



AMERICANS FOR TAX REFORM

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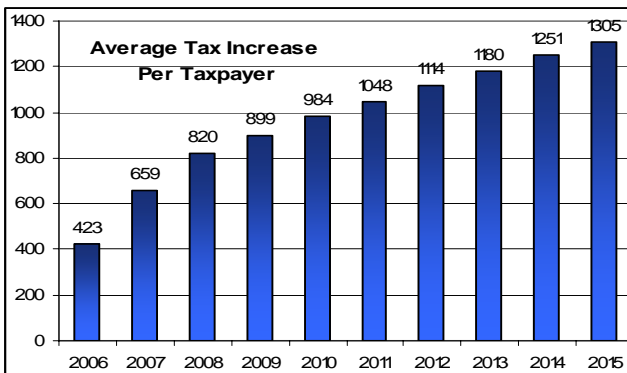
Sen. John Kerry's Healthcare Plan Costs

**Kerry Plan Costs \$1.5 Trillion for 10 Years:
Average Taxpayer Will Pay \$969 Each Year**

Americans for Tax Reform
Tax Policy Brief
www.atr.org

Kerry Healthcare Plan Will Raise Taxes for All Americans

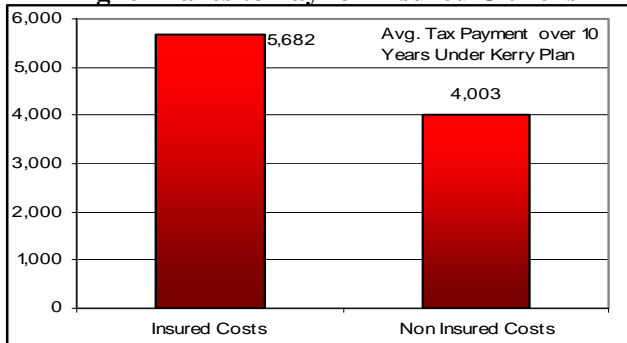
Growing Taxpayer Burden to Pay for Costs



\$969 Average Tax Increase per Year for American Families

Democratic presidential candidate Sen. John Kerry has promised to “pay for” all his new spending proposals. This may make good campaign rhetoric, but would be damaging to American taxpayers. Kerry’s healthcare plan alone will cost over \$1 trillion over the next 10 years. Americans for Tax Reform examined how this affects average taxpayers and finds the average taxpayer on average will have to pay \$969 per year or nearly \$10,000 per over the next decade in higher taxes. As the chart on the left demonstrates, the costs start out quite small, but then rapidly grow up to \$1,305 per taxpayer by 2015. We expect the cost to rise even more in the second decade as the government healthcare sector incrementally takes over the private sector system.

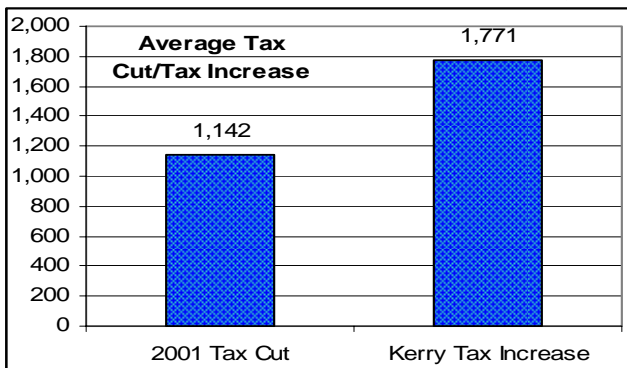
Higher Taxes to Pay for Insured Citizens



\$568 per Year Tax Increase to “Insure the Insured”

Sen. Kerry is likely to argue the tax increase is justified because he is providing a “benefit” by providing health insurance to more Americans. However, a recent study concluded that nearly 60 percent of the entire cost of the Kerry healthcare plan would be used to pay for people who already have health insurance. Thus, Kerry is actually asking American families to pay \$568 per year of higher taxes to finance insurance to people who already have it. Moreover, the Lewin Group found the average person will receive a benefit of \$451 per family under the Kerry plan, but our analysis shows that will be more than offset by a higher tax burden, mostly to finance insurance for people who have it already.

Middle Class Tax Increases Are Coming



\$1,771 Tax Increase per Year to Pay for All Spending

Healthcare represents just a portion of Kerry’s spending proposals. Based on the new healthcare spending numbers, the average taxpayer will have to pay \$1,771 in taxes per year to finance the laundry list of new spending proposals put forth by Kerry in the campaign. In fact, this would completely wipe out all the tax reductions put forth in the 2001 and 2003 tax cuts. The idea that Kerry can just raise taxes on income of more than \$200,000, finance his healthcare plan, & increase spending on other domestic programs without raising taxes is just simply impossible. In fact, all Americans will be paying higher taxes if this plan is accepted, which clearly overcomes any benefit from the healthcare plan.

Sen. John Kerry's Healthcare Plan

Average Taxpayer Will Pay \$969 per Year in Higher Taxes

With less than 30 days before the next presidential election healthcare is likely to emerge as a key issue during the homestretch.

Both candidates have put forward a plan for healthcare and both plans have been “scored” to identify the cost of the programs. A number of independent studies over the past month have indicated Sen. John Kerry's plan will cost more than \$1 trillion over ten years.¹

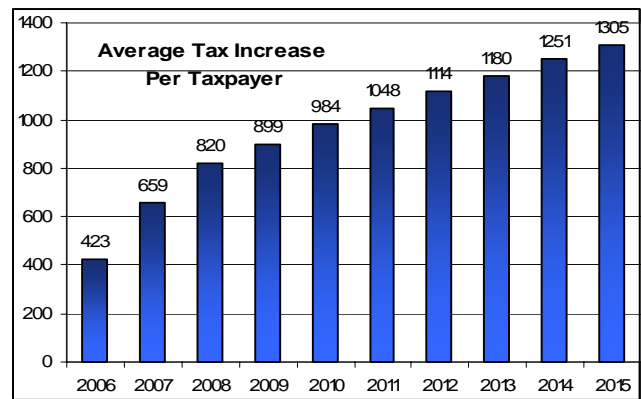
Yet, none of these studies have examined the impact this will have on the average American taxpayer. The importance of this cannot be underestimated since Sen. Kerry has vowed to “pay for” all his new spending programs.² In other words, he means tax increases.

Initially, Kerry claimed he would only raise taxes on income of over \$200,000 to pay for his new spending proposals, but that will not nearly generate enough money for him to finance this new healthcare program along with all the other new spending.³ Moreover, his claims that he rid the budget of corporate welfare and generate \$300 billion are just not realistic.

Thus, understanding the true costs of the Kerry healthcare plan is of vital importance to American taxpayers since the program will be financed by higher taxes on all Americans. Using data from two reputable studies, the American Enterprise Institute (AEI) and the Lewin Group, Americans for Tax Reform (ATR) has calculated the impact of the Kerry plan on the average American taxpayer.

AEI's study examined the cost of the Kerry healthcare plan in both a ten year analysis and on an annual basis. Using this data, ATR estimated the number of tax filers for years 2006-2015. From this number we can calculate the average tax burden per year needed to finance Kerry's healthcare plan.

Growing Taxpayer Burden to Pay For Costs



Source: American Enterprise Institute, Americans for Tax Reform

ATR's analysis finds that the Kerry healthcare plan will require an average tax increase of \$969 per year on the average American taxpayer. Initially, the program requires a \$423 tax increase in 2006 and once fully implemented quickly rises to over \$1,300 per tax filer in 2015.

As the chart above demonstrates, these costs continually grow each year and it is reasonable to expect the cost to be even more damaging in the following ten year window and will require even greater tax increases.

The cost to taxpayers is so high because the emphasis of the Kerry plan is to insure people through a government healthcare system. In fact, the Lewin study found that the Kerry plan will ensure an additional 25 million people, with an astonishing 86 percent of this increase coming from his proposal to rapidly expand the government run Medicaid system.⁴

As such, middle class families will now be subject to a new healthcare system with limited access to doctors and prescription drugs. Moreover, these programs are riddled bureaucratic inefficiency, fraud, waste, and abuse and an expansion of these programs will only exacerbate the situation. This could add to the cost but is not included in the ATR analysis.

Sen. John Kerry's Healthcare Plan

Average Taxpayer Will Pay \$969 per Year in Higher Taxes

With taxpayers paying nearly \$1,000 of additional taxes, what are the benefits that taxpayers receive in return?

Sen. Kerry has argued that providing insurance to uninsured residents is critical and thus will be a priority for his administration. Yet, the AEI study estimated that just 40 percent of the \$1.5 trillion of new spending will actually go toward insuring new people, done primarily by expanding the government run Medicaid program.

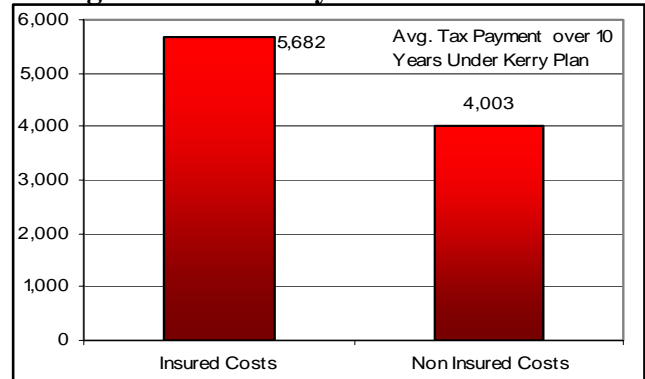
As a result, 60 percent of the costs are being used to subsidize people who already have health insurance, primarily by subsidizing employers. Thus, taxpayers will be paying an average of \$568 a year in higher taxes to inefficiently subsidize people already covered with health insurance.

But the targeting of Kerry's subsidies gets even worse. The National Center for Policy Analysis (NCPA) points out that even according to Kerry's own proposal the extraordinary high cost of insuring new people with these subsidies.

Once the program is entirely phased in, small business subsidies will cost \$11,200 to insure for a family of four. Subsidies for workers in between jobs will cost 13,912 for a family of a four and catastrophic care will cost a skyrocketing \$56,750 for a family of four.⁵

Shifting from the private sector to government poses other problems for taxpayers as well. Empirical evidence demonstrates that public healthcare programs "crowds out" private insurance. According to a recent study, for each new dollar spent on government healthcare insurance, private sector healthcare spending is reduced 50 to 75 cents.⁶ Thus, taxpayers could be forced to pay higher taxes but the number of insured may not even increase.⁷

Higher Taxes to Pay for Insured Citizens



Source: American Enterprise Institute, Americans for Tax Reform

Kerry's own plan estimates for every new ten people insured by the government, 3 people will lose private coverage. Even under his rosy scenario roughly 8 million people will lose coverage.⁸ We expect the number to be higher.

The enormous inefficiency of the Kerry program is illustrated best by comparing the so called healthcare "benefits" with the tax increases required to finance the program. The Lewin Group estimates the average family savings will be \$451 when the program is fully implemented and *absent any tax increases*.⁹

Yet, this analysis is incomplete. Sen. Kerry cannot finance a new healthcare program over \$1 trillion without raising taxes. Assuming each family has one taxpayer, the Kerry plan more than doubles the family benefit of healthcare by requiring a tax increase of \$969. In households with more than one taxpayer the tax increase could be four times as much as the healthcare benefit.

Moreover, taxpayers are being asked to pay an additional \$400 a year to cover more people with health insurance, which is inefficiently targeted. Some people will cost tens of thousands of dollars to insure and leading to much less if any new residents being insured, while taxes were raised \$1.5 trillion.

Sen. John Kerry's Healthcare Plan

Average Taxpayer Will Pay \$969 per Year in Higher Taxes

Using the new estimates of Kerry's healthcare spending, ATR has updated recent estimates of Kerry's total spending proposals. The most comprehensive analysis of Kerry's spending was done by Kevin Hassett and Eric Engen of the American Enterprise Institute earlier this summer.

Hassett and Engen estimated the total cost of Kerry's spending was roughly \$2.1 trillion over ten years.¹⁰ However, this estimate was based on the Kerry healthcare plan costing under \$1 trillion. We now have much better estimates of the cost and have updated the AEI study.

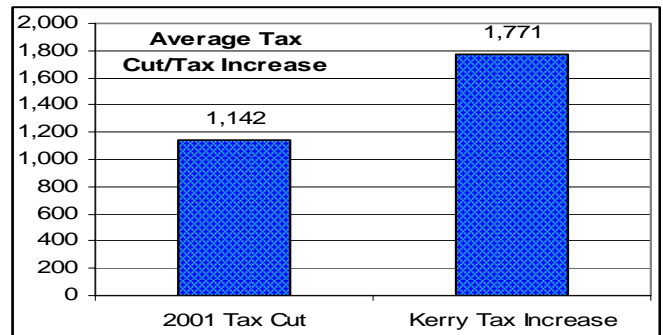
Overall, total spending for Kerry will cost taxpayers \$2.8 trillion above the current baseline over the next ten years. (The healthcare plan alone is roughly half of all of Kerry's spending proposals). As a result of this spending, the average taxpayer will need to pay an additional \$1,771 per year or \$17,710 over ten years.

Sen. Kerry continues his denial by telling the American public that he can raise taxes on income over \$200,000 and generate enough revenue to finance his healthcare plan, and increase spending on other domestic programs without raising taxes.

This is simply not true. Kerry has a major gap in his proposals that will need to be financed with higher taxes, especially since he has committed to "paying for" each of his new spending proposals. Raising taxes on income over \$200,000 will get him \$650 billion over ten years, leaving him \$2.15 trillion short of implementing his spending proposals without increasing the deficit.

Kerry advisor and former Treasury Secretary Robert Rubin was asked specifically how Kerry could pay for all his spending and reduce the deficit without raising middle class taxes. The response was quite telling:

Middle Class Tax Increases Are Coming



"I don't think you can make proposals to try to dig out of this hole until you've gotten elected and until you've organized effectively across both parties and both houses. If you start to put out proposals now, they would be vigorously attacked, and they would in effect become tainted so they couldn't be used."¹¹

In other words, Kerry knows he has to raise taxes to pay for all of his promises but he won't tell us what they are until after the election.

The effects of this Kerry double speak should not be underestimated. As the chart above demonstrates, the required tax increases needed to pay for Kerry's spending proposals over the next ten years clearly outpaces the amount of tax cuts that will be provided by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) assuming all of the provisions are made permanent.

What this means is that the child credit increase, marriage penalty relief, 10 percent bracket, Individual Retirement Account (IRA) expansion, Alternative Minimum Tax Relief, and a host of other tax cuts will all be repealed. But that still is not enough so Sen. Kerry will have to make even more tax increases to pay for his spending and keep his "pay for" promise.

The effects of such large scale tax increases will be damaging to American families, business, and the U.S. economy.

¹ Joseph Antos, Roland (Guy) King, Donald Muse, Tom Wildsmith, Judy Xanthopoulos, *Analyzing the Kerry and Bush Healthcare Plans: Estimates of Cost and Impact*, American Enterprise Institute, Sept 2004, Available at: http://www.aei.org/docLib/20040913_KerryBushHealthPlans.pdf

The Lewin Group, *Bush and Kerry Healthcare Proposals: Cost and Coverage Compared*, September 2004, Available at: www.lewin.com

² See the “Kerry and Edwards Economic Plan,” John Kerry for President. Available at:

http://www.johnkerry.com/pdf/economic_plan.pdf

³ Kevin Hassett and Eric Engen, *An Analysis of the Ten-Year Costs of Senator Kerry's Spending Proposals*, American Enterprise Institute, August 2004, http://www.aei.org/docLib/20040812_KerryB2.pdf

⁴ The Lewin Group, *Bush and Kerry Healthcare Proposals: Cost and Coverage Compared*, September 2004, Available at: www.lewin.com

⁵ John C. Goodman, *The Case Against John Kerry's Healthcare Plan*, National Center for Policy Analysis, September 2004, <http://www.ncpa.org/pub/st/st269/st269.pdf>

⁶ David M. Cutler and Jonathan Gruber, *Does Public Insurance Crowd Out Private Insurance?* Quarterly Journal of Economics, Vol. 111, No. 2, May 1996, pp. 391-430.

⁷ John C. Goodman, *The Case Against John Kerry's Healthcare Plan*, National Center for Policy Analysis, September 2004, <http://www.ncpa.org/pub/st/st269/st269.pdf>

⁸ *ibid*

⁹ The Lewin Group, *Bush and Kerry Healthcare Proposals: Cost and Coverage Compared*, September 2004, Available at: www.lewin.com

¹⁰ Kevin Hassett and Eric Engen, *An Analysis of the Ten-Year Costs of Senator Kerry's Spending Proposals*,

American Enterprise Institute, August 2004, http://www.aei.org/docLib/20040812_KerryB2.pdf

¹¹ Rich Miller, *Robert Rubin: Embrace Kerry*, Business Week Online, 8/2/04