

Comments for the Record
House Committee on Ways and Means
Subcommittee on Health
Independent Payments Advisory Board

Tuesday, March 6, 2012, 10:00 AM

By Michael G. Bindner

Center for Fiscal Equity

Chairman Hergert and Ranking Member Stark, thank you for the opportunity to submit these comments for the record to the Subcommittee on Health of the House Ways and Means Committee. We will leave it to the scheduled witnesses to assess the impact of the Independent Payments Advisory Board and will confine our comments to alternative methods of cost control. As always, our comments will be made within the context of our tax and entitlement reform proposals. The Center for Fiscal Equity proposes a large ball solution with four major provisions:

- A Value Added Tax (VAT) to fund domestic military spending and domestic discretionary spending.
- Personal income surtaxes on joint and widowed filers with net annual incomes of \$100,000 and single filers earning \$50,000 per year to fund net interest payments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates between 5% and 25% in either 5% or 10% increments.
- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), which is essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age 60. The funding of Medicare will be accomplished solely with the NBRT and any exclusions for private insurance will be as an offset to this tax.

The NBRT base is similar to a Value Added Tax (VAT), but not identical. Unlike a VAT, an NBRT would not be visible on receipts and should not be zero rated at the border – nor should it be applied to imports. While both collect from consumers, the unit of analysis for the NBRT should be the business rather than the transaction. As such, its application should be universal – covering both public companies who currently file business income taxes and private companies who currently file their business expenses on individual returns.

To extract health cost savings using the NBRT, allow companies to offer services privately to both employees and retirees in exchange for a substantial tax benefit, provided that services are at least as generous as the current programs. Employers who fund catastrophic care would get an even higher benefit, with the proviso that any care so provided be superior to the care available through Medicaid. Making employers responsible for most costs and for all cost savings allows them to use some market power to get lower rates, but not so much that the free market is destroyed. Increasing Part B and Part D premiums also makes it more likely that an employer-based system will be supported by retirees.

Enacting the NBRT is probably the most promising way to decrease health care costs from their current upward spiral – as employers who would be financially responsible for this care through taxes would have a real incentive to limit spending in a way that individual taxpayers simply do not have the means or incentive to exercise. While not all employers would participate, those who do would dramatically alter the market. In addition, a kind of beneficiary exchange could be established so that participating employers might trade credits for the funding of former employees who retired elsewhere, so that no one must pay unduly for the medical costs of workers who spent the majority of their careers in the service of other employers.

If this proposal is adopted, employers would serve the function the IPAB will attempt to serve, because it will be in their interest to do so. They will have a direct incentive to pay for only treatments that have a positive effect on the well being of their retirees, especially if the NBRT also funds personal retirement accounts for employees which are invested in employer voting stock, an option we suggest. Indeed, an employee-ownership option is the best assurance that cost cutting does not include denying coverage that extends life significantly in order to minimize pension costs.

The IPAB might still have a function under such a reform as an information source for Medicare services provided to retirees from companies who do not offer alternative delivery, as well as for companies who do, but who would find the information developed by the IPAB valuable to their decision making on care.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

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