



## Taxing Health Insurance – How It Could End the Crisis

The President’s Advisory Panel on Federal Tax Reform has recommended that **health insurance premiums be tax free only up to the “average premium”** – which they calculate as \$5,000 per year for an individual and \$11,500 for a family. This idea will no doubt raise a hue and cry from consumer groups, health insurers, and other stakeholders. But it just may be what will finally rein in health care costs.

Limiting the tax advantage to the first \$5,000 (or \$11,500 for families) will set off a domino fall.

- First, **demand for plans that cost more than the limit will fade**. This demand is inflated by at least the corporate tax savings. That is, employers are willing to spend more on health insurance when they are spending tax free dollars. (The tax reform panel has also recommended that individuals get the same tax savings as corporations.)
- Second, **with leaner coverage, consumers will demand fewer health services**. Wide consensus is that consumers demand more services because they do not pay for them directly. This philosophy is the foundation for consumer-driven health plans.
  - Many will exclaim that fewer health services will cause poorer health. The counterpoint is that **affordable health insurance will bring down the numbers of uninsured and offer more people fundamental health services**. The alternative is the insured few get sky’s-the-limit care while the growing uninsured goes without basic care.
- Third, the health **industry will slow its growth when consumer demand wanes**. Yes, less innovation will occur but as a society we will have more healthy people. Besides, innovation in the past decade has not lengthened our lives or decreased our disabilities. Countries that spend less than half what we do live longer and have comparable disability rates.
  - Much interest is currently focused on making healthier lifestyle choices. This strategy counters the idea that more and more medical care is the answer. Yet, we continue to applaud medical advances.

**The chances of adopting this tax strategy are, however, slim.** Every interested party – from consumers to health care providers – has a rationale to oppose it. The desire to end the health care crisis is strong, but the courage is lacking.

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