues that lawmakers should keep the exclusion intact but allow workers to deposit the value into a health savings account, giving them more control over their earnings.

What's clear is that Republican leaders are closer to unveiling a replacement option. Less clear is whether they can get the support of their members.

In addition to employer groups, the House's conservative wing could raise objections.

Republican Study Committee Chairman Mark Walker said the issue "isn't a breaking point." But North Carolina Rep. Mark Meadows, who leads the conservative 30-member House Freedom Caucus, said that while he can "see the merit" in the argument for capping the employer exclusion, doing so "potentially would be a tax on the middle class."

The Freedom Caucus has criticized Ryan's proposed use of refundable tax credits and is currently backing a plan by Republican Sen. Rand Paul of Kentucky and GOP Rep. Mark Sanford of South Carolina.

"There's the assumption it would be absorbed from a corporate standpoint," Meadows said. "But I would make the assumption that it's going to be passed through" to employees.