

LABORPARTY

Financing Just Health Care Labor Party Briefing Paper

Revised February 2002

The Labor Party proposes a national health insurance program for the United States that would provide universal coverage of comprehensive health benefits for every U.S. resident. By eliminating administrative waste and profit in the private health insurance industry, the United States can pay for universal coverage as well as extensive benefits such as nursing home, prescription drugs and long term care for the same total amount of money (an estimated \$1.213 trillion for 1999) that we now spend.

The Labor Party proposes to keep most existing government revenues in place (nearly half the current U.S. health care budget); implement a variety of mechanisms to make the wealthy pay their fair share; and impose a modest tax on all employers (a dramatic savings for employers now purchasing health care).

Key Components of Just Health Care Financing

- i Keeps much of the existing health care financing in place – the government already accounts for half of health care spending.
- i Eliminates employer contributions to private insurance premiums – replacing them with a modest employer payroll tax of 5.5 percent.
- i Eliminates individual premiums including Medicare Part B and co-payments as well as 80 percent of out-of-pocket costs.
- i Creates no new taxes for workers (except for the wealthiest 5 percent of Americans).
- i Creates new funding sources that draw on the incredible wealth gained by the richest Americans over the last decade.
- i Protects health industry workers via a Just Transition.

Introduction

Although we spend more on health care than any other industrialized nation, we are the only one not to cover all its residents.¹ Nearly 45 million of us – most with full-time jobs – have no coverage whether through the job or government program such as Medicare and Medicaid.² Many of us lucky enough to have health insurance have inadequate coverage and forego needed care and medication because of high co-payments and deductibles.

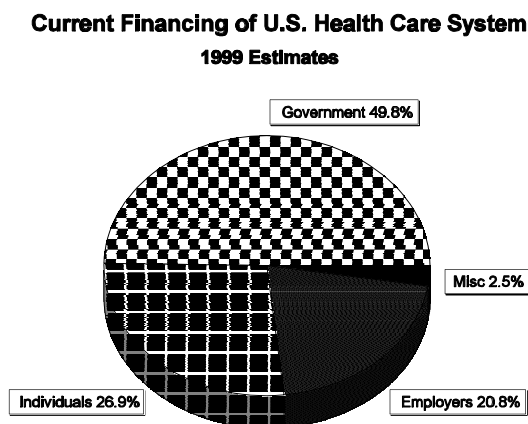
The Labor Party proposes national health insurance: a public insurance fund (with the federal government as the insurer) and a private delivery system (health care services – doctors, hospitals, clinics – remain private). Individual health care consumers will have the freedom to choose their doctors, hospitals and other health care providers.

From birth to death, all medical care is covered, including:

i doctor visits i access to specialists i hospitalization i prescription drugs i mental health treatment i nursing home and long-term care i dental and vision services i occupational health services i preventive and rehabilitative services i medical supplies and equipment i

How Much Does the United States Spend on Health Care?

In 1999, the United States spent an estimated \$1.2 trillion on health care – 12.8 percent of the Gross Domestic Product or an average of \$4,443 per person.³



The total U.S. health care budget is funded currently by:

Government tax revenues: \$604.5 billion (49.8%)

Taxes (including the employer and employee Medicare payroll tax) fund government services including Medicare, Medicaid, public health programs, health care for government workers and the military and medical research.

Federal Programs

Medicare Payroll Tax (1.45 percent each on employee & employer): \$121 billion

Employer contribution to Medicare for federal workers: \$2.8 billion

Health insurance premiums for federal workers: \$13.8 billion

Medicaid and additional Medicare: \$185 billion
Public health programs: \$49.7 billion
Total: \$372.3 billion

State and Local Programs

Health insurance premiums for state and local employees: \$57.5 billion
Employer contribution to Medicare for state and local employees: \$6.8 billion
State share of Medicaid and other services: \$127.5 billion
Total: \$191.8 billion

Federal/State/Local Hospital Construction and Research

Total: \$40.4 billion

Employers: \$252.1 billion (20.8%)

Employers contribute to employee health care premiums, workers compensation and company in-patient health facilities.

Employee health insurance premiums: \$224.5 billion
Workers compensation: \$23.6 billion
In-patient health facilities: \$4 billion

Individuals: \$326.7 billion (26.9%)

Individuals pay all or part of health care premiums, co-payments, Medicare Part B premiums and out-of-pocket expenses.

Premiums paid by individuals/households: \$83.7 billion
Part B Medicare premiums: \$19.9 billion
Out-of-pocket spending: \$223.1 billion

Miscellaneous revenues: \$30.2 billion (2.5%)

Funds raised from donations from individuals and foundations contribute a small percentage of the total budget.

Total Health Care Budget: \$1.213 trillion

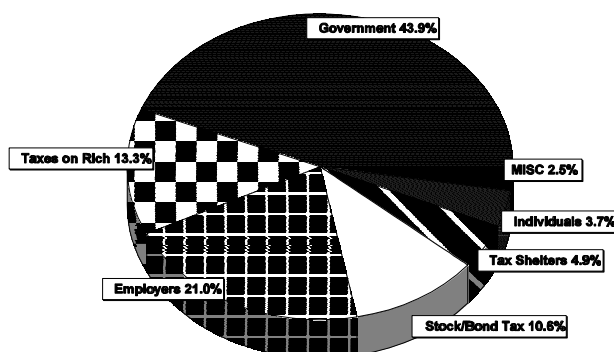
Just Health Care: Sources of Revenue

By eliminating administrative waste and profit in the health care system, the United States can provide comprehensive health care coverage to every resident of the United States for the same total amount of money (an estimated \$1.213 trillion for 1999) that we now spend.⁴ The savings from the elimination of private insurance, however, comes at the expense of the jobs of nearly 1.25 million workers in the health care industry. To raise a global budget of \$1.213 trillion and to provide a Just Transition for health care industry workers, the Labor Party proposes to:

- i Keep most existing government revenues in place (nearly half the current U.S. health care budget);
- i Implement a variety of mechanisms to make the wealthy pay their fair share; and
- i Impose a modest payroll tax on all employers which will create a dramatic savings for employers now purchasing health care.

Financing National Health Insurance: Just Health Care

1999 Estimates in Billions



Government tax revenues: \$533.3 billion (43.9%)

Keep existing federal, state and local revenues that currently pay for Medicare (employer and employee payroll taxes – 1.45 percent each or \$121 billion) and other federal and state programs (with the exception of revenues that now pay government workers' health premiums).

Employers: \$255.1 billion (21%)

Implement a 5.5 percent tax on the payroll of all public and private employers: \$251.1 billion
Keep existing employer expenditures for corporate clinics: \$ 4.0 billion

Employers will be taxed 5.5 percent of their payroll – for a total of \$251.1 billion. Today, many employers pay more than 5.5 percent of payroll for their employees' health care benefits, some pay less, and some employers do not offer health benefits at all. Under Just Health Care, all employers will pay 5.5 percent of their payroll to cover the costs of health care for everyone.

This means that those employers currently spending more than 5.5 percent of their payroll for health care will incur less costs, while those spending less than 5.5 percent or nothing at all, will see their costs rise. The annual employer cost on the average wage of \$28,861 will be \$1,587.⁵ In contrast, the average annual premium in 2000 was \$2,650 for single coverage and \$7,053 for family coverage.

Income taxes on the wealthy: \$161.9 billion (13.3%)

The Labor Party believes that the richest Americans should pay their fair share. Only taxpayers with incomes above \$183,200 will see their taxes increase. Taxpayers with average incomes of \$183,300 will be taxed an additional 5 percent. Those with average incomes of \$763,200 (the richest 1 percent) will be taxed an additional 10 percent. The tax is on income only and does not include stocks, bonds and property. Ninety-five percent of taxpayers will save money.

Tax on stock and bond transactions: \$128.4 billion (10.6%)

Anyone who purchases a stock will pay a transaction tax equal to one half of one percent of the purchase price. For those who invest and hold on to stocks, the tax will be minimal. For example, a \$100 stock purchase will be taxed 50 cents. If the stock is held for four years and sold for \$125, the tax represents only two percent of the gain. However, speculators who buy and sell rapidly (such as day traders) pay more. If the same \$100 stock is sold in two months for \$101, the tax represents 50 percent of the \$1 gain. This will dampen speculation and also provide a healthy revenue stream for Just Health Care.⁶ See the box below for details.

In 1997, about half of all households owned no stocks, not even in mutual funds or pension plans such as IRAs, 401(k), 403(b) or Keogh plans. The wealthiest 10 percent of households owned 82 percent of all stocks, including those in mutual funds or pension plans. Fully 41 percent of all stock is owned by the richest 1 percent of households.⁷

	Tax Rate	Annual Revenue
Stocks	.25% each on buyer & seller	\$36.5 billion
Government Bonds	.1%	\$27.7 billion
Corporate Bonds	.1%	\$14.7 billion
Futures Contracts	.02%	\$13.3 billion
Currency	.1%	\$33.3 billion
Swaps	.02%	\$2.9 billion
Total		\$128.4 billion

Source: Center for Economic and Policy Research, 2000

Corporate tax shelter loophole: \$60 billion (4.9%)

According to the Treasury Department, corporations are getting away with murder when it comes to avoiding taxes. While profits have soared over the past few years, corporate taxes have not. For every dollar of profit reported to shareholders, 91 cents were taxable by the Internal Revenue Service in 1990. By 1997, that number fell to 70 cents on the dollar. In 1997 alone, corporations paid \$60 billion less in income taxes than they would have if they had paid taxes at the same rate as in 1990. In contrast, individuals paid \$80 billion more than in 1990.

An increase in abusive tax shelters — various accounting methods that have no legitimate business purpose and are intended solely to lower a company’s taxes — is responsible for a growing share of the shortfall. Such schemes cost the government at least \$10 billion a year (and possibly much more) according to the Treasury Department.⁸ Closing these loopholes and making corporations pay their fair share will raise \$60 billion annually for Just Health Care.

Individuals: \$44.6 billion (3.7%)

Just Health Care eliminates all household contributions to premiums, co-payments, Medicare Part B and all out-of-pocket costs for services not currently covered such as dental, vision and prescription drugs. Total household expenditures will drop from \$326.7 billion to \$44.6 billion annually. The only expenses left for individuals will be over-the-counter drugs such as aspirin, elective cosmetic surgery, etc. This represents an 80 percent reduction in current out-of-pocket expenses.⁹

Existing miscellaneous revenues: \$30.2 billion (2.5%)

Existing funds raised from donations from individuals and foundations will continue to contribute a small percentage of the total budget.

Total Just Health Care Budget: \$1.213 trillion

Worker Dislocation and Just Transition¹⁰

One of the most attractive aspects of national health insurance is its cost savings in the area of administration. Unfortunately, these savings come at the expense of the jobs of workers in health care administration. The Labor Party believes we have an obligation to provide a just transition for these workers. In fact, just transition is an integral part of the Just Health Care plan.

Just Transition's goal is to alleviate the financial burden of eliminating health care jobs and to make it easier to find another job at a comparable salary. Every worker who loses his or her job because of the transition to Just Health Care will receive:

- i Full take-home pay and benefits for up to four years, or
- i A four-year wage subsidy for any worker who takes a job that pays less than the old job; and
- i Full tuition for up to four years if the worker chooses to attend school.

Funding Just Transition

The Just Transition will be funded, in part, by the money "saved" by those employers who previously paid more than 5.5 percent of their payrolls for health benefits. The difference between what was paid previously and the amount paid with the 5.5 percent will be taxed over a specific time period as a windfall profit tax.

The GI Bill of Rights: Example of a Successful Just Transition

In 1944, faced with the possibility of mass unemployment when millions of U.S. veterans returned from World War II, Congress passed the GI Bill of Rights. The idea was simple: pay returning veterans a living wage to go to school, redefining "work" while the economy made the transition from war to civilian production. The GI Bill of Rights provided government funds for education including tuition, lab fees, books, health insurance and supplies. In addition to tuition, students received up to \$1,440 per year for living expenses. A 1988 congressional analysis¹¹ of the program showed it to be a major success: for every dollar the government invested, the return was \$6.90. According to the report, about 40 percent of those

who participated would not otherwise have attended college. The additional education led to higher wages for the GIs and more taxes for the government.

What Will Workers Pay Under Just Health Care?

In 1997 the average household in the United States spent \$1,841 on health care – premiums, co-payments, doctor and hospital bills, prescription drugs and medical supplies – a \$700 increase from 1987.¹² As health care costs escalated, employers increasingly shifted health costs to employees. In 1980, only a quarter of employees who obtained their medical insurance through their employer were required to contribute for single coverage and just under half had to pay for family coverage. By 1995, two-thirds of full-time employees with employer-based medical insurance contributed to the cost of single coverage and 80 percent contributed to the cost of family coverage.¹³

Percent of Employees Required to Contribute to Employer-Provided Insurance (For those obtaining coverage through their employers)

Year	For Individual Coverage	For Family Coverage
1980	25% had to contribute	49% had to contribute
1995	66% had to contribute	80% had to contribute

Under Just Health Care, income taxes will increase only for those taxpayers with average incomes of \$183,200 and above. Workers will enjoy a lifetime of quality health care while paying less. By eliminating premiums, co-payments, deductibles and most out-of-pocket costs, **95 percent of taxpayers** will save money under Just Health Care.

Notes

1. *U.S. Bureau of the Census Statistical Abstract of the United States 1996*. Washington, DC: U.S. Government Printing Office, 1996.
2. *Current Population Survey*. Washington, DC: U.S. Census Bureau, 1999.
3. The estimates for 1999 are derived by taking 1992 data in Cathy A. Cowan and Bradley R. Braden “Business, Households and Government: Health Care Spending 1995” *Health Care Financing Review* (Spring 1997) Vol. 18. No. 3, p. 196 and inflating by the overall rise of health care expenditures as cited in National Health Expenditures, by Source of Funds and Type of Expenditure: Selected Calendar Years 1993-1998 (Table 3) Health Care Financing Administration, Office of the Actuary, National Health Statistics Group (<http://www.hcfa.gov/stats/nhe-oact/tables/t3.htm>).
4. David U. Himmelstein, MD and Steffie Woolhandler, MD, MPH and the Writing Committee of the Working Group on Program Design “A National Health Program for the United States: A Physician’s Proposal” *New England Journal of Medicine* 320:102-108 January 12, 1989. Steffie Woolhandler, MD, MPH and David U. Himmelstein, MD, “The Deteriorating Administrative Efficiency of the U.S. Health Care System,” *New England Journal of Medicine* 1991; 324:1253-8. Steffie Woolhandler, MD, MPH, David U. Himmelstein, MD and James P. Lewontin, “Administrative Costs in U.S. Hospitals,” *New England Journal of Medicine* 1993; 329:

400-3. Unpublished updates by the authors.

5. Average wage for 1998. National Average Wage Index, Social Security Administration, October 19, 1999 (<http://www.ssa.gov>).

6. Dean Baker. *Taxing Financial Speculation: Shifting the Tax Burden From Wages to Wagers*. Washington, DC: Center for Economic and Policy Research, February 2000.

7. "The Bull Market: Is the Stock Boom a Bust for Workers?" *Paycheck Economics*. Vol. 1, No. 2. Washington, DC: Economic Policy Institute, May 1999, p. 3.

8. David Cay Johnston. "Corporations' Taxes Are Falling Even as Individuals' Burden Rises." *New York Times*, February 20, 2000 and David Cay Johnston. "U.S. Takes Aim at Tax Shelters for Companies." *New York Times*, February 29, 2000.

9. Edith Rasell and Kainan Tang. *Paying for Health Care: Affordability and Equity in Proposals for Health Care Reform* Working Paper No. 111. Washington, DC: Economic Policy Institute, December 1994, p. 27.

10. Les Leopold. "The Case for Making Workers Whole: No Net Loss" Workshop on the Transition to Virtual Elimination: Dioxins and Furans as a Case Study March 30-31, 1995 International Joint Commission. New York: Labor Institute, 1995.

11. *A Cost-Benefit Analysis of Government Investment in Post-Secondary Education Under the World War II GI Bill*. Washington, DC: Subcommittee on Education and Health of the Joint Economic Committee, December 14, 1988.

12. "What the Nation Spends on Health Care: A Regional Comparison" *Issues in Labor Statistics*. Washington, DC: U.S. Department of Labor, Bureau of Labor Statistics, July 1999. (<http://stats.bls.gov/opub/ils/pdf/opbils18.pdf>).

13. "Employee Medical Care Contributions on the Rise" *Issues in Labor Statistics*. Washington, DC: U.S. Department of Labor, Bureau of Labor Statistics, April 1998 (<http://stats.bls.gov/opub/ils/pdf/opbils18.pdf>).