American Benefits Council

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Proposed Tax on Retiree Drug Subsidies: How Much is it Really Worth?

Summary

The proposal to tax retiree drug subsidies is scored by Joint Tax for its revenue potential, but it is also scored by CBO for resulting incremental outlays. Only the Joint Tax revenue estimate is separately identified, while the CBO outlay estimate is buried within the overall cost estimate of health reform. When both the revenue and outlay sides of the equation are considered in combination, the true value of the proposed tax is much less than the Joint Tax revenue estimates. Further, because neither Joint Tax nor CBO were aware of the adverse accounting implications of this proposal when their estimates were prepared, it is our belief that the proposal would actually cost the government more money in incremental Part D drug benefits than it might generate through imposition of this tax.

Background

For each company that drops coverage as a result of this tax proposal, the incremental public Part D outlay will be about three times the tax revenue that would have been generated. Net, net, the government loses money if more than about 24% of private plan participants are transferred to public-financed Part D plans. We understand that Joint Tax and CBO predicted fewer than 24% of participants would be shifted to public-financed plans. However, the specific assumption has not been disclosed.

As a result, the underlying CBO outlay estimate has also not been disclosed. However, the outlay can be estimated with reasonable accuracy. Using the Joint Tax $5.4 billion revenue estimate as a base, the following chart imputes the true net value of the tax proposal depending on how many participants were assumed to shift into public-financed Part D coverage:

Possible JCT/CBO Assumed Percent of Participants Who Would Lose Private Coverage	Imputed CBO Outlays Buried in CBO Estimates	Imputed Net Value to Health Reform Package
0% of Participants	$0.0 billion	$5.4 billion
6%	1.3	4.1
12%	2.7	2.7
24%	5.4	0

For example, if Joint Tax and CBO had already assumed that 12% of participants in employer-sponsored plans would end up in public-financed Part D plans, the net underlying value of the tax proposal would only be half of the Joint Tax revenue estimate of $5.4 billion. That number would drop to zero if a 24% coverage shift had been assumed.

Now that we understand the accounting implications, we believe the tax proposal might cause more than 1/3 of participants to be moved out of employer-sponsored prescription drug plans and into public-financed Part D plans. This would result in outlays exceeding revue by, roundly, $4 billion.