

Impacts of the Senate High Cost Insurance Excise Tax on Wages: Updated

Jonathan Gruber, November 20, 2009

The excise tax on high-cost insurance now before the Senate presents a rare “win-win” opportunity: it can both finance necessary expansions in health care for our lowest income citizens *and* provide an effective tool to lower health care spending. By lowering health care spending, the high-cost insurance tax will shift more compensation into wages and improve the standard of living of U.S. workers. Estimates from the Joint Tax Committee (JCT) can be used to demonstrate the important effect of the High-cost insurance tax in terms of increasing worker wages. Using data from the JCT, I show in this memo that the high-cost insurance tax will

- Raise net worker wages from 2013 through 2019 by *\$234 billion*
- By 2019, net wages per insured household will be \$700 higher because of this excise tax
- Almost two-thirds of these gains accrue to families with incomes below \$100,000, and more than 90% of these gains accrue to families with incomes below \$200,000

This memo updates a similar analysis dated November 5, 2009

Background: The JCT Estimates of the High-cost insurance Tax

This analysis relies on four documents issued by the JCT. The first is their October 13, 2009 memo which provided the score of the revised High-cost insurance tax as in the Senate Finance Committee mark. This memo shows the year-by-year revenues raised by the High-cost insurance tax. Importantly, the memo highlights the *two different ways* the High-cost insurance tax raises revenues. The first is through actual excise tax receipts paid by those high cost plans that remain above the High-cost insurance threshold. The second is through the fact that firms will spend less on health insurance – and this reduced spending will be shifted to workers in the form of higher wages. This division is very informative: the JCT estimates that about 80% of the revenues raised by the High-cost insurance tax will come from revenue from higher wages, not from the excise tax itself.

It is important to note that the conclusion that lower employer insurance spending will lead to higher wages is *not* mere speculation: it is strongly supported by both economic theory and evidence. This is why it is the basis for the modeling done by both JCT and CBO.

The second document is the JCT’s September 17, 2009 letter to Senator Orrin Hatch which showed the distributional consequences of an earlier version of the High-cost insurance tax, which had a lower rate (35%) but did not have adjustments for location, worker age, or high risk industries. These helpful tables show the distribution of the revenue burden of that tax by income group.

The third document is a March 24, 2009 JCT document which provides information on the distribution of marginal tax rates by income category.

The fourth document is the November 18, 2009 score of the Reid proposal in the Senate which lays out the score for his further revised High-cost insurance excise tax. Unfortunately, this document does not provide the details that are presented in the October 13 memo, so I cannot precisely break out the revenues into those from paying the excise tax and those from higher wages. However, the effect on wages is directly proportional to the off-budget revenues raised from payroll taxation under this legislation, so I can use the ratio of off-budget revenues in the revised score (31.3) to off-budget revenues in the October 13th score (41.7) to estimate that wage effects would be 75% as large as would be the case under the SFC proposal.

Interpreting the JCT Estimate

The JCT estimates can be used to infer the impact of the High-cost insurance tax on wages. This is done as follows:

- Use the October 13th score to compute the share of revenues that are raised from taxing wages, as opposed to the excise tax itself. This falls from about 90% in 2013 to about 80% in 2015 and beyond. Assume that this distribution is the same for the November 18th score.
- Use the September 17 results to assess how these total revenues are distributed by income group. I assume the distribution for the November 18th proposal is the same as for the September 17th proposal. I also assume that the share of revenues raised from taxing wages is the same for all income groups
- Use the March 24th memo to get marginal tax rates for each income category
- Compute the increase in employee wages for each income category by taking the total revenues raised from taxing wages (total revenues times share raised from taxing wages) and dividing by the average marginal tax rate for that income group.
- Compute the net gain to that income group by subtracting off the total tax burden on that group from the High-cost insurance tax (once again assuming the distribution of the November 18th proposal is the same as the September 17 proposal)
- Multiply those net gains by 0.75 to account for the reduction in the tax base from October 13th to November 18th

Note that the JCT distributional information is only available every other year; I imputed the missing years by assuming the average ratio of gross (or net) wages to revenues raised in the surrounding years.

Results

The results of this analysis are presented in Table 1. The second column shows the year by year revenues from the High-cost insurance tax, while the third column shows the net wage implications for workers, after subtracting out High-cost insurance tax payments.

Key findings from the table are:

- Worker wages rise by *\$55 billion* by 2019
- This amounts to almost \$700 per insured household in 2019
- Worker wages rise by *\$234 billion* in aggregate over this time period
- This is also a very progressive wage adjustment. In every year, the share of wage gains accruing to those with incomes below \$100,000 is about two-thirds of the total, and the share of wage gains accruing to those with incomes below \$200,000 is over 90% of the total.

Year	High-cost insurance Tax Revenue (\$ billions)	Net Rise in Wages (\$ billions)	Net Rise in Wages per Household (\$)
2013	7	13	160
2014	13	22	270
2015	17	25	320
2016	22	33	410
2017	26	39	490
2018	30	47	590
2019	35	55	690
Total	149	234	