



Democrats' Latest Backroom Deal: Give Unions Cash to Pass a Health Care Clunker

[Press reports](#) indicate that Democrats, once again acting behind closed doors, have struck their latest “sweetheart deal” needed to pass a government takeover of health care. Among other proposed changes, Democrats would exempt union members from the new “Cadillac” tax on certain insurance policies under Senate Majority Leader Reid’s bill (H.R. 3590)—as a way to “blunt [unions’] protest against the health reform plan.”^[i] If enacted, the proposals being considered would impose substantial new taxes on Americans across the income spectrum—so a politically favored constituency can receive special benefits:

- As Democrats themselves have admitted, this backroom deal would impose higher taxes on middle-class families who are non-union members—all so labor bosses would receive a temporary reprieve on new taxes for their members. Many may oppose this strategy of giving special favors to politically powerful Democrat constituencies—an attempt to [divide and conquer](#) the American people in order to enact a government takeover of health care.^[ii]
- This latest union “deal” follows on the heels of other kickbacks included in the bills to protect unions—a retiree reinsurance trust fund, and a special provision modifying the Reid bill’s employer mandate to target the construction industry, inserted at the behest of union leaders.
- Press reports indicate the approximately \$60 billion in changes to the “Cadillac tax” will be paid for by a further unprecedented expansion of the Medicare payroll tax to include non-wage income like dividends and capital gains.
- The higher taxes on capital formation needed to fund this sweetheart arrangement could force firms to lower wages, delay hiring, or even lay people off.^[iii] As a result, union members may keep their current plan for a while longer, but lose their job—all thanks to Democrats’ latest backroom deal.
- Proponents of the tax increase on insurance companies have publicly admitted that the “Cadillac tax” would raise taxes on middle class families. Thus the underlying “Cadillac tax” proposal would break two of then-Senator Obama’s central campaign promises: not to tax individuals’ health benefits, and [not to raise taxes](#) on individuals with incomes under \$250,000^[iv]—all of whom would be required to purchase health insurance under the Democrat plans.
- The inflation measure for the “Cadillac tax” threshold would remain linked to the Consumer Price Index plus one percentage point, as in the underlying Reid bill, meaning that the tax would hit most Americans—including union members—over time.

Press reports also suggest that the “Cadillac tax” would be modified in several other ways:

- Union members—as well as all state and local employees—would be exempt from the tax for its first five years, until 2018;
- The threshold level for the tax would be raised from \$8,500 for an individual policy and \$23,000 for a family policy in 2013 to \$8,900 and \$24,000, respectively;
- The cost of supplemental dental and vision coverage would be excluded from the tax threshold amounts beginning in 2015;
- Thresholds may be increased further—by a formula that has not been publicly disclosed—to take into account age and gender, a provision that would benefit union plans with high percentages of older workers; and

- The thresholds may also be increased further if health costs rise faster than expected—a provision which some may view as a tacit admission of the criticism of [Tom Daschle](#) and others that the bill’s cost containment provisions would be of “minimal value.”^[v]

However, the gist of the latest kickback remains the same: Americans at large suffer so a politically connected constituency may benefit. Thus many may oppose Democrats’ latest secret deal as indicative of the larger problems with their government takeover of health care—lack of transparency, backroom deals, higher taxes, and crushing new burdens on the middle class.

^[i] Politico, “White House Scores Key Labor Deal,” January 15, 2010, <http://dyn.politico.com/printstory.cfm?uuid=2F7D2C55-18FE-70B2-A8E1A3057E02406E>.

^[ii] CongressDaily AM, “Unions Tentatively See a Deal Regarding Excise Tax,” January 15, 2010, http://www.nationaljournal.com/congressdaily/hca_20100113_9874.php

^[iii] See for example the Heritage Foundation, “Economic Effects of Increasing the Tax Rates on Capital Gains and Dividends,” April 2008, and the Treasury Department, “A Dynamic Analysis of Permanent Extension of the President’s Tax Relief,” July 2006.

^[iv] Barack Obama, campaign speech, Dover, N.H., September 12, 2008, <http://www.youtube.com/watch?v=Q8erePM8V5U>

^[v] “Daschle Handicaps the Final Health Bill,” New York Times, Prescriptions blog, January 13, 2010, <http://prescriptions.blogs.nytimes.com/2010/01/13/daschle-handicaps-the-final-health-bill/?scp=2&sq=daschle&st=cse>