

## **How do we Pay for Healthcare Reform?**

By Judith Barish, Healthcare Policy Researcher, Pacific Community Ventures

No one knows exactly what the cost of the Democrats' proposed healthcare reform will be. The devil is in the details, and many of the details have yet to be worked out. Five different committees are working on their own versions of the healthcare reform bill, and there has been no effort yet to reconcile them. And none of the proposals have financing plans yet, so we don't know where the resources will come from to pay for the proposed overhaul.

### **How Much Will it Cost?**

Many congressional Republicans and some Democrats are concerned about the cost of the program. Two recent versions of healthcare reform might cost \$1 trillion or \$1.6 trillion over the next decade, according to the Congressional Budget Office. Defenders of the proposal remind the public that the current system costs \$2.2 trillion a year to stay afloat, and if we don't act now, health care spending is projected to grow to \$3.1 trillion in 2012 and \$4.3 trillion by 2016. That means doing nothing could cost more than four times as much as the cost of reform. But it's still a huge price tag in a time of economic crisis.

### **Where will the Money Come From?**

Here are some ideas about where that money could come from. Remember, none of these have proposed as revenue sources yet, so this is all speculation. In the end, the funds will probably come from a mix of these sources and others:

#### 1. Cost Savings

President Obama has promised that better health information technology, preventive care and disease management could reduce the overall cost of healthcare. Everyone agrees that cost management is a good idea. The problem is that the costs will show up immediately, but the savings will be much slower to arrive. So in the short run, we still need to figure out how to pay the bill.

#### 2. Lower Drug Prices

Paying for prescription drugs is a huge part of the cost of current medical programs like Medicare and Medicaid. The federal government currently has a self-imposed ban on negotiating drug prices with the big pharmaceutical companies, so our government is forced to buy drugs at high market rates. During the campaign, President Obama promised that he would be able to save \$310 billion by negotiating drug prices with the companies who sell them, but now it seems that the White House might be backing away from that promise. The drug companies say they will only support health care reform if the savings on drug purchases are capped at \$80 billion.

#### 3. The States

The Democrats' healthcare plan would expand Medicaid, the joint federal-state healthcare program for poor Americans. The federal government would fund some of the expansion, but the states would probably be asked to pick up some of the cost. Governors are worried about this idea, since most states are currently suffering budget crunches that are already forcing them to cut services and programs.

#### 4. Taxing employer-sponsored health insurance

One source of revenue (which conservative and liberal experts agree on) is limiting the tax deduction for employer-provided insurance. Right now, when a company provides health insurance to employees, the benefit is tax-free, an exemption which costs the federal government about \$250 billion a year in foregone revenues. Eliminating or capping this tax exemption is a reasonable source of income for the healthcare plan. But Pres. Obama campaigned against this idea, which Sen. John McCain supported, so it is politically tricky. Key Democrats have also come out against the idea, so it is unlikely to be part of the solution.

#### 5. High earners

In one version of the bill, individuals earning over \$250,000 would pay a surtax to help offset the costs of the program. The surtax would rise for those earning \$500,000 and rise again for those earning more than \$1 million. This might be a concern to some small business owners in this tax bracket.

Another possible vehicle for getting revenue from wealthy Americans: When the tax cuts for the wealthy implemented by the last administration begin to expire, some or all of that tax revenue could be redirected to the healthcare overall. Senators have also considered a plan to apply the Medicare payroll tax of 1.45 percent to non-wage income like dividends and capital gains.

#### 6. Small businesses

Companies with payrolls greater than \$400,000 might be required to provide insurance to their employees or pay a penalty of about 8% of payroll to the government. One estimate suggests this could amount to \$163 billion in revenues. While this sounds alarming, the Center on Budget and Policy Priorities estimates that only the top 4 percent of small businesses would be affected by the proposed surcharge.

#### 7. Big businesses

One option being discussed to help finance the plan is eliminating or reducing a tax break that lets companies defer or postpone taxes on foreign income. Another possibility is denying tax deductions for advertising prescription drugs.

#### 8. Poor people

As questions arise about how to pay for the plan, some Democrats have suggested scaling back the benefits, in particular by reducing the support for low-income people. The proposed healthcare reform plans all require people to purchase health insurance, and provide subsidies to those with modest incomes. But recently, new proposals have tightened eligibility for subsidies and reduced the amount of assistance for people who qualify. One version of the bill, approved by the Senate Health Committee and three House committees, provides subsidies to those with incomes up to four times the poverty level, or \$88,200 for a family of four. Another bill, taking shape in the Finance Committee, limits subsidies for those with incomes up to three times the poverty level, or \$66,150 for a family of four. Small businesses with relatively low income workers would probably benefit from generous subsidies to low- and moderate-income Americans, since many small business employees earn too much to qualify for a government healthcare program (like an expanded Medicaid program) but too little to purchase health insurance easily on the open market.