The Tax (and Wage) Implications of Bernie Sanders's "Medicare for All" Health Plan

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Presidential candidate Bernie Sanders has released a health insurance plan that would consolidate current government-financed health insurance programs into a universal, comprehensive public health insurance program, which he calls "Medicare for all."

As part of the proposal, private health insurance premiums, including employer-related health insurance, would become redundant, and would be eliminated.

Sanders claims that his plan would reduce overall U.S. health-insurance costs substantially, noting that the public health insurance programs in other developed countries cost far less than the U.S. hybrid system. He says that a single-payer health insurance plan would be both more efficient and much more comprehensive.

Nevertheless, Sanders admits that, obviously, shifting current private health insurance costs to the government would require additional government revenues. To raise those revenues, which he estimates would total about $13 trillion over a decade, Sanders proposes significant new taxes, primarily on the wealthy.

The tax changes that Sanders has proposed to pay for his health plan are the following:

- A new 6.2 percent employer-paid payroll tax on all wages.

- Reforms to the estate tax, including loophole closers, a higher top tax rate, and a lower exemption (as President Obama has proposed in his budgets).

- A 2.2 percent income tax on personal taxable income (with no credits allowed against this tax).

- Higher personal income tax rates on the wealthy, taxing capital gains and dividends at the same rates as regular income (for those making more than $250,000 a year), and limiting the value of itemized deductions to 28 percent of each dollar deducted.

  The higher tax rates (up to a top marginal income tax rate of 52 percent on income in excess of $10 million) and limiting the maximum tax savings from itemized deductions to 28 percent would be implemented in an elegant way, by changing the tax rates above the 28 percent bracket into an add-on tax on adjusted gross income, before deductions. This approach would also allow repeal of the individual Alternative Minimum Tax, the current partial disallowance of itemized deductions, and the phase-out of personal and dependent exemptions.

Here is a comparison of personal income tax marginal tax rates under current law in 2016 and under Sanders's proposals:

Married brackets		Current marginal income tax rates (on taxable income)	
		Regular income	Capital gains & dividends
First	$18,500	10.0%	0.0%
$18,500	– 75,300	15.0%	0.0%
$75,300	– 151,900	25.0%	15.0%
$151,900	– 231,450	28.0%	15.0%
$231,450	– 413,350	33.0%	15.0%
$413,350	– 466,950	35.0%	15.0%
$466,950	or more	39.6%	20.0%

Married brackets		Sanders marginal rates on taxable income		Sanders marginal rates on adjusted gross income		Combined total marginal rates
		Regular income	Capital gains & dividends	Married brackets based on AGI (on all income)	On all AGI in bracket	
First	$18,500	10%	0%	$0 – 250,000	0%	no change
$18,500	– 75,300	15%	0%	$250,000 – 500,000	9%	37%
$75,300	– 151,900	25%	15%	$500,000 – 2,000,000	15%	43%
$151,900	– 231,450	28%	15%	$2,000,000 – 10,000,000	20%	48%
$231,450	or more	28%	28%	Above $10,000,000	24%	52%

It should be noted that the top tax rates shown above do not reflect the partial itemized-deduction limitation for high earners under current law, which adds about 1.2 percentage points to the current top tax rate. It also does not include the top 3.8 percent Medicare tax on earned income and most investment income, which would apply under both current law and the Sanders plan. Counting these items brings the actual top regular tax rate under current law up to 44.6 percent and the current top rate on capital gains and dividends up to 25 percent. Under Sanders's plan, the 3.8 percent Medicare tax on both earnings and investment income boosts the actual top tax rate up to 55.8 percent.

Some have argued that taxing capital gains at the same tax rates as other income for high-income taxpayers would discourage sales of capital assets (e.g., corporate stocks), and could even lead to a reduction in tax revenues. Sanders addresses this potential problem, however, by taxing capital gains on appreciated property whenever assets are transferred, by sale, gift, barter or bequest, along with other reforms. (President Obama has made a similar proposal in his budget, although Sanders's proposal is somewhat broader.) In our modeling, we made no changes to currently-expected capital gains realizations (even though they may go up under Sanders's reforms).[1]

Analysis:

So how will all of these changes affect American taxpayers in different income groups? Well, it's a bit complicated, mainly due to the elimination of employer-related health insurance and the new employer payroll tax.

It is commonly thought that employers set wages based on the total cost of compensation. Specifically, analysts (and business owners) believe that the employer-side of payroll taxes and the cost of employer-related health insurance are taken into account by employers, along with cash wages, in setting total compensation.

So, if employer health insurance costs are eliminated, then it is logical to assume that employers will be willing to increase cash wages. On the other hand, Sanders's new 6.2 percent employer payroll tax will likely be passed on in lower wages, as will changes in existing payroll taxes that the increased (or decreased wages) will cost or save employers.

Thus, to model the effects of Sanders's health-related tax proposals (including their effects not only on payroll taxes but also on personal income taxes), we had to adjust wages for each of the wage-earners in our tax model to take account of these factors. Specifically, we adjusted wages so that the total compensation that employers now pay to each employee remains exactly the same as it is now. For example:

Examples:				
Cash wages now	$ 50,000	$ 75,000	$ 100,000	$ 500,000
Employer FICA taxes now	3,825	5,738	7,650	14,597
Employer-related health insurance	12,000	12,000	12,000	12,000
Total employer cost	**$ 65,825**	**$ 92,738**	**$ 119,650**	**$ 526,597**
New employer payroll taxes	8,008	11,282	14,556	44,247
New worker cash wages	57,817	81,456	105,094	482,350
New employer cost	**$ 65,825**	**$ 92,738**	**$ 119,650**	**$ 526,597**
increase (decrease) in cash wages	**$ +7,817**	**$ +6,456**	**$ +5,094**	**$ –17,650**

The "employer FICA taxes now" row above includes the 6.2 percent Social Security tax on the first $118,500 in cash wages plus the 1.45 percent Medicare tax on all cash wages. The "New employer payroll taxes" row includes existing FICA taxes and the new 6.2 percent payroll tax, both applied to the revised cash wages designed to make employers' overall compensation costs the same as they are now. (The calculations are a bit complicated to fully explain, but some fairly simple algebra worked.)[2]

In total, we calculate that if employers break even with current total compensation paid, then just over half of the current cost of employer-related health insurance would be converted into higher cash wages. The remainder would be paid by employers to the federal government in higher payroll taxes. The higher cash wages, of course, would be included in workers' income for both personal income taxes and the worker-side of the FICA taxes (at the current rates).

Having made these changes to cash wages, the following table shows our results, which take account of both changes in cash wages and all of the health-related tax changes that Sanders plan would entail.

Effects of the Tax Provisions in Bernie Sanders's Health Plan
At 2016 levels

Income Group	Income Range	Pretax Cash Wages	Personal Taxes	Net change in after-tax income
		Average changes (all tax units)		
Bottom 20%	**Less than $23,000**	$ +1,932	$ +450	$ +1,482
2nd 20%	**$23,000 to 39,000**	+3,058	+1,091	+1,967
Middle 20%	**$39,000 to 62,000**	+5,119	+1,879	+3,240
4th 20%	**$62,000 to 105,000**	+7,614	+3,164	+4,451
Next 15%	**$105,000 to 212,000**	+5,410	+3,838	+1,571
Next 4%	**$212,000 to 552,000**	+1,742	+5,732	–3,990
Top 1%	**$552,000 or more**	–25,376	+134,604	–159,980
ALL		**$ +4,112**	**$ +3,418**	**$ +694**

Revenue effects if effective in 2016:

Personal income tax changes	$ +511	billion
Employer tax changes*	+537	billion
Total in 2016	**$ +1,048**	**billion**
10-year total revenue change:	**$ +13**	**trillion**

*Employer payroll tax increases are reflected as reductions in pretax wages, which offset in part the increased pretax wages from converting employer-related health insurance into higher cash wages. The net effect on total employer payroll costs is zero, i.e., employers are asssumed to be willing to pay their workers wages that are equal to what employers now pay in total costs for cash wages, health insurance, and payroll taxes.

Note: Sanders has proposed to use all of the revenue his health-care taxes raises to provide comprehensive, universal health insurance to all Americans. That implies that current employer-related health insurance will be fully replaced with government-provided health insurance, so workers will come out with equivalent or better insurance, as will people with limited or no health insurance now. Thus, the net changes in after-tax incomes for all but the highest income groups shown above will be in addition to the same or better health coverage.

- Our analysis finds that, on average, all but the very top income groups would end up with higher after-tax income under Sanders's plan.
- In addition, we estimate that Sanders's proposed tax changes to pay for his health plan would increase federal revenues by $13 billion over a decade. This is virtually identical to the amount that Sanders projects would be raised.

Our table does not tell the whole story, however. The averages shown necessarily are for all tax units, not just wage earners, since Sanders's tax proposals would affect many people without wages. More important, the table does not include the large benefits from universal health insurance. Those new benefits are intended to help almost everyone, especially people who now have no health insurance, or have to pay for their insurance out-of-pocket (in full or in part), or have insurance plans with large co-pays or deductibles or limited coverage.

In addition, the table does not reflect the potential economic gains that many predict would result from a simpler, cheaper and more comprehensive health insurance system. The table remains instructive, however, in showing just how progressively Sanders would pay for his "Medicare for all" health plan.

ENDNOTES:

1. The U.S. Treasury Department estimates that even at current income tax rates, the failure to tax capital gains on gifts and bequests will provide high earners with $860 billion in tax benefits over the upcoming decade. That's almost as large as the $1,047 billion as the estimated tax savings from the special low capital gains tax rates.

2. Under Sanders's plan, the new nominal employer payroll tax rates on wages would be 13.85% on the first $118,500 (the current 7.65% OASDHI tax plus the new Sanders 6.2% tax) and 7.65% above that (the current 1.45% HI tax plus the new 6.2% tax).

But those nominal rates apply to wages after the employer tax. So only 87.83% of wages (1/(1+13.85%)) before the employer tax would be taxable at the OASDHI rate. That means that to get all the way up to the $118,500 OASDI cap would take $134,912 in wages ($118,500/87.83%) before the employer tax, and the effective tax rate on wages up to that level would be 12.17% (13.85% x 87.83%). Above $134,912 in wages before employer taxes would be taxed at an effective rate of 7.11% (7.65% x (1/(1+7.65%)).

To illustrate: At the OASDHI cap, 13.85% x $118,500 = $16,412. Likewise, 12.17% x $134,912 = $16,412. Above the OASDI wage cap, 7.65% times, say, $10,000 = $765. Likewise, 7.11% times ($10,000+$765) = $765.