White House promotes tax on “Cadillac” health care plans

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A top White House economic adviser argued Monday that cutting government health care costs is key to addressing the federal budget deficit, and that taxing so-called Cadillac health care plans is an essential part of restructuring the system.

Speaking before the Center for American Progress in Washington D.C., Christina Romer, chair of the Council of Economic Advisors, said, “It’s fiscally irresponsible not to do health-care reform…. To bury our head in the sand for even one more year and pretend that the problem of rising government health care expenditures will go away is simply untenable.”

Her remarks highlight the fact that the Obama administration’s view of an overhaul of the US health care system is based, not on expanding and improving care for millions of ordinary Americans, but on slashing government spending and defending the profits of the insurance companies and pharmaceuticals.

Senate Democrats, in close cooperation with the White House officials, are working to reconcile health care legislation adopted by two Senate panels—the finance and health committees—which must then be reconciled with legislation from the House of Representatives. The Obama administration has broadly endorsed the Baucus plan, the $900 billion bill passed by the Finance Committee headed by Max Baucus, Democrat of Montana.

Under the Baucus plan, more than $200 billion would be raised through taxes on so-called Cadillac plans. These are plans costing more than $8,000 annually for individuals or $21,000 for a family, which would be taxed at a 40 percent rate for the coverage exceeding these cut-off levels.

While touted as a tax aimed at an elite segment of the population, in fact unionized employees are among the largest holders of such policies. These plans—which often offer more generous coverage and lower deductibles—have been gained in bitter contract disputes, often at the expense of wages increases and other benefits. An estimate by the Congressional Joint Committee on Taxation calculated 37 percent of family policies and 41 percent of individuals would fall into this category by 2019.

While the taxes on these plans would be levied against the insurance companies, they would undoubtedly pass the costs on to insured employees in the form of raised premiums or reductions in coverage.

During his presidential campaign, Obama attacked his Republican opponent, Senator John McCain, for advocating such a tax, likening it to an indirect tax on health care benefits received by workers. But the White House is now energetically promoting it.

Christina Romer stated Monday that the Cadillac tax is “probably the number one item that health economists across the ideological spectrum believe is likely to stem the explosion of health care costs.”

She added, “A policy along these lines, designed carefully, will encourage both employers and employees to be more watchful health care consumers.” In other words, workers will have to pay more out of pocket for health care, and therefore will consume less. This will lead to reductions in treatments and services, along with a general deterioration of medical care for millions of individuals and families covered by these plans.

“Opt-out” public option

As deliberations continued on the details of health care legislation to be brought to the full Senate for a vote, Senate Majority Leader Harry Reid (Democrat, Nevada) announced Monday that he would support an “opt-out” version of a government-run “public option.”

Under this proposal, a public option would be included in the insurance exchange where individuals and families would be mandated to purchase insurance coverage, but state governments could choose not to participate in the plan.

While the Senate health committee’s bill included a public option, the Finance Committee instead included health care cooperatives in its version of legislation. Reid’s pledge to include the “opt-out” version of the public option makes a mockery of what is already a toothless measure.

At its best, the public option would serve as a dumping ground for those people without employer-provided coverage who could not afford to purchase private insurance on the exchange, and it would inevitably provide substandard benefits. However, even this fig leaf of reform has been vehemently opposed by the insurance companies, who see any government intervention into the private insurance market as a threat to their profits.

There were indications Monday, however, that the Obama administration is likely to be unwilling to back even the watered-

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down “opt-out” version of the public option. The *Huffington Post* on Saturday cited Democratic congressional sources who said that Obama is “actively discouraging Senate Democrats in their effort to include a public insurance option with a state opt-out clause.”

In its place, the White House is reportedly pushing for an alternative policy that would see the public option “triggered” if the insurance industry failed to hold down costs and meet certain as yet undefined benchmarks. The cosmetic “trigger option” has received some support from the insurance industry, as the measure would pose little threat that a government-run plan would ever come into existence.

Senator Olympia Snowe of Maine, the only Republican Finance Committee member to vote for the Baucus plan, has also indicated she might support the trigger option. In cynical fashion, the Obama administration has courted her support for some version of final legislation to lend a veneer of bipartisanship to the health care overhaul. In any event, Obama and numerous administration officials have repeatedly stated that the president is willing to sign legislation that does not include any form of a government-run option.

The major Congressional versions of health care legislation being debated in the House and Senate all have common features that will serve to boost the profits of the health care giants. They each include an individual mandate, requiring individuals and families to purchase insurance or pay a penalty. At the same time, there are no restrictions on what private insurers can charge.

In the interest of remaining “deficit neutral,” the legislation will slash hundreds of billions of dollars from the Medicare and Medicaid programs for the poor, elderly and disabled.

The plans also provide limited government subsidies to assist with the purchase of premiums paid to the private insurers.

While Obama pledged to fight for “universal health care” during his presidential bid, the health care legislation now being promoted by the White House would leave an estimated 17 million US residents, including 8 million undocumented immigrants, without health insurance.

Health care industry profits

The health care industry, while historically opposing measures that would require people to purchase coverage—fearing they would be burdened with providing coverage to less healthy and less profitable segments of the population—has entered into the process of revamping the system from the standpoint of maximizing their profits.

The *Los Angeles Times* notes, “The first public sign of the industry’s shifting stance came in November 2006 when the [insurance industry] trade group came out in favor of universal coverage with its reform plan.”

Insurance lobbyists poured millions of dollars into the health care “reform” efforts. Senate Finance Committee Chairman Max Baucus raked in nearly $1.5 million in 2007-2008 from lobbies representing hospitals, insurers, pharmaceuticals and other health care interests. According to the Center for Responsive Politics, members of the House “Blue Dog” coalition have received nearly $3 million from the insurance industry since 2006.

Representatives of America’s Health Insurance Plans (AHIP), the industry group, have been invited to the White House to consult with top Obama administration officials. AHIP top lobbyist Karen Ignagni and other industry figures have testified before Congress, and have shot off numerous studies and reports to congressional offices to oppose measures considered unfavorable to the insurance companies’ bottom line.

The result is a plan supported by the White House and congressional Democrats that will provide the health industry with millions of cash-paying customers, will not restrict prices charged for premiums, and is highly likely to bar any effective government-run public option.

The *LA Times* writes, “As President Obama’s push for a health care overhaul moves toward its final act, the oft-vilified health insurance industry is on the verge of seeing a plan that largely protects its financial interests.”

In advance of the enactment of new health care legislation, the insurance industry is jacking up premiums, particularly for small businesses, which employ about 40 percent of the private workforce. The *New York Times* reports that small businesses are seeing premiums rise on average about 15 percent for the coming year, double the rate of the previous year. “That would mean an annual premium that was $4,500 per employee in 2008 and $4,800 this year would rise of $5,500 in 2010,” according to the *Times*.

Insurance companies are under continual pressure from Wall Street to raise premiums to boost profits. The *Times* quotes Michael A. Turpin, a former senior executive for the insurer UnitedHealth, who says insurers are now “under so much pressure to post earnings they’re going to make hay while the sun is shining.”

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