



Options for Financing Health Reform Overview of Senate Finance Committee Discussion Paper

The U.S. Senate Finance Committee has released proposed policy options for financing health coverage expansions. The discussion paper did not include estimates for how much revenue the financing options would generate, but analysts project that covering most uninsured Americans through health reform will cost about \$1.5 trillion over a 10-year period.

The committee's discussion [paper](#), "Financing Comprehensive Health Care Reform: Proposed Health System Savings and Revenue Options," outlines three broad categories of potential funding sources: Reductions in current spending on health care, cuts in tax subsidies for health spending, and new taxes. Below is a summary of the major provisions in each of those categories.

Reductions in government spending on health care

The committee's policy options include two proposals to modify the costs for Medicare beneficiaries.

- **Modifying Medicare cost-sharing:** Medicare currently has very complicated cost-sharing requirements. Two-thirds of beneficiaries purchase supplemental policies (called Medigap), which help cover the cost-sharing associated with Medicare. The committee proposes making Medicare cost-sharing requirements similar to typical private coverage, introducing an annual out-of-pocket maximum, and indexing all cost-sharing to the growth rate in average Medicare costs. It would also restrict cost-sharing covered by Medigap, requiring Medicare beneficiaries to pay at least nominal cost-sharing. This is designed to encourage beneficiaries to make cost-conscious decisions.
- **Increasing Medicare Part D (drug) premiums for higher-income people:** Currently, all Medicare Part D enrollees pay premiums equal to 25.5 percent of average expected costs for basic coverage, regardless of their income (except for those who qualify for low-income subsidies.) This proposal would require beneficiaries above a certain income threshold to pay higher premiums than other enrollees. The committee suggests using the same thresholds as Medicare Part B, where individuals earning at least \$85,000 and couples earning at least \$170,000 in 2009 paid higher premiums than other enrollees. By increasing Part D premiums for higher income individuals, the committee suggests that some of the savings might be used to expand eligibility for the Medicare Part D low-income subsidy program, or to phase out the gap in drug coverage (the "donut hole") for all enrollees.

The committee's paper details other ways to reduce the costs of Medicare and Medicaid, including:

- **Reducing Medicare rates:** Adjust rates and/or annual increases that Medicare pays for home health, diagnostic imaging, some types of durable medical equipment, and other services and providers that Medicare may be over-paying.
- **Reducing other reimbursement:** Cut or modify Medicaid and Medicare reimbursements to hospitals for training physicians in residency programs (Graduate Medical Education payments) and for taking on a disproportionate share of low-income patients (Disproportionate Share Hospital payments) to more accurately reflect the hospitals' true costs.
- **Reducing geographic variation in spending:** Reduce expenditures in areas of the country where Medicare spending is higher than the national average, or reduce spending for providers who are above a threshold compared to other providers in their area.
- **Increasing the Medicaid drug rebates:** Increase the rebate amounts that pharmaceutical companies pay Medicaid, and enable managed care organizations that contract with Medicaid to obtain those rebates.

Cuts in tax subsidies for health spending

Currently, any amount paid by employers for employee health insurance is excluded from an employee's income for income tax purposes *and* from the employee's wages for payroll tax purposes. The committee's paper offers different options for requiring some individuals to pay income taxes on employer-sponsored insurance (ESI), including:

- **Require employees to pay taxes on high-cost plans:** Employees could only deduct from their income the value of their ESI up to a certain amount. The committee offers the value of the standard Federal Employee Health Benefit plan as a possible limit.
- **Requiring high-income people to pay taxes on some or all employer-provided health coverage:** The committee cites \$200,000 for individuals or \$400,000 for joint filers as potential income thresholds.
- **Requiring high-income individuals to pay taxes on high-cost plans.**

The committee's policy options include several other modifications to the tax system that could help raise revenue for health reform. These include:

- **Modifying or repealing the itemized deduction for medical expenses:** Currently, the law allows taxpayers to claim itemized deductions for any spending on health care that exceeds 7.5 percent of their income.
- **Limiting health spending accounts** (i.e. Health Savings Accounts, Flexible Spending Accounts and Health Reimbursement Arrangements): The committee proposes limiting the amount of tax-exempt contributions that individuals and employers can make to these types of accounts.
- **Requiring tax-exempt hospitals to meet certain standards:** Current standards for tax-exempt hospitals are imprecise and difficult to enforce. This option would require tax-exempt hospitals to provide a minimum level of charitable care, and to conduct community needs assessments regularly, among other requirements.
- **Closing tax loopholes** that: 1) exempt certain individuals and employers from paying the Medicare Hospital Insurance (HI) tax, and 2) give tax breaks to Blue Cross and Blue Shield and other nonprofit insurers who were once "insurers of last resort."

New taxes

This section proposes two new taxes on non-health items to help finance health reform.

- ***Create a Uniform Alcohol Excise Tax:*** Currently, the federal government charges an excise tax on alcoholic beverages produced in and exported to the United States. However, different types of beverages are taxed different amounts. This option would impose a uniform tax on all alcoholic beverages of \$16 per proof gallon.
- ***Introduce a Sugar-Sweetened Beverage Excise Tax:*** This option would impose a federal excise tax on every 12 ounces of sugar-sweetened beverage. The paper did not propose a specific amount for this tax.

The committee also provides a list of proposals for raising revenue that were introduced as part of President Obama's 2010 budget proposals, but that are not related to the health care system. These proposals include reducing the itemized deduction rate for families earning over \$250,000, and closing specific tax loopholes.