Response to AFSCME Criticisms of the High Cost Health Insurance Tax

Jonathan Gruber, MIT
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One of the most important features of health reform legislation in the Senate is the High Cost Health Insurance Tax, which would impose a 40% excise tax on health insurance plans that exceed a high cost threshold. This provides a valuable source of revenue that makes it possible to subsidize low income Americans so that they can afford health insurance. Moreover, it is one of the few tools acknowledged by the CBO and most experts as having the potential to "bend the cost curve" in the long run.

A recent memo from AFSCME offered some pointed criticisms of this tax. In this memo I respond to their points.

Claim: This will lead to a widespread increase in the out of pocket costs of health insurance

Reality: There is no basis for AFSCME's claim that "virtually every plan" in the U.S. would have higher out of pocket costs due to this tax. This is an incorrect projection on several counts:

- It ignores the fact that health reform may slow the growth of health care cost inflation (particularly if this tax provision is included), so that there would not be a constant growth in the share of plans meeting this high cost threshold over time.

- It ignores the fact that employers have many ways of dropping their spending below the high cost threshold without increasing enrollee out of pocket costs – such as using more cost effective provider networks or shopping more aggressively for insurance products

- It ignores the fact that by 2025 every plan WILL have higher out of pocket payments absent reform - that is a certainty. If we don't raise the money to reform health care then this uncertainty becomes a certainty

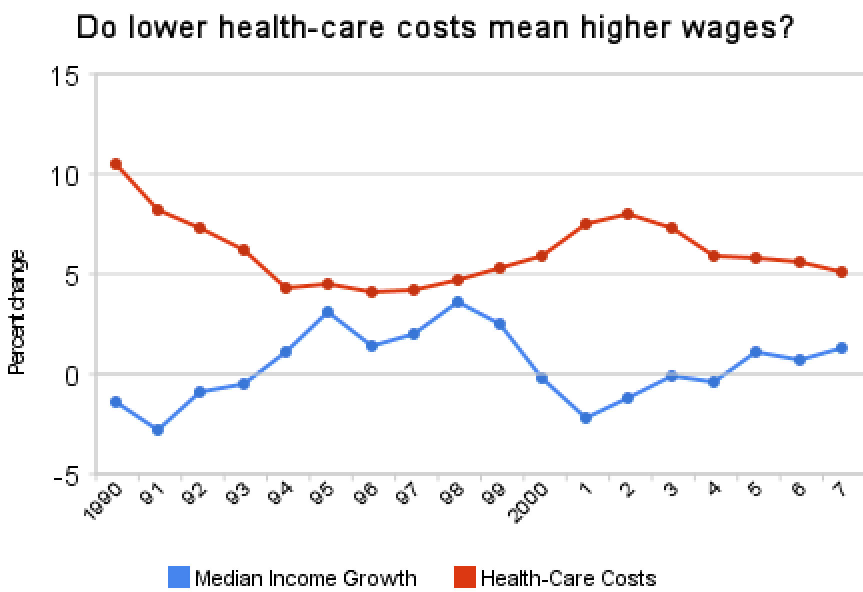
Claim: Any associated rise in out of pocket costs will lead to a widespread reduction in medical care utilization, damaging enrollee health

Reality: The evidence speaks clearly on this point: when enrollees pay more for their care, they use less care, but are in *no worse health*. The famous RAND Health Insurance Experiment and subsequent studies found that the average health insurance enrollee did not suffer any decline in health from paying more cost sharing, so long as they remained insured. The only population for which RAND found a health effect of cost sharing was low-income chronically ill enrollees – but low income enrollees will have generous subsidized coverage available under the plan financed by the revenues from this tax.

But other research shows clearly that moving from being uninsured to being insurance *does* improve health. So if we increase out of pocket costs on those most well-insured, to provide insurance to those with none, we clearly improve the health of the U.S. population.

Claim: The argument that reduced employer-sponsored insurance spending will lead to higher employee wages is "speculative"

Reality: The available evidence clearly illustrates that there is essentially a one to one offset between employer insurance spending and wages. There are a number of economics studies that support this conclusion. But it is perhaps most vividly illustrated by simply comparing the growth rate of health insurance costs to the growth rate of wages, a task recently undertaken by Ezra Klein:



It is readily apparent in this graph that when health care costs moderate, wages rise – but as health care costs increase, wages fall.

Moreover, the ultimate authority on this topic is the Joint Committee on Taxation, and they have clearly spoken: the shift away from high cost insurance raises wages. As I have illustrated in another analysis, the JCT estimates imply that net worker wages will increase by *over $300 billion over the next decade* under the Senate Finance Committee's proposed excise tax, after taking out the payments on this high cost insurance tax. The shift out of excessively generous health insurance plans and into wages is a major boon to U.S. workers.

Claim: The high cost insurance tax is regressive

Reality: This is a very progressive policy, because the vast majority of workers who benefit from the higher wages induced by this policy are not rich. According to JCT estimates, almost two-thirds of these gains accrue to families with incomes below $100,000, and more than 90% of these gains accrue to families with incomes below $200,000.