HEALTH POLICY

HOW WILL FEDERAL TAX "REFORM" AFFECT HEALTH CARE?

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Good news, your taxes are going down! Uh oh, you're losing your health insurance! Depending on your perspective, the recent federal tax overhaul may be the greatest tax reform of recent years, with tax cuts for all, paid for by supercharged economic growth. Or, it may be the worst tax policy of modern times, with a budget-busting giveaway to the wealthy that will cause millions to lose social services and health insurance.

Whatever your opinion of this complex bill, known unofficially as the Tax Cuts and Jobs Act (TCJA) of 2017[1], it is likely to have far-reaching and long-lasting effects on the national economy, business environment, state and local budgets, and individual finances. It is also the most important healthcare legislation passed by the federal government since the Affordable Care Act (ACA) of 2010. It will impact the healthcare system at multiple levels, and the ripple effects could dramatically alter the healthcare landscape for years to come. As it rolls out over the next decade, and beyond, we can expect to see significant effects on health insurance availability, access to care, and healthcare costs.

The provision that will have the most obvious and direct impact on health care is the elimination of the ACA tax penalty for individuals not covered by a qualified health insurance plan. The "individual mandate" was included in the ACA to counterbalance the requirement that insurers sell coverage to anyone, regardless of their health status. With elimination of this penalty, many individuals, especially those who are younger and healthier than average, may decide not to buy health insurance, driving up premiums for the older and sicker population left behind. This could potentially send health insurance exchanges into a "death spiral," with rising costs driving out more and more people until insurance becomes unaffordable for most. But the Congressional Budget Office (CBO) expects the exchanges to stabilize, albeit with 13 million more Americans uninsured by 2027, and with premiums rising 10% annually above baseline projections. CBO projects that with fewer buying insurance plans on the exchanges, federal subsidies will be reduced by $338 billion over 10 years.[2] However, this does not account for the costs of uncompensated care shifted onto hospitals, providers, and other payers, the societal costs of worse health outcomes, or the increased costs of caring for a population with less access to care.

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A less direct, but potentially even more important, effect of the TCJA is its overall impact on the federal budget and the growing national debt. While proponents argue that it will pay for itself by stimulating growth, most economists feel this is unlikely. CBO projects it will add about $1.4 trillion to the debt over 10 years, adjusted down to about $1 trillion after accounting for additional growth. Other analyses, however, suggest it could add more than $2 trillion to the debt.[3] Budget deficits could get even worse if there is a downturn in the economy. The reality is that over the foreseeable future, Congress will face rising deficits and growing pressure to cut spending, especially on domestic non-defense programs, such as Medicare, Medicaid, and Social Security. Congressional leaders have already indicated their intention to target these programs for cost reductions, and the current administration seems eager to support this.

Cuts to Medicare and other federal health programs are likely to fall heavily on hospitals and providers, and

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could have far-reaching effects on access to health care, especially for the most vulnerable Americans. Changes are already being proposed for Medicaid, such as work requirements and paperwork obstacles, which seem intended to reduce costs by limiting access. While "reforms" to popular social programs could carry significant political risks in an election year, it fits with Republicans' long-term goals of reducing spending on social programs and shrinking the federal government.

Budget effects at the state level could be just as problematic for healthcare spending. The tax changes will have different effects across the various states, but some may face significant budget shortfalls as a result. Changes to the deductibility of state and local taxes, and limitations on mortgage deductions, will raise the cost of living in high cost states, putting a burden on housing markets and local budgets, while incentivizing high earners to move to low tax states. States already facing tight budgets could see revenues drop while the costs of Medicaid and other state funded social programs continue to rise. This could limit states' ability to fund Medicaid as well as other important programs addressing mental health, addiction treatment, and family support, at a time when demand for these services is rising. We may see states adopt some creative strategies to mitigate the effects of the tax bill, but significant disruptions are likely.

Hospitals, providers, and healthcare companies will also be affected. The most dramatic change is the permanent reduction of the corporate tax rate from 35% to 21%. While many businesses are already paying less than the standard rate due to deductions and other mechanisms, pharmaceutical companies, insurers, and other for-profit health related businesses could benefit substantially. How these gains will be reinvested or passed on to owners, investors, workers, or consumers remains to be seen. But non-profit entities such as hospitals and health systems with tax-free status may find it more difficult to compete against for-profit entities. At the same time, more patients will lose their insurance and fall back on the safety net system, causing an increased burden of uncompensated care. The corporate tax changes could also have substantial effects on productivity, employment, investment, interest rates, inflation, movement of capital, trade deficits, and many other aspects of the business environment. Supporters are optimistic these effects will be positive, but much uncertainty remains.

The effects on individuals will vary considerably depending on income level, current deductions, family circumstances, location and many other factors. Most taxpayers are expected to see tax reductions for the first 10 years, but after that, more than half will actually see an increase compared to current rates. Lower-income individuals will see the least tax benefits, and will experience overall losses due to more expensive health insurance and cuts in social programs. After 2026, only corporations and the highest income individuals are expected to continue to benefit.

As for physicians, highly paid sub-specialists will likely benefit most from tax rate reductions, potentially exacerbating already extreme pay differentials among specialties. This could create further incentives for trainees to avoid careers in primary care. Physicians whose practices are set up as "pass-through entities" may see substantial tax benefits, and there may be incentives for others to reorganize along these lines. While the individual tax changes are set to expire in 2026, proponents are hopeful they will be extended beyond this. But such an extension has not been figured into revenue projections, and would produce even higher federal deficits than currently expected.

From a social perspective, one of the most important effects of the tax changes will be exacerbation of already historically high levels of inequality in wealth and income. Because the bulk of the tax benefit will go to high earners, the overall result will be to further concentrate wealth and increase inequality. Rather than mitigating the long-term trend towards greater inequality, the TCJA will actually accelerate it. Aside from the negative effects this will have on health insurance access and affordability of care for the disadvantaged segments of the population, there is evidence that social inequality itself can have negative health effects by worsening health outcomes and raising costs.[4]

Although polls show the TJCA is unpopular with the public, it is unclear how its passage will affect future elections. Proponents are optimistic that support for the tax bill will increase as it translates into bigger paychecks, higher employment, and lower taxes. Opponents are hopeful it will energize the opposition and lead to Democratic gains, and eventually further healthcare reform. But even if Congress shifts to Democratic control, substantial changes are unlikely while we have a Republican president. The work to repair the damage to healthcare access and affordability will be an uphill struggle, at best.

So enjoy your tax cut… while you can!

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