Health Care Hooey

Student Handout #2: **New York Times, "McCain Health Plan Could Mean Higher Tax"**

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ALLENTOWN, Pa. — Though Senator John McCain has promised to not raise taxes, his campaign acknowledged Wednesday that the health plan he outlined this week would have the effect of increasing tax payments for some workers, primarily those with high incomes and expensive health plans.The campaign cannot yet project how many taxpayers might see their taxes go up, said Douglas Holtz-Eakin, Mr. McCain's top domestic policy adviser. But Mr. Holtz-Eakin said in an interview that for some, Mr. McCain's health care tax credits would not be large enough to compensate for his proposal to eliminate the tax breaks afforded to workers with employer-provided health benefits.

On stops in Florida and Pennsylvania this week, Mr. McCain, the presumptive Republican presidential nominee, has emphasized a free-market approach that he said would lower health care costs and make insurance affordable.

To do so he is proposing a major tax change that he hopes will make the insurance marketplace more competitive and less expensive in part by encouraging more people to buy health insurance on their own instead of receiving it from their employers.

The 71 percent of insured Americans who get their health coverage through their employers now enjoy a significant advantage because the money spent by employers on their health coverage is excluded from their taxable income. If employers chose to pay that share of a worker's compensation as wages rather than benefits, the income would be taxable.

The exclusion costs the federal government more than $212 billion a year in income and payroll taxes, according to Congress's Joint Committee on Taxation. That is more than the cost of the deductibility of home mortgage interest, according to the Employee Benefit Research Institute.

The tax treatment of health benefits has been criticized as both discriminatory and regressive, and some analysts believe it encourages workers to buy more coverage than they need, driving up health costs.

To end the disadvantage to those who do not buy insurance through employers, Mr. McCain proposes to eliminate the exclusion of health benefits from taxable income. In exchange, he would provide refundable tax credits of $2,500 to single people and of $5,000 to families, with the goal of stoking competition in the individual insurance market. The elimination of the exclusion would generate $3.6 trillion over 10 years, according to the McCain campaign, and that money would pay for the tax credits.

Mr. Holtz-Eakin calculated that workers in the top income tax bracket would have to pay more in taxes if their employers have been contributing at least $14,285 toward a family insurance premium. Nationwide, the average cost of a family policy is $12,106, with employers paying $8,824 of that amount.

While the change would primarily affect those with gold-plated insurance policies, health analysts point out that middle-income workers with conventional coverage could conceivably pay more in regions where insurance costs are high. Over time, that might depend on how the tax credits are adjusted for inflation, a detail Mr. McCain has not discussed.

Gary Claxton, a vice president of the Kaiser Family Foundation, a health policy research group, said that about 6 percent of insured employees worked for companies where the average employer contribution met the threshold set by Mr. Holtz-Eakin. Mr. Claxton said he could not project how many of those workers are in the top tax bracket and would pay higher taxes.

Interviewed on his campaign bus Wednesday afternoon, Mr. McCain said: “I’m giving them a $5,000 refundable tax credit. I believe that that takes care of the overwhelming majority of Americans.”

Charlie Black, a senior adviser to his campaign, who was also on the bus, acknowledged that some would pay more. “It would be a very, very small percentage of people,” Mr. Black said, “and they would be people who are getting a plan that’s way beyond what regular people have.”

Mr. McCain has said he would maintain the Bush-era income tax cuts and support other tax reductions, and he has pledged repeatedly that he would not raise taxes. “Do you mean none?” Sean Hannity, the Fox News host, asked in a March 16 interview.

“None,” Mr. McCain replied.

Mr. Holtz-Eakin said Mr. McCain’s health proposal does not contradict his tax pledge because the government would gain the same amount of revenue by ending the exclusion as it would lose by granting the tax credits.

“He has said that he is in favor of a tax code that is fairer, simpler, flatter, more pro-growth and more internationally competitive,” Mr. Holtz-Eakin said. “There’s nothing about revenue-neutral tax reforms that’s inconsistent with his position.”

Some scholars say otherwise. “Anyway you cut it, if you make health benefits subject to taxation, that’s a tax increase,” said Jonathan B. Oberlander, a political scientist at the University of North Carolina at Chapel Hill. “You can argue with lots of merit that it’s a responsible increase, that it takes away an inequitable exclusion, but it’s still a tax increase.”

On the Democratic side, Senator Hillary Rodham Clinton of New York also wants to change the tax treatment of employee health benefits, though not as radically as Mr. McCain. She has proposed limiting the exclusion for those earning more than $250,000, about 2 percent of workers. Under her plan, which would raise an estimated $2 billion to support universal health coverage, high earners would pay taxes on the part of employer-provided health benefits that exceed a standard policy. Mrs. Clinton has not defined where that limit would be set.

Her Democratic rival, Senator Barack Obama of Illinois, has not proposed changing the tax exclusion.

Kevin Sack reported from Atlanta, and Michael Cooper from Allentown.