

Experts See Peril in Bush Health Proposal

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By [ROBERT PEAR](#)

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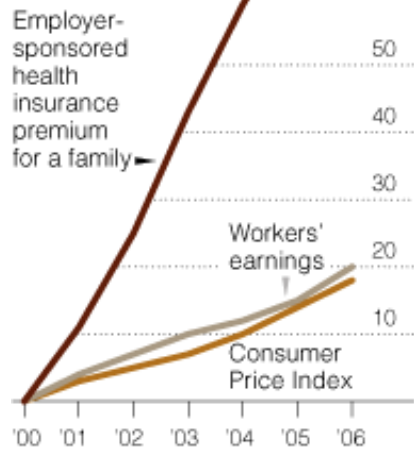
WASHINGTON, Jan. 27 — With his proposal to uproot a tax break that has been in place for more than 60 years, President Bush has touched off an impassioned debate over the future of the employer-based system that provides health insurance to more than half of all Americans.

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Rising Health Costs

President Bush is proposing a new tax deduction for people who buy health insurance on their own and a tax increase for some workers with particularly generous health benefits. The limit on tax-free benefits would increase with the Consumer Price Index, not with insurance premiums, which have been rising much faster.

GROWTH SINCE 2000



Source: Annual surveys by Kaiser Family Foundation and Health Research and Educational Trust

The New York Times

“Changing the tax code is a vital and necessary step to making health care affordable for more Americans,” Mr. Bush said in his State of the Union address this week.

Mr. Bush said his proposal would eliminate a bias in the tax code that strongly favored insurance provided by employers over coverage bought by individuals and families outside the workplace.

Paul Fronstin, director of health research at the Employee Benefit Research Institute, a nonpartisan organization, said: “The president’s proposal would mean the end of employer-based benefits as we know them. It gives employers a way out of providing the benefits because their employees could get the same tax break on their own.”

Tony Fratto, a White House spokesman, denied that the president wanted to move people away from the employer-based system and toward the individual insurance market. “We are seriously agnostic on that,” he said.

It might take years for changes to occur. “Large corporate employers could not immediately terminate their health benefits because there is, at present, no reliable place where employees can get coverage they can afford outside the workplace,” said Frank B. McArdle, a health policy expert at Hewitt Associates, a benefits consulting firm.

The economic rationale for Mr. Bush's proposal is that too many people have "gold-plated, deluxe" health insurance, which encourages them to use excessive amounts of health care, driving up costs for everyone.

Many economists agree. But they doubt that Mr. Bush's proposal would do much to hold down costs or cover more people.

"The president's proposal addresses inequities in the tax code that provide an open-ended subsidy for premiums paid by employers," said Robert D. Reischauer, a former director of the [Congressional Budget Office](#). "If your employer does not provide health insurance and you have to buy it on your own, you get no tax benefit at all. The president's plan would eliminate that distinction."

But Mr. Reischauer said, "A glaring problem with the president's plan is that he did not call for any stronger regulation of the individual insurance market." In that market as it now exists in most states, insurers can deny coverage or charge higher rates to sick people.

In their desire to achieve universal coverage, some Democrats have also begun to raise questions about the employer-based system. "We have to ask ourselves if the employer-based system of health care is still the best way for providing insurance to all Americans," said [Senator Barack Obama](#), Democrat of Illinois, noting that workers frequently changed jobs.

The [Service Employees International Union](#) negotiates with employers to secure health benefits for its members, but the president of the union, Andrew L. Stern, said, "The current employer-based health care system is not the foundation for 21st-century health care reform."

Mr. Bush's proposal differs radically from President [Bill Clinton](#)'s plan for universal coverage, but experts on health benefits said they were similar in one respect: In an effort to help the uninsured — about one-sixth of the population — they would upend the system that covers most Americans.

The Clinton plan would have provided comprehensive health benefits to 39 million uninsured Americans, with more than \$400 billion in new federal spending over 10 years. The White House says the tax changes proposed by Mr. Bush would provide coverage for 3 million to 5 million people at no cost to the government over 10 years.

Since Mr. Bush took office in 2001, the number of people without insurance has increased by more than 5 million, to 46.6 million, according to the [Census Bureau](#). Administration officials said they hoped to reverse that trend by helping states that offered basic private insurance policies to their residents. To pay for such help, the administration would take federal money from hospitals that serve large numbers of poor people.

Under Mr. Bush's proposal, employee health benefits would, for the first time, be treated as income and would be subject to income and payroll taxes, just like wages. At the same time, Mr. Bush would create a tax deduction for health insurance of \$15,000 for families and \$7,500 for individuals. The same deduction would be available to everyone with coverage, regardless of the source or value of the policy.

A family with coverage worth \$18,000 would have to pay taxes on the amount exceeding the \$15,000 standard deduction — \$3,000, in this example.

Katherine Baicker, a member of the president's [Council of Economic Advisers](#), said the proposal would increase taxes for 30 million people with the most generous employer-provided health benefits, unless they "change their behavior" and choose less costly coverage. Ms. Baicker said the proposal would cut taxes for more than 100 million people who bought insurance on their own or had employee health benefits worth less than the standard deduction.

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