



Taxing Health Insurance – the unintended positive side effects

The Senate health reform bill currently puts a 40 percent tax on single health insurance policies that cost more than \$8,500 a year, and on family policies that cost more than \$23,000 a year. House Democrats and labor unions oppose this tax, but if they could foresee the tax's likely side effects, they might re-think it.

Limiting the tax advantage on health insurance policies could get more people into affordable health insurance and then, they are likely to have better health. Once the new tax began, several things would happen:

- First, demand will fade for policies that cost more than the limit.
- Second, with leaner coverage, consumers will demand fewer medical services. (This is the whole idea behind consumer-driven health plans: when consumers become first-hand aware of their expenses, they make more cost effective decisions.)
- Third, the health industry will slow its growth as consumer demand wanes.

As a result, the cost curve would indeed bend and more people could afford health insurance.

Critics may bemoan slower health industry growth and less innovation. Less health innovation has a strange upside: as a society, we will have more people able to get medical care. We will have more healthy people when the health industry is not racing to the next miracle cure. That miracle cure is what drives health care costs higher and higher, and puts health insurance further out of reach.

How to pay for health reform is one of the biggest differences between the House and Senate health reform bills. The House's strategy of taxing high income earners may win the day. But I'm hoping that the health insurance tax survives!

by Linda K. Riddell, M.S.
Health Economy LLC
www.HealthEconomy.net