

THE WALL STREET JOURNAL.

November 13, 2009

Reid Weighs Rise in Medicare Tax

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Senate Majority Leader Harry Reid, seeking a new source of funding for the health-care overhaul legislation the Senate could begin debating next week, is considering a proposal to raise Medicare payroll taxes on couples who make more than \$250,000 a year, according to people familiar with the discussions.

The Nevada Democrat may need the money because he is looking to scale back a tax on high-value health-insurance policies that is part of a bill approved by the Senate Finance Committee. In addition, many Democrats want him to increase the proposed health-insurance subsidies for low- and middle-income people.

Sen. Majority Leader Harry Reid is struggling to craft a bill that will meet the demands of his 60-member Democratic caucus and not add to the deficit. One proposal involves an increase in Medicare payroll taxes on wealthy Americans that could plug a financing gap in the health-care bill. WSJ's Naftali Bendavid reports.

Senators have proposed several options to fill the gap, but the Medicare tax proposal is gaining steam. It would raise the payroll tax to 1.75% from 1.45% for individuals earning more than \$200,000 a year and couples making more than \$250,000, aides said. No estimate was available of how much the increase would raise.

The move could prove popular with labor unions and others who have strongly opposed the initial plan for a 40% tax on high-value insurance plans, those worth at least \$8,000 for individuals or \$21,000 for families.

AFL-CIO President Richard Trumka said Thursday that a payroll-tax increase on high earners is fairer. "We think that's far preferable to taxing the plans," Mr. Trumka said in an interview. Others say an extra tax on high earners would crimp the economy, and that taxing the high-value plans would limit wasteful medical spending.

The extra Medicare tax "takes money out of the system needed to create jobs," said John Goodman, president of the conservative National Center for Policy Analysis.

The idea of an extra tax on the wealthy has echoes in the health bill passed Saturday by the House, which would impose an income surtax on individuals making more than \$500,000 and couples making more than \$1 million.

Mr. Reid is looking at raising the threshold for insurance policies that would be subject to the 40% tax to \$8,500 for individuals and \$23,000 for couples, Senate aides said.

Mr. Reid has submitted his health-overhaul plan -- a merger of bills approved by the Finance Committee and the Committee on

Health, Education, Labor and Pensions -- to the Congressional Budget Office for a cost estimate. The proposal includes a number of variations for the CBO to consider, and its findings are expected to have a strong influence on what is included in the bill.

Senators expect the CBO to provide its estimate in the next few days, and Mr. Reid hopes to begin the legislative process next week. That would kick off a series of procedural votes, beginning with a "motion to proceed" on debating the bill, which would require 60 votes.

Democrats seized on a new report Thursday by the Business Roundtable, a group of chief executives of large companies, finding that a health overhaul could save employers as much as \$3,000 a year. But the report warned against proposals it said could make matters worse, such as those that fail to give individuals strong enough incentives to buy insurance.

Democratic leaders hope to have a bill on President Barack Obama's desk by year's end. But they face significant hurdles. All 40 Senate Republicans have expressed objections to the bill. Because 60 votes are needed to overcome a filibuster, Mr. Reid will need the backing of all 58 Democrats and two independents.

Several Democrats and independents have voiced reservations. Sen. Joseph Lieberman (I., Conn.) objects to a proposed government-run insurance plan that would compete with private insurers. Sen. Ben Nelson (D., Neb.) is insisting on strong language to restrict abortions in the new health system.

Democratic leaders hope that once the Senate begins debating the bill, and changes are made as a result of amendments and horse-trading, some of those concerns will be eased.