



# Setting THE record straight

Oct. 10, 2007

## Payroll tax would not solve uninsured problem

According to the PA Chamber's [17<sup>th</sup> annual Economic Survey](#), 80 percent of respondents said health-care costs are a major deterrent to business growth and job creation. That's not surprising considering that of the 73 percent of businesses that said they offer health-care benefits to employees, 71 percent experienced an increase in premiums over the last year, most by double digits and some by greater than 25 percent.

The Rendell administration and the General Assembly are right to focus attention on solving the Commonwealth's health-care crisis – no debate there. Where the debate lies is in how to accomplish this goal without making things worse for all parties that have a vested interest in an effective solution. To this end, certain aspects of the governor's *Prescription for Pennsylvania* health-care plan remain problematic.

### Payroll tax would hurt small business

The proposed payroll tax would be assessed on all employers. Those that currently provide health care would be forced to meet as of yet unknown requirements in order to determine whether they would be credited for providing that health care. In particular, the tax would be disastrous for small businesses that already are unable to afford health insurance coverage for their employees. For these businesses, the proposed 3 percent tax would amount to a doubling of their Personal Income Tax rate.

As state health-care spending rises, nothing guarantees the tax would remain at 3 percent. In fact, it's already projected to increase to 3.5 percent in the out years of the plan. This is particularly worrisome because the plan relies heavily on built-in revenue assumptions and declining revenue sources, and appears to underestimate the cost of providing benefits to enrollees in a state program. The administration's plan includes two of the most costly mandates – prescription drugs and behavioral health services. It's questionable at best whether the state can provide such a comprehensive benefits package for \$280 a month.

### Payroll tax could exacerbate the number of uninsured Pennsylvanians

If the administration's goal is to reduce the number of uninsured Pennsylvanians, a health-care payroll tax could prove to have the opposite effect. Only a proposed six-month go-bare period would prevent employers from dropping their health-care plan and enrolling in the state program. Many employers struggling with rising health-care costs could in fact opt to pay the 3 percent payroll tax because it would be more cost-effective to do so. This would result in an unanticipated influx of individuals into the state program at a time when there already is a waiting list for the existing Adultbasic program.

A payroll tax also would not guarantee that more Pennsylvanians will have health-care coverage for another reason: the administration's plan does not require people to obtain coverage. A small employer could be forced to pay the 3 percent tax while its employees could not opt for coverage because they don't want to pay the required copayments and deductibles. Young people with a feeling of invincibility could take their chances – knowing emergency room care is always available if they get hurt – and opt to spend their money on what they perceive to be better options.

In order to create a more cost-effective system that ensures access to quality and affordable health care, lawmakers should consider options that would enable greater competition among private health-care providers; focus on consumer-driven health care; and control the cost-drivers of health care, including mandates and lawsuit abuse. Lawmakers *must* look beyond a reform plan that hurts job creators, leaves cost issues largely unresolved and hinders accessibility.

**Contact: Lesley Smith, director of communications, 717 720-5446.**