

Health Alert: Senator Baucus Declares War on the Middle Class

Remember what Barack Obama said about Hillary Clinton's health plan? "Hillary's health care plan forces everyone to buy insurance, even if you can't afford it. . . and you pay a penalty if you don't." Well, that idea is back.

Welcome to [Obama Care ala Max Baucus](#). Like other versions of the health reform before Congress, this bill will:

- Force every American to buy a health insurance plan that will be designed in Washington and (through time) be shaped and molded by special interest pressures.
- Subsidize health insurance for young people by taking about \$500 billion away from Medicare and Medicaid.
- Cause several million (mostly moderate-income) seniors to lose their coverage under Medicare Advantage.
- Cause millions of families to move from private coverage (which allows them to see a broad array of doctors) to Medicaid and S-CHIP programs (where health care access is much more limited).
- Cause millions of American families to lose their current private coverage and obtain insurance in an artificial market (an Exchange), where insurers will have perverse incentives to underprovide to the sickest patients.
- Nationalize the private health insurance marketplace by effectively outlawing a real market for health care risks.

But unlike the other bills, this bill has two particularly harsh features for the middle class:

1. A 35% tax on private health insurance — initially targeting “Cadillac” plans, but eventually reaching all plans.
2. An employer play-or-pay mandate that is effectively an implicit tax as high as 20% or more on the wages of middle-income workers.

The 35% excise tax on insurance will be applied to the amount by which the cost of the insurance exceeds \$8,000 (individuals) or \$21,000 (families). However, these thresholds are indexed to the consumer price index (CPI), not the medical price index (MPI). Since the CPI grows at about one-third the rate of the MPI, eventually all insurance will exceed the cap and be subject to the tax. The Joint Economic Committee Republican staff has [calculated](#) that two of the individual plans currently sold to federal employees, for example, would be immediately taxed. After 10 years, 11 of the 17 (FEHBP) individual plans would be subject to taxation and 6 of 17 family plans — including the most popular plan (Blue Cross Blue Shield Standard Option) in both cases.

Even more disconcerting is the implicit tax on middle-income workers created by the employer play-or-pay mandate. Take an employee earning \$50,000 a year and suppose “credible coverage” offered through an employer costs \$13,000 for a family. Under Baucus, the maximum premium the employee can be charged is 13% of income, or \$6,500. So the employer must pay the remaining \$6,500.

But since fringe benefits are a substitute for wages, the employer’s annual \$6,500 premium payment would come out of the wages that otherwise would have been paid. Under the Baucus bill, the employer does not have to provide insurance. But if the employer does not, the

employee must obtain this insurance in the Exchange and the government will provide the \$6,500. However, (and this is where Baucus differs from the other bills) the employer will be “fined” \$6,500 anyway. So no matter where the employee gets his insurance he will still pay the full cost — part directly (out of pocket), and part in reduced wages.

After adjusting for income and payroll taxes, *the implicit health insurance tax this worker must shoulder is 26% of income!*

Of course, it’s only in the long run that the cost of fringe benefits comes out of the pockets of workers. In the short run the employer may find it impossible or impractical to reduce wages by that amount. So for the near term, the employer faces a \$6,500 annual tax for continuing to employ this worker and hiring others just like him. Massive unemployment is a predictable result.

Now, here is one more surprise. Imagine this worker’s income is lower and that he can qualify for Medicaid. In this case, if the employer fails to provide insurance, there is no fine. In other words, *employers face no additional cost if they hire the poor, but they get really soaked if they hire the middle class!*