BENEFIT Plan Developments

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President Bush Proposes Changes In Health Insurance Taxation

In his State of the Union address delivered on January 23, President George W. Bush proposed limiting the tax deductibility of employer-sponsored health care benefits, while providing a new tax break for Americans who purchase medical insurance on the individual market. The president also proposed channeling federal funds to states to assist them in offering basic private health insurance to the poor and sick.

"When it comes to health care, government has an obligation to care for the elderly, the disabled, and poor children. And we will meet those responsibilities," President Bush told Congress. "For all other Americans, private health insurance is the best way to meet their needs. But many Americans cannot afford a health insurance policy."

To help alleviate this problem, the president said he is proposing a new standard income tax deduction for Americans who purchase health insurance on the private market of $7,500 for individuals and $15,000 for families. But the plan would also turn employer-provided benefits, which employees currently receive tax-free, into taxable income. Participants in employer-sponsored health plans would be entitled to deduct the value of their benefits up to the new standard deduction limits, but for the first time, benefits that exceed these fixed amounts would be taxed.

Under the president's plan, all Americans with health insurance, regardless of the source, would be entitled to claim the full deduction, even if the cost of their insurance coverage falls below the upper limits. According to Bush administration estimates, the proposal would result in lower taxes for 80% of participants in employer-sponsored plans. However, future increases in the proposed caps of $7,500 and $15,000 would be tied to inflation, not to the actual increase in the cost of health insurance premiums.

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The president added that the new deductions "will help people who are insured or on the verge of being uninsured" to purchase health insurance, while encouraging the development of an individual market.

Discussing his proposals at a roundtable discussion in Lee's Summit, Missouri on January 25, President Bush said he believes one way to encourage consumers to make the right health care decisions "is to take the inequities out of the tax code."

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In addition to calling for changes to the tax code, President Bush also announced an initiative to provide federal funding to states that offer citizens access to basic, affordable health insurance. The funding would be used to help people with lower incomes or health problems pay for private insurance.

The president's health care plan met with immediate resistance from Democrats in Congress. They argued the proposed deductions would primarily benefit wealthier Americans who already have individual insurance policies, while failing to encourage uninsured people with modest incomes to purchase insurance. In addition, critics charged, removing incentives for employers to offer health benefits could erode existing employer-sponsored coverage.

Loss Of Financial Safety Net Worries Workers

Financial stress is increasing among Americans as responsibility for funding retirement and health care shifts from employers and the government to individual workers and their families, according to a study commissioned by MetLife. The study's findings are in line with observations about social and economic trends made during recent Congressional hearings examining the impact of growing income inequality and financial insecurity on middle class families.

The Metlife study is based on a survey of 1,500 Americans representing a wide range of ages, income levels, and education levels. Results showed that 56% of those surveyed believe they carry more financial burdens than their parents did, and 80% predict financial burdens for Americans will be greater in 10 years than they are today. The survey also found that 65% feel they are on their own in planning their finances, and 68% believe their family's financial future is more at risk today than in the past.

The erosion of employer-sponsored benefits appears to have exacerbated concerns about the future among many of the workers surveyed. Some 63% feel frustrated that they can no longer count on employer-sponsored benefits, such as health care and pension plans, as previous generations could. Moreover, 61% feel pressure to provide for their own retirement because they are receiving less generous retirement or pension benefits than they had originally anticipated.

Nearly three-quarters of respondents (73%) expressed concern that government-sponsored benefits, such as Social Security and Medicare, will not be available to support them in retirement. The survey further showed that 72% think Social Security benefits will not be available for future generations, and 53% are worried that the Medicare program will disappear.

The survey found that workers who have changed jobs a number of times differ in their views about whether this high level of mobility is positive or negative. Some 56% of respondents expect to change jobs more frequently in the course of their working lives than their parents did. Among this group, 47% said their job changes have been mainly based on personal and career goals, while 53% reported they have been forced to change jobs to maintain an income sufficient to meet their basic needs.

While 81% of survey participants believe that hard work can lead to the achievement of the American dream, 86% feel that Americans are working as hard or harder than ever just to get by, and 57% think the rich have an unfair advantage in the U.S.

When asked what the "American dream" means to them, the top responses among survey participants were financial security, freedom from want, family and children, home ownership, and a comfortable retirement. When asked if they believe they have achieved the American dream, 66% of respondents said they have yet to achieve it. Among those respondents, however, 67% said they believe it is still possible to achieve the American dream in their lifetimes.

"The financial burden shift is having profound implications on how Americans define and approach the American dream," said Rob Henrikson, chairman, president, and CEO of MetLife. "Where previously the American dream was defined as a combination of homeownership, a happy family life, and financial security stemming from a stable career, the defining theme now is almost a singular desire for financial security."

The study also revealed that, in the minds of many people, simply reaching the goals they have set for themselves does mean they have achieved the American dream. Some 73% of respondents told researchers they view the American dream as a never-ending pursuit and believe they can always do more to attain it. While 34% claim to already have what they need and believe the necessities in their lives will remain constant, 66% feel the bar is constantly rising in terms of the basic necessities of life. Results showed that younger generations are particularly likely to feel pressure to buy more and better material possessions.

The findings of the MetLife study echo comments made by political and economic experts on the financial challenges facing working Americans during Congressional committee hearings held on January 31.

Testifying before the Joint Economic Committee, former U.S. Treasury Secretary and Harvard University economics professor Lawrence Summers said, "If we are to assure adequate economic security for all of our citizens, we need to recognize that in a world where jobs are going to be increasingly impermanent, economic security cannot come only from the employment relationship."

Summers recommended that lawmakers consider new approaches in the areas of health insurance and benefits, as well as consider providing "wage insurance" to help mitigate the effects of a loss in earnings when workers change jobs.

Jacob Hacker, political science professor at Yale University, noted in his testimony before the House Ways and Means Committee that income volatility has risen even faster than income inequality and has become a serious problem for workers at all education levels. He further observed that feelings of financial insecurity among Americans are driven not just by the risks posed by sharp fluctuations in earnings, but also "by the rising threat to family finances posed by budget-busting expenses like catastrophic medical costs, as well as by the massively increased risk that retirement has come to represent."

Over the last generation, Hacker said, "we have witnessed a massive transfer of economic risk from broad structures of insurance, whether sponsored by the corporate sector or by government, onto the fragile balance sheets of American families." This insecurity, he concluded, "strikes at the very heart of the American dream."

Governor Announces $12 Billion Plan To Provide Universal Health Care To Californians

Gov. Arnold Schwarzenegger of California has unveiled an ambitious plan to provide health insurance to all 36 million residents of the state, including 6.5 million people who are currently uninsured.

When asked if they believe they have achieved the American dream, 66% of respondents said they have yet to achieve it.

But the governor's plan has sparked controversy among California legislators and policymakers, with several leaders in the state legislature backing competing health care reform proposals that would provide more limited coverage at a lower cost.

Announcing the plan on January 8, Gov. Schwarzenegger characterized the current health care system in California as "broken" and in desperate need of reform. "We have to aim high and attack the entire system from top to bottom," the governor said. "We can create a model the rest of the nation can follow."

The plan, which requires the approval of the state legislature, would take a multi-pronged approach to financing health insurance for Californians who lack coverage. Employers with 10 or more workers would be required to offer a health care plan to their employees or pay a fee of 4% of their payroll into a state-administered purchasing pool that would provide subsidized coverage to the working uninsured. In addition, the state would assess a "coverage dividend" of 2% of gross revenues on physicians, and 4% on hospitals, to pay for higher reimbursements for health care providers that treat patients enrolled in California's Medicaid program, Medi-Cal.

Under the governor's proposal, insurers would be banned from refusing coverage to applicants with prior medical conditions. In a move intended to limit the amount of revenue insurance companies allocate to profits and administration, the plan would require insurers to spend at least 85% of premium revenues on medical care.

California's Healthy Families program, which provides low-income children with health insurance coverage, would be expanded under the plan to include children in families with incomes of up to 300% of the federal poverty line. All children resident in the state would be eligible to enroll, including those whose parents are undocumented workers.

Prior to Gov. Schwarzenegger's announcement, Massachusetts, Maine, and Vermont had launched initiatives to provide health care coverage to all—or nearly all—residents. But implementing a universal health care plan in California could prove more challenging because California has a far greater number of uninsured residents than these New England states.

Like the plan in Massachusetts, residents of California would be required under Gov. Schwarzenegger's proposal to secure health insurance coverage substantial enough to protect themselves and their families against catastrophic medical expenses and to prevent the cost shifting that occurs when large numbers of people receive care without paying the full cost.

Republican leaders in the California Senate have proposed a more modest plan to provide health care coverage to some of the uninsured, without mandating universal coverage. Meanwhile, the Democratic leaders of both houses of the legislature have put forward separate health care proposals that are more comprehensive than that of the Republicans, but still fall short of providing insurance coverage to all California residents.

At a press conference on January 31, Gov. Schwarzenegger told reporters he welcomed the debate over various aspects of his health care plan, and he was "very happy to hear and to have a proposal from the Republicans." Negotiations among state lawmakers will be necessary, the governor added, "but the bottom line is… we're going to get there."

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