NAR Frequently Asked Questions
Health Insurance Reform

PAYING FOR HEALTH REFORM

Q-1: What is health reform likely to cost?

A: Projecting the costs of a change as substantial as what's being proposed is exceptionally difficult. The Acts are estimated by the non-partisan Congressional Budget Office to cost $848 Billion and reduce the deficit by $134 Billion over 10 years.

Q-2: What does the government currently spend on health care?

A: According to the Office of Management and Budget, the government spent $386 Billion on Medicare and $201 Billion on Medicaid in Fiscal Year 2008. (Total is $587 Billion.) The projected costs for FY 2010 for these two items will be $452 Billion and $290 Billion, respectively. (The total would be $742 Billion.)

Q-3: How will a reformed healthcare system be paid for?

A: The "costs" for reform will be shared by changes to current health care programs and the collection of new revenues (aka tax increases). The cuts will be comprised of changes intended to bring new efficiencies to the delivery of medical services, including Medicare and Medicaid. In seeking new revenues, Congress chose to pursue a few big-ticket items rather than make dozens of smaller changes to current law.

The Acts impose taxes on health providers (hospitals, drug companies, medical device manufacturers, etc.) The Acts impose a tax on insurers who offer high value employer-provided health insurance plans. This tax on high-cost plans would not be imposed on individual plans.

In addition, the Acts impose new Medicare taxes on the "net investment income" of high income households, i.e. households with adjusted gross income (AGI) in excess of $200,000 for individuals and $250,000 for couples. Since high-income households who own property could receive rental income and/or realize capital gains on the sale of properties, the new Medicare tax could impact these households.

Q-4. Did NAR oppose this new tax on capital gains and rents?

A. Yes. Despite the fact this provision was a last minute addition to HR 4872, the Budget Reconciliation Act that amended the underlying Senate health bill, NAR expressed its oppostion to the new tax provision to tax committee staffs and sent a strongly worded letter to Congress opposing the new revenue raiser.

Q-5. How can I find out more about this tax?

A: To read more about this new tax and the impact it will have on high income households who receive net investment income i.e. income from capital gains, rents, interest, dividends, and business income earned by shareholders or partners not active in the business minus any allowable deductions, please see the next section of this Q&A entitled "Medicare Tax on Net Investment Income".

Q-6: Is the mortgage interest deduction going to be used to pay for these reforms?

A: No. While the Administration proposed some limits on the mortgage interest deduction (MID) to "pay for" health reform, the idea never got any traction in Congress.
NAR was adamant in its ongoing communication with Congress that *any* change or limitation to the current MID rules was unacceptable. Moreover, the current real estate market is far too fragile to absorb any changes to the tax rules for homeownership.

Q-7: Is Congress going to tax my health benefits when the insurance company honors my claims?

A: No. When an insurance company honors a claim, it is simply fulfilling its contractual obligation. The reimbursement is not a form of income and is not taxable.

Q-8: What does it mean when news accounts talk about "taxing health benefits"?

A: The discussion about taxing health benefits arises in the context of employer-paid health insurance premiums. Under current law, any amount of health insurance premium that an employer pays is outside the tax system. The employer can deduct the cost of the premium as a compensation cost. Even though the premium payment is a form of compensation, however, the employee is not required to recognize that amount as income. Similarly, the employer-paid premium is not subject to Social Security taxes. Thus, health insurance is a tax-free employee benefit, often referred to as "the exclusion."

Under current law, self-employed workers such as the overwhelming percentage of REALTORS® would not have been affected by this debate. Provisions of this sort were not included in the final reform law.