

# OPTIONS TO FINANCE MEDICARE FOR ALL

## Introduction

Today, the United States spends more than \$3.2 trillion a year on health care. About sixty-five percent of this funding, over \$2 trillion, is spent on publicly financed health care programs such as Medicare, Medicaid, and other programs. At \$10,000 per person, the United States spends far more on health care per capita and as a percentage of GDP than any other country on earth in both the public and private sectors while still leaving 28 million Americans uninsured and millions more under-insured.

Today, health care spending in the U.S. accounts for nearly 18 percent of our Gross Domestic Product (GDP) and is on track to total over 20 percent of GDP over the next decade. It is projected that if we do nothing and maintain our current dysfunctional system that we will spend \$49 trillion over the next decade on health care. That would be an incredible burden on businesses, working families, and the entire economy.

The most cost-effective and popular solution to this health care crisis is to guarantee health care as a right through a Medicare-for-all single-payer health care system.

Today, the traditional Medicare program only spends two percent of its costs on administration. That's less than one-sixth the administrative costs of private health insurance companies.

Studies have found that our federal government could save up to **\$500 billion** per year on administrative costs by moving to a Medicare for All, single-payer health care system.

Moreover, the United States pays, by far, the highest prices in the world for prescription drugs because Congress has done nothing to regulate the price of medicine. If the U.S. joined the rest of the industrialized world and negotiated with the pharmaceutical companies to lower prices, our country could save up to **\$113 billion** per year.

As the wealthiest country in the world, we have a variety of options available to support a Medicare for All single-payer health care system that guarantees high quality, affordable health care as a right, not a privilege, to every man, woman, and child in this country. This paper explains just some of the policies that could provide revenue to finance Medicare for All. Under every single one of these options the average American family will save thousands of dollars a year because they will no longer be writing large checks to private health insurance companies.

If every major industrialized nation on Earth can make health care a right, provide universal coverage to all, achieve far better health outcomes in terms of life expectancy and infant mortality, while spending far less per capita than we do, it is absurd to suggest the United States of America, the wealthiest nation in the history of the world, cannot do the same.

In my view, there needs to be vigorous debate as to the best way to finance our Medicare for All legislation. Unlike the Republican leadership in Congress which held no hearings on their

disastrous bill which would have thrown 32 million off of health insurance and dealt with one-sixth of the American economy, it is our intention to get the best ideas we can from economists, doctors, nurses, and ordinary Americans. Below are a number of options to begin that discussion. Under each and every one of these options the average American family will end up in a better financial position than they are under the current system.

### **Options to Save Families and Businesses on Health Care Expenses**

#### **7.5 percent income-based premium paid by employers**

**Revenue raised: \$3.9 trillion over ten years.**

#### **Businesses would save over \$9,000 in health care costs for the average employee under this option**

In 2016, employers paid an average of **\$12,865** in private health insurance premiums for a worker with a family of four who makes \$50,000 a year. Under this option, employers would pay a 7.5 percent payroll tax to help finance Medicare for All – just \$3,750 – a savings of more than \$9,000 a year for that employee.

During the four-year transition period to guarantee health care as a right, millions of workers will have the option to transfer from their employer-provided health care to the new Medicare for All system. As workers shift into the new system, employers will be required to pay either 75 percent of what they are currently paying for health care costs for each of their employees who enroll in Medicare for All, or the 7.5 percent payroll tax, whichever is higher.

An employer's first \$2 million in payroll would be exempt from this premium protecting small businesses throughout the country.

#### **4 percent income-based premium paid by households**

**Revenue raised: \$3.5 trillion over ten years.**

#### **The typical middle class family would save over \$4,400 under this plan.**

Last year the typical working family paid an average of **\$5,277** in premiums to private health insurance companies. Under this option, a typical family of four earning \$50,000, after taking the standard deduction, would pay a 4 percent income-based premium to fund Medicare for All – just \$844 a year – saving that family over \$4,400 a year. Because of the standard deduction, families of four making less than \$29,000 a year would not pay this premium.

#### **Savings from Health Tax Expenditures**

**Revenue raised: \$4.2 trillion over ten years.**

Several tax breaks that subsidize health care would become obsolete and disappear under Medicare for All. The biggest health expenditure is the preference that excludes employer-paid premiums from payroll and income taxes. This is a significant tax break that would be eliminated under this plan because all Americans would receive health care through the new

Medicare for All program instead of employer-based health care. The exclusion for contributions to cafeteria plans and the medical expense deduction will also be eliminated.

## **Options to Make the Wealthy Pay Their Fair Share**

### **Make the Personal Income Tax More Progressive**

**Revenue raised: \$1.8 trillion over ten years.**

Another option is to reform the personal income tax system by strengthening progressive income tax rates, taxing capital gains and dividends the same as work income, limiting deductions for the wealthy, taxing carried interest as ordinary income, and requiring derivatives to be marked to market.

#### **o Progressive income tax rates.**

Under this plan the marginal income tax rate would be:

- ♣ 40 percent on income between \$250,000 and \$500,000.
- ♣ 45 percent on income between \$500,000 and \$2 million.
- ♣ 50 percent on income between \$2 million and \$10 million. (In 2014, only 136,000 households, the top 0.1 percent of taxpayers, had income between \$2 million and \$10 million.)
- ♣ 52 percent on income above \$10 million. (In 2014, only 16,700 households, just 0.02 percent of taxpayers, had income exceeding \$10 million.)

#### **o Taxing capital gains and dividends the same as income from work.**

Warren Buffett, the second-wealthiest American in the country, has said that he pays a lower effective tax rate than his secretary. This is because he receives most of his income from capital gains and dividends, which are taxed at a much lower rate than income from work. This option would end the special tax break for capital gains and dividends on household income above \$250,000, treating this income the same as income earned from working.

Taxing all income received by the rich at the same rates would simplify the tax code and eliminate the opportunities to game the system by making other types of income appear to be capital gains or dividends. The Congressional Budget Office estimates that 68 percent of the benefits of the special income tax rates for capital gains and dividends went to the richest one percent of Americans in 2013.

#### **o Limit tax deductions for the wealthy.**

Wealthier households are able to take advantage of various itemized deductions that generally do not provide any benefit to lower income workers. Under this proposal, itemized deductions would be capped at 28 percent for households making over \$250,000. In other words, for every dollar in tax deduction a high-income household could save at most 28 cents. This limit would replace more complicated and less effective limits on tax breaks for the rich.

### **Make the Estate Tax More Progressive**

**Revenue raised: \$249 billion over ten years.**

Currently the estate tax only applies to the wealthiest 0.2 percent of Americans. In other words, 99.8 percent are not impacted by this tax. Under this option, the estate tax would return to the exemptions that were in effect in 2009 and rates would be made more progressive. Specifically, the plan would exempt the first \$3.5 million of a single person's estate and the first \$7 million of a married couple's estate.

The existing flat 40 percent estate tax rate would be replaced with the following progressive rates:

- 45 percent for the value of an estate between \$3.5 million and \$10 million.
- 50 percent for the value of an estate between \$10 million and \$50 million.
- 55 percent for the value of an estate in excess of \$50 million.
- An additional 10 percent surtax would apply to estate value in excess of \$500 million (\$1 billion for married couples).

Further, the proposal:

- Closes loopholes for “grantor retained annuity trusts” (GRATs) and other types of trusts and valuation techniques that have allowed the Walton family of Wal-Mart and other billionaires to save over \$100 billion in taxes since 2000; and
- Increases existing protections for farmland and conservation.

### **Establish a Wealth Tax on the Top 0.1 percent**

**Revenue raised: \$1.3 trillion over ten years.**

Over the past several decades America has experienced an explosion of wealth concentration. Today the wealthiest 0.1 percent – just 160,000 households – own nearly the same amount of wealth as the bottom 90 percent. Meanwhile, a [report](#) from the Institute on Policy Studies concludes that America's 20 richest individuals now own more wealth than the entire bottom half of the American population.

This severe inequality threatens to warp our democracy by concentrating too much power in the hands of a tiny elite. It also holds back our economy, funneling resources to a few families rather than creating the broad base of middle-class consumers that can drive economic growth.

This option would establish an annual 1 percent federal wealth tax on the net worth of the wealthiest 0.1 percent of U.S. households. The tax would apply to net worth exceeding \$21 million for a household. That means a household with \$21.5 million would pay 1 percent of \$500,000, or \$5,000.

### **Close the Gingrich-Edwards Loophole and Create Parity for Wealthy Business Owners**

**Revenue raised: \$247 billion over ten years.**

This option closes the Gingrich-Edwards loophole which allows individuals who own and run an S-Corporation to game the system and avoid paying payroll taxes by claiming some income as business profits. Under current law, these business owners are required to report a “reasonable” amount of salary income and pay the appropriate amount of payroll tax. However, many times these individuals deliberately under-report a reasonable salary in order to avoid these taxes.

Additionally, this option would ensure that all business income of high-income people would be subject to the existing 3.8 percent tax to fund Medicare, either through the net investment income tax or the additional Medicare tax on earned income. These taxes were designed to ensure that high-income people pay the 3.8 percent Medicare tax on all income, regardless of the source. However, some business income slips through the crack and is not subject to either tax. This proposal would close that loophole.

### **Options to Make Wall Street and Large, Profitable Corporation Pay Their Fair Share**

#### **Impose a one-time tax on currently held offshore profits**

**Revenue raised: \$767 billion over ten years.**

For years corporations have been avoiding paying their fair share of taxes by stashing their cash in the Cayman Islands and other offshore tax havens where there is no corporate income tax rate. This situation has become so absurd that one five-story office building in the Cayman Islands is the “home” to close to 20,000 companies.

Today corporations hold a staggering \$2.6 trillion offshore in order to avoid paying taxes in the U.S. Under current law, a corporation does not pay corporate taxes on these profits until it sends, or “repatriates”, the money back to the U.S. This option would require these companies to pay a one-time tax now, based on what they owe under current law.

#### **Impose a Fee on Large Financial Institutions**

**Revenue raised: \$117 billion over ten years.**

Today, the six major financial institutions in this country have over \$10 trillion in assets, equivalent to 56 percent of our entire GDP. The largest financial institution, JP Morgan Chase, has received more than \$22.2 billion in tax breaks since 2008. Meanwhile, during the financial crisis, JP Morgan Chase received a \$391 billion bailout from the Federal Reserve. It is time that Wall Street start paying its fair share in taxes. One option would be to impose a fee of seven basis points (.07 percent) on covered liabilities of financial institutions with \$50 billion or more in total assets, as proposed by President Obama.

#### **Repeal Corporate Accounting Gimmicks**

**Revenue raised: \$112 billion ten years.**

This option would eliminate the “last-in, first-out” (LIFO) accounting method that allows corporations to manipulate their inventory and make it appear like they have lower profits. They do this by deducting the higher cost of newer inventory, rather than the lower cost of older

inventory, resulting in lower profits and lower taxes. Democrats and Republicans have both supported repealing LIFO in various budget and tax reform proposals.