Survey Finds Employers Are Unlikely to Raise Wages If Health Care Excise Tax Is Enacted

December 4, 2009

By Richard Rubin, CQ Staff

A new survey of employers is being used by some lawmakers to cast doubt on a central premise of the Senate's proposed excise tax on high-cost health insurance plans.

The study, released by Mercer, a human resources consulting firm, found that just 16 percent of the employers it surveyed during a recent Web seminar on health care legislation would be "likely" or "very likely" to raise wages if they cut benefits to avoid being hit by a 40 percent tax on the plans. Another 65 percent said they would be "unlikely" or "very unlikely" to raise wages to offset benefit cuts, while 20 percent were "not sure."

The wages-for-benefits trade is a central argument behind the tax, which would start in 2013 and apply to individual plans costing more than $8,500 and family plans costing more than $23,000. Residents of high-cost states, workers in high-risk industries and retirees who are not yet eligible for Medicare would get higher thresholds.

The excise tax is a critical funding mechanism for the Senate health care bill (HR 3590), and economists argue that it will help control the growth of health care spending. The thresholds are indexed to general inflation plus 1 percent, which means that over time more plans will be forced to find ways to limit premiums or face paying $1.40 for every $1 of benefits above the threshold.

But labor unions and House Democrats have been questioning the trade-off scenario, contending that companies are more likely to keep any money they save by cutting benefits.

The Mercer survey of 465 employers, though not a scientific poll, bolsters their argument.

"This study concludes what we have been saying all along, that there is a fundamental flaw in the Senate's proposed excise tax, and it unfairly raises the cost of health care plans for working families," said Rep. Joe Courtney, D-Conn., who has led House Democrats' campaign against including any version of the excise tax.

Courtney included a copy of the survey results in an e-mail message he sent out with Rep. Sander M. Levin, D-Mich.

Congressional scorekeepers contend that employers will, in fact, raise wages as they cut benefits. As a result, much of the $149.1 billion that the tax raises over the 10-year budget window is not from payment of the excise tax itself. Instead, the money comes from income and payroll taxes on the theoretically higher wages. According to a Democratic Senate Finance Committee aide, just 9 percent of the revenue is projected to come from the excise tax by 2013.

“The nonpartisan Congressional Budget Office has made clear this provision is one of the critical ways Health care reform legislation reduces long-term health care costs, one of President Obama’s biggest priorities as we tackle reform,” the aide said in a statement. “Economists agree that, when employers reduce one form of compensation, such as health coverage costs, that frees up amounts available for other forms of compensation.”

Under current law, health benefits are not considered taxable income, giving companies a reason to overspend on health care. The theory is that creating a disincentive to pay employees through the benefit system would encourage companies to pay more in taxable wages. Employees would then be likely to use some or all of that money to cover the additional out-of-pocket health care costs they might face as employers increase co-payments and deductibles and decrease premiums.

The House bill (HR 3962) contains no such tax, relying instead on a 5.4 percent surtax on adjusted gross income above $500,000 for individuals and $1 million for married couples.