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Pelosicare's Costly Formula
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Nancy Pelosi's version of health care "reform" -- the Orwellian-titled "Affordable Health Care for America Act" (H.R. 3962) -- is a shell game hiding a massive tax and spend program designed to force everybody into the caring hands of Dr. Ezekiel "let the senior citizens die" Emanuel and Nurse Nancy Ratched-Pelosi.

The bill, which comes in at a hefty 1990 pages (i.e. 4 full reams of paper), is complete with laughable nannyism (if you own or operate 20 or more vending machines, then you have to put up a sign that says how many calories are in each item sold in the machines if the user can't read the Snickers bar labels) and built on an impossible structure of taxes, penalties and certain-never-to-materialize "savings."

The net effect, besides knowing just how many calories are in those Cheetos (160 in one ounce), will be a paralyzing and economically devastating impact on our nation's economic system -- to match the destruction of our private health insurance industry.

The preliminary Congressional Budget Office ("CBO") [estimate](#) (pdf) of H.R. 3962's costs comes in at \$894 billion over 10 years while showing (hold your laughter) a lessening of the budget deficit of \$104 billion.

But how can the Dems get that result without cooking the books? Simple: they can't. So they did.

The answer is in the breakdown of the bill's costs in two 5-year sections, as the CBO does on page 3 of the document. The total theorized deficit reduction of \$104 billion is equal to the deficit reduction of just the first 5 years of the bill. In other words, there is no deficit reduction in the second 5 years. And the reason for that is that the bill's tax hikes take effect immediately while the so-called health care "reforms" are not instituted until 2013 or 2014.

The insomniac speed-readers at Americans for Tax Reform have plowed through the Pelosi bill and explained that "this gargantuan beast contains thirteen new tax hikes." Here are a few of the highlights:

- If an employer doesn't pay a high enough percentage of an employee's health insurance premium, that employer must pay a penalty equal to 8% of his average employee's wage. (The penalty percentage drops for smaller employers, down to 0% if the annual payroll is under \$500,000.) Any amount of health care premium paid by the employer which comes from a reduction in an employee's salary does not count toward the employer's contribution.
- If an individual doesn't get government-approved coverage, he will have to pay a penalty of the lesser of the premium he should have paid or 2.5% of his income.

(The CBO estimates these two penalties alone to account for about \$168 billion in money funneled from individuals and businesses to the government over ten years.)

- A massive new 5.4% surtax on individuals earning over \$500,000 (or couples filing jointly earning over \$1,000,000), creating a new top tax rate of 45%.
- An attack on Medicare Part D prescription drug plan deductibility for companies. Because Part D contains substantial free-market competition, Pelosi and friends hate it; they want *all* health care delivered *only* by the government. Not surprisingly, Medicare Part D is the only part of Medicare which is consistently coming in under budget.
- A 2.5% tax on the wholesale price of any medical device which the industry is, not surprisingly, strongly [opposed](#) to. (Maybe this will remind the industry and their naive boasting of having "worked cooperatively with Congressional leaders to advance the goals of health care reform" that, as Dick Arme says, when you make a deal with the devil, you're the junior partner.)
- The codification of the "economic substance doctrine" will allow the IRS to disallow the deduction of losses if they decide that a business' intent was tax avoidance rather than an attempt to make a profit. Once Mephisto the IRS Auditor decides you didn't have just the right motivation, not only can he disallow the loss deduction, but he can also tack on a 40% penalty.

One important point (which seems to be going without comment elsewhere): Part-time employees are required to be given the same coverage, in proportion to hours worked, as full-time workers, a provision which could represent an even bigger cost increase to many small and mid-sized employers than the potential penalty, and which could damage the employment prospects for the many Americans (such as mothers) who actively seek part-time work.

Beyond the fact that companies and individuals will inevitably find ways to minimize their exposure to these extortionate provisions, causing the Pelosi bill to cost far more than predicted, the rest of the financing for the bill is a house of cards -- old, fragile cards at that.

The CBO estimates that the H.R. 3962's provisions would cut \$229 billion from Medicare payments to doctors (other than for "primary care") over 10 years, as well as cutting \$170 billion from the Medicare Advantage program. But every year since 2003, Congress has acted to *prevent* cuts in Medicare spending which were mandated in 1997. And less than two weeks ago, Senate Majority Leader Harry Reid (D-Nev.) attempted to pass a bill freezing Medicare cuts for 10 years.

Alaska Republican Sen. Lisa Murkowski put it well: "If, since 2003, Congress had stepped in to prevent Medicare cuts from going into effect, why should we expect Congress to now take the unprecedented step of cutting nearly half a trillion dollars from the Medicare Program?"

In other words, almost half of the Pelosi bill's financing is from "savings" which will never happen, meaning the cost of the bill goes from just over \$800 billion and a so-called \$100 billion deficit reduction, to a 10-year cost of about \$1.3 trillion and a \$300 billion deficit increase. And that's just the first ten years. Beyond the first ten years, the CBO assumes those Medicare savings will increase faster (in percentage terms) than the cost of expanding coverage. If you're like me, you laughed when you read that. The CBO's analysis of Medicare and Medicaid savings is the economic equivalent of predicting that the sun will rise in the west.

There is other sleight of hand in the bill, such as a federal long-term care insurance program which is calculated to reduce the budget deficit by \$72 billion over 10 years because people will pay their premiums in advance. It is an accounting travesty that the CBO is allowed to consider the up-front insurance premiums as deficit-reducing since the attendant liability is likely to happen outside the 10-year period based on which Nancy Pelosi is trying to sell us unvarnished socialism as a financial winner for the nation.

The CBO estimates that government's regularly "updating standards for electronic administrative transactions" will save \$22 billion, most of which they claim will come from "an indirect effect of reducing the cost of private health insurance plans." If such cost savings from efficiency gains are possible, they will happen with or without a government mandate. Indeed, government "standards" are likely to impede cost-saving innovation in this and every other area of health care.

The CBO also notes that their cost analysis excludes "discretionary costs", such as the budget increases to the agencies which enforce the mammoth bureaucracy. These numbers will likely be over \$20 billion for the first 10-year period and possibly much more.

If you think that rapidly bankrupting the federal budget isn't enough, don't worry: The Pelosi bill will also bankrupt the states. The bill will force roughly 15 million more people into Medicaid, an increase of nearly 37%. Medicaid, which provides health care to the poor, is approximately 43% paid for by states, and Pelosi's bill is estimated to increase cost to the states by \$189 billion over the first ten years. For example, Missouri's Lt. Governor recently estimated that if Pelosi's bill passes, it will cost the state \$450 million annually.

Renowned economist Arthur Laffer predicts that the Democrats' "reform" will cost Texas \$37 billion by 2019, in addition to increasing health care inflation by more than 5% and reducing GDP by nearly 5% of what its level would be if the government did nothing. As Laura Katz Olson notes in a recent opinion piece for the *Philadelphia Inquirer*,

states are already responding to crushing Medicaid budget pressures “by reducing provider fees (leading to less access to services), restricting eligibility, and slashing benefits. This year, at least half of the states proposed or implemented program cuts...”

Nancy Pelosi’s “reform” is a giant tax-and-spend bill and redistribution of wealth, with draconian penalties and taxes, coercive laws, and intrusive innovation-numbing new bureaucracies, proposed to be funded with revenue they largely won’t collect and savings they certainly won’t realize. The odds of HR-3962 controlling health care costs are just slightly less than the odds of the sun rising in the west.

The odds of it damaging our economy and your chances of seeing a doctor when you need to are just slightly less than the odds of it rising in the east.

Ross Kaminsky has been a professional derivatives trader for over 20 years. Ross is a fellow of the Heartland Institute and writes about political economy and current events at Rossputin.com. He also contributes to blogs for the Denver Post, the National Taxpayers Union and FreedomWorks among others.

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