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Published Online: November 17, 2009
Published in Print: November 18, 2009, as **Health-Plan Tax Idea Drawing Union Fire**

Prospect of Health-Plan Tax Draws Union Opposition

By **Alyson Klein**

The national teachers' unions are nervously eyeing a provision in a **Senate version of the health-care overhaul** now working its way through Congress that they say could ultimately squeeze medical benefits for educators.

The language would tax insurance companies and plan administrators that offer what the measure defines as high-cost health coverage—often referred to as “Cadillac” or “gold-plated” plans—to help pay for the broader effort to expand access to health insurance while better controlling costs.

But many officials in organized labor, including teacher representatives, argue that a tax imposed on companies would likely be passed along to workers in the form of higher premiums or less comprehensive benefits. That would be unfair, they say, to workers who have given up higher pay in exchange for strong health benefits—a good description of a lot of their members.

“Our members have sacrificed salaries to maintain decent health-care benefits for a long time,” said Joel Solomon, a senior policy analyst for the 3.2 million-member **National Education Association**.

Now, he said, it’s as if some lawmakers are saying, “We’re changing the rules of the game, and we’re going to impose this tax that’s going to lead to you losing some of your benefits.”

If the Senate Finance Committee provision becomes law and leads to scaled-back health-care coverage for many employees, that could make it harder for school districts to attract and retain teachers, particularly in hard-to-staff subjects, union officials and policy analysts say.

Beginning teachers in fields like mathematics and computer science “are the ones most likely to respond” by leaving the profession if their benefits are reduced, said Michael Podgursky, a professor of economics at the University of Missouri, in Columbia, who specializes in teacher labor markets.

“Their skill set is not idiosyncratic—they can take it anywhere,” he said.

An Equity Issue

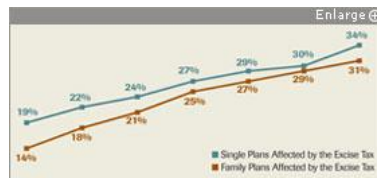
Supporters of the proposed tax say that if employers chose to scale back plans because of it, they might shift the money into salaries. But opponents argue that significantly higher salaries for public-sector employees, including teachers, aren’t likely in the foreseeable future, given the budget fallout from

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Paying a Premium

The Senate Finance Committee’s health-care-overhaul measure would levy a tax on insurance companies offering individual plans costing \$8,000 annually and family plans costing \$21,000. The threshold for plans subject to the tax would increase each year by the Consumer Price Index, plus 1 percent.



SOURCE: Joint Committee on Taxation; Economic Policy Institute

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the recession.

The two national teachers' unions—the NEA and the 1.4 million-member **American Federation of Teachers**—have been solidly behind the Democratic-led effort to overhaul the nation's approach to providing health care, even running ads in swing congressional districts thanking vulnerable Democrats for their support on the issue. ("**Education Groups Put Muscle Behind Health-Care Overhaul**," Aug. 26, 2009.)

But now, some officials are feeling disillusioned.

"This [provision] starts out hitting the middle class and just keeps hitting more and more of them," said Bill Cunningham, a lobbyist for the AFT, referring to the proposal for taxing a certain level of health benefits.

Still, some economists, in addition to suggesting that a reduction in benefits could bring a shift to salaries, see such a tax as part of a push to bring equity and fairness to health-care financing. The provision would generate about \$200 billion from 2010 to 2019, according to an analysis by the Congressional Budget Office, a nonpartisan research agency. That money would help expand coverage—a key goal of health-care reform—without breaking the federal budget.

The full U.S. Senate has not yet considered the provision, which was included in the bill passed by the Senate Finance Committee last month by a vote of 14-9. Just one Republican, Sen. Olympia Snowe of Maine, voted in favor of the measure.

The language wasn't part of the **health-care-overhaul bill passed by the U.S. House of Representatives** on Nov. 7 by a vote of 220-215, with one Republican crossing party lines to support it. Thirty-nine Democrats opposed it.

The House bill will eventually have to be reconciled with any Senate-passed version.

The Senate Finance Committee provision would impose a 40 percent tax on insurance companies and plan administrators—not employers—for any health-care plan that costs more than \$8,000 for individuals and \$21,000 for families. Since negotiations on the legislation are still in flux, there's a possibility that those thresholds may change as the Senate bill moves forward, lobbyists say.

But if the language, or a similar provision, becomes law, it's likely that many insurance companies would elect to stop offering plans that would be subject to the tax or would pass along the cost to employers, say analysts and advocates on both sides of the issue.

The tax would take effect in 2013, and the threshold for plans subject to the tax would increase annually, pegged to the Consumer Price Index, plus 1 percent.

That means more and more plans would be subject to the tax every year, in part because health-care costs are rising much faster than inflation, said Elise Gould, the director of health-policy research for the Economic Policy Institute, a think tank based in Washington. Many of the organization's board members are affiliated with organized labor. By 2019, she said, about one third of all health plans would be affected.

The Center for Budget and Policy Priorities, a nonprofit think tank based in Washington that looks at how federal and state policy affects lower and middle-income families and individuals, disputes that estimate, in part because employers would likely elect to modify their health-care plans to avoid the tax.

Unwelcome Prospect

But it's the prospect of such an increase over time that has union leaders particularly worried.

It's tough to gauge just how many teachers' plans would be hit by such a tax, since benefits are often offered by individual school districts and tend to vary widely, Mr. Solomon of the NEA said. But he has analyzed a number of

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typical union plans from a variety of different states. He said all the plans he's analyzed would be hit by the tax before 2019.

For instance, one "preferred provider" plan offered to members in a Mid-Atlantic school district covers about 6,850 employees. Medical, dental, and vision premiums total about \$6,400 for an individual in 2009. Employees contribute to plan premiums. By 2014, that plan would cost an individual about \$8,410.

The plan would hit the taxable threshold in 2015 if premiums increased at 5.5 percent per year, Mr. Solomon said. The increase on that plan last year was 6 percent. (Though not directly analogous, family premiums nationally rose about 5 percent from 2008 to 2009, according to the Kaiser Family Foundation, a nonprofit based in Menlo Park, Calif.)

And some teachers' plans might be affected right away.

John Yrchik, the president of the 37,000-member Connecticut Education Association, estimates that about half the plans in that state would be hit by the tax in 2013. He said such plans include traditional preferred-provider options that include prescription-drug benefits. They "don't cover spa treatments," he said.

Insurance companies that operate in 17 states, including Connecticut, where costs are higher than average, would be subject to a slightly increased threshold during the first three years covered by the Senate Finance Committee bill. But once that provision was no longer in effect, even more teachers' plans in Connecticut would be hit.

"We expect that number to increase fairly dramatically as the threshold drops and the premiums in the plans go up," Mr. Yrchik said. "So it will have a fairly devastating effect."

Salary Increase?

But Paul Van De Water, an economist at the Center for Budget and Policy Priorities, who has studied the provision closely, said the proposed tax would help slow the rate of growth in health-care costs and would help finance insurance for those who don't currently have it by taxing the most generous plans.

Right now, the federal government doesn't tax employer health benefits, Mr. Van De Water said. High-income workers and workers with the richest plans gain the most from that exemption, he said.

And he said that the proposed tax is structured in a way that would allow employers to continue to offer comprehensive coverage.

"It's not that we're subjecting people to highly onerous requirements," Mr. Van De Water said. "These thresholds are nowhere near bare-bones levels."

Still, he said, the bill could be improved by making further adjustments to the threshold for plans that cover a high number of older workers.

Mr. Van De Water said that the provision could result in pay increases, although he acknowledged they would likely be tough to track.

"You might see modest wage increases in places where there might not have been any, or it could stave off" salary freezes and wage reductions, he said.

Ms. Gould of the EPI said that if employers curbed benefits to avoid having to purchase plans that would be hit with the tax, there's no reason to expect that workers would see the difference made up in their salaries.

"I don't think in the short term there's any reason to believe it will go back into wages," Ms. Gould said, particularly given the still-shaky economic outlook.

The tax provision could have a positive effect on education redesign efforts if school districts chose to shift money from benefits to salaries of promising beginning teachers, who are more likely to be lured by high pay than comprehensive benefits, said Mr. Podgursky of the University of Missouri.

But, he added, he wouldn't count on school districts to target salary increases to the newest teachers, because that hasn't been the trend

historically.

No matter how districts choose to handle such a tax, "it's going to add a lot of extra stress," he said.

Vol. 29, Issue 12, Pages 1,12-13

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