Goodman Institute
Turning Ideas Into Policy

Amendment 69 Could be a Nightmare for Colorado Seniors

ColoradoCare will add a new tax of 10 percent of most people's income and have nearly unlimited power to control health care in the state.

Think Colorado would be an ideal state for retirement? You may want to hold that thought until after the November 8th election.

On the ballot is Amendment 69, a proposition designed to create free health care for everyone in the state. It comes with a heavy price tag. A new tax will claim 10 percent of most people's income. It also comes with a great deal of regulation. A government agency (ColoradoCare) will assume virtually complete control over health care in the state, including the power to set doctor fees and hospital charges for every medical procedure.

Linda Gorman
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Why should senior citizens care about this?

New taxes for seniors.

Anyone eligible for Medicare would be expected to enroll and stay there. They would continue to pay their Part B and Part D premiums and Medicare would continue to pay their medical bills. But even though seniors would have their separate insurance, funded by their own premiums and payroll taxes, they will still have to pay a hefty tax for everyone else's health care.

Some moderate-income seniors will find they lose more than one-third of their pension checks and savings withdrawals.

Despite getting virtually no benefits from the new program, senior workers will pay 10 percent of every dollar they earn in wages – even if they are earning no more than the minimum wage. Although the tax is nominally divided – one-third paid by the employee and two-thirds by the employer – economic studies show that the burden of payroll taxes fall on workers, not employers.

Above a certain level of retirement income ($24,000), seniors 65 or older will pay 10 percent of every pension check, every dividend check, every dollar of capital gains and every IRA or 401(k) withdrawal. When added to other taxes, some moderate-income seniors will find that they lose more than one-third of their pension checks and savings withdrawals. Some wage and salary workers will find that they can lose 98 cents in taxes and reduced benefits when they earn one more dollar of income.

Surprisingly, the 10 percent tax will apply to tax exempt income. Senior citizens will even be forced to pay 10 percent of their Social Security income.

Changes in senior health care benefits.

There may also be some unpleasant surprises on the benefit side. For example, unlike the current system under which Medicare pays doctors and hospitals directly, under the new system ColoradoCare will be right in the middle of those transactions. It will pay the providers and collect reimbursement from Medicare. And since the fee it collects may be different from the fee it pays, ColoradoCare will have enormous power to engineer what kind of services are provided and how easy it will be to get access to them.

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Take something straightforward, like the free wellness exam seniors are supposed to be entitled to under Medicare. Suppose ColoradoCare decides this service is wasteful. It will have the power to set the amount that physicians can accept for that service at zero, regardless of what fee it collects from Medicare. In short order, there will be no more wellness exams for seniors.

ColoradoCare could also decide that the fee for care delivered by a specialist is zero unless the patient has been referred by a general practitioner – rationing access to specialist care the way some HMOs do. It could get rid of concierge medicine (or direct pay services) by setting the price for those services at zero as well.

Since the proponents of Amendment 69 frequently point admiringly to the experience of other countries, looking at the way other health systems operate may help us imagine what ColoradoCare will do. For example, ColoradoCare bureaucrats might decide to pay more for pediatric care and less for geriatric care. In particular, it might decide to pay a lot less for knee and hip replacements – encouraging orthopedic surgeons to leave the state or to specialize in some other type of surgery. The result could be long waits for joint replacements, similar to what we see in Canada.

ColoradoCare could also refuse to pay for advanced cancer drugs if it judges their cost is too high relative to the additional months of life they promise to produce. That's what happens in Britain. It has the worst cancer survival rates in western Europe.

The mechanics of ColoradoCare.

In addition to setting the price state licensed providers can accept for every medical product and service, ColoradoCare will operate a central billing and payments system to track and control payments. It will operate a central purchasing system to negotiate for all drugs, medical devices, and other products. It will create a central database of medical records for control, management, and research.

Independent estimates show that ColoradoCare's budget will not balance without additional tax increases. Those who wrote Amendment 69 foresaw this. ColoradoCare can hold an election to increase taxes once a year. The Amendment exempts the tax increase elections from all existing Colorado fair election laws. ColoradoCare will set the rules for its elections, determine who can vote in them and certify their results.

Though the elected Board in control of

ColoradoCare cannot be recalled by voters, it can purge troublesome members by a majority vote and handpick their replacements. Amendment 69 allows ColoradoCare to accept gifts, grants, and donations from any source.

ColoradoCare's new marginal tax rates for senior workers.

Even without ColoradoCare, tax rates on senior wages are extremely high. One reason for that is the Social Security System itself, which imposes very high penalties for beneficiaries who work. For example:

- Beyond a certain income level, early retirees from age 62 to 66 lose 50 cents of Social Security benefits for each dollar they earn – a 50 percent tax rate.
- From Jan. 1st in the year in which they turn 66 until their 66th birthday, they lose 33 cents of benefits for each dollar of wages – a 33 percent tax rate.

These taxes are on top of income, payroll and other taxes. Although the government begins adding the benefit reduction back once the worker reaches the normal retirement age, many seniors don't realize that or don't understand it.

If we abolished these "earning penalties" the government would probably be a net winner. Seniors would work more and earn more and the other taxes they pay would more than make up for any short-term revenue loss.

Another impediment to work is the Social Security benefits tax. Although this tax is nominally described as a tax on benefits, it really isn't. A senior who receives only Social Security income doesn't pay the tax at all. The tax only applies when there is other income, say from a lifetime of saving and investment. For that reason, the tax is really a tax on independent income. Here is how it works:

- Beyond a certain threshold, seniors must pay income taxes on 50 cents of Social Security benefits for each dollar they earn; i.e., when they earn $1.00, they must pay taxes on $1.50.
- If they earn even more income, they will reach a point where they must pay income taxes on 85 cents of Social Security benefits for each dollar they earn; i.e., when they earn $1.00 they must pay taxes on $1.85.

When the Social Security benefits tax is added to the earnings penalty, the tax rate on moderate-income seniors can take almost all of each additional dollar of wages. Throw in the new ColoradoCare tax and a senior worker may lose 98 cents for each additional dollar of earnings. (See Figures I, II and III)

Figure I

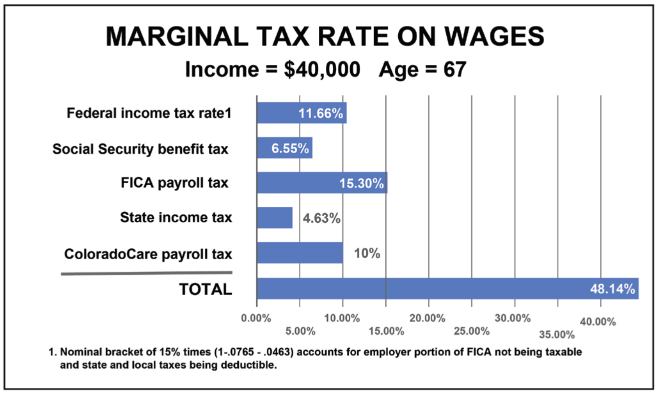

Figure II

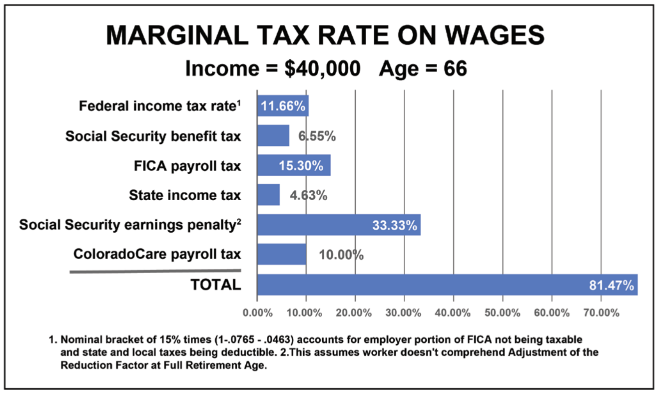

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Figure III

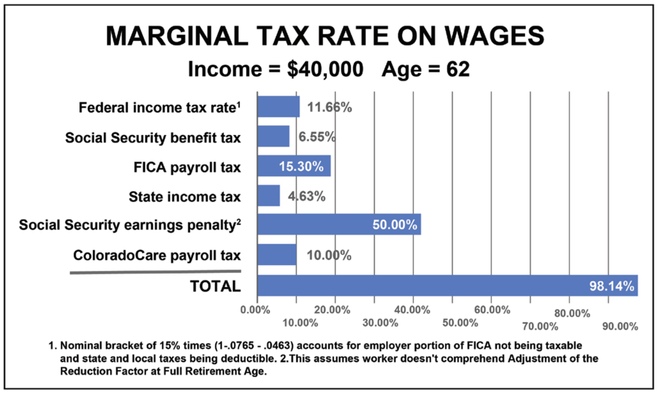
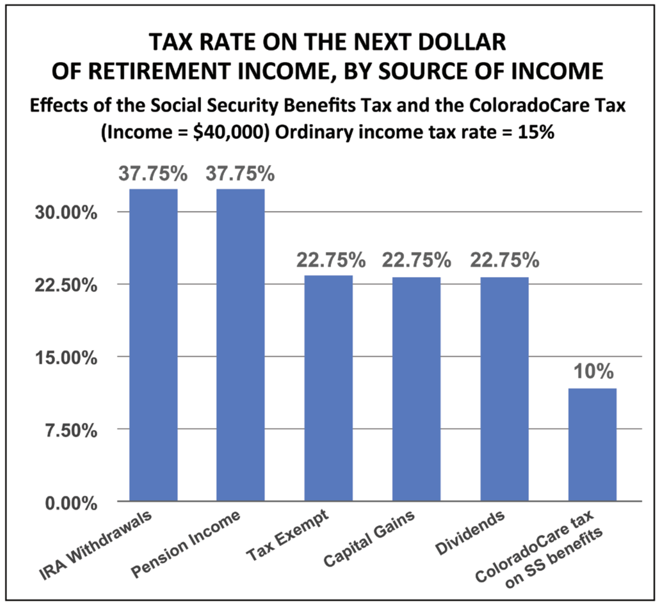


Figure IV



ColoradoCare's new marginal tax rates on savings.

The Social Security benefits tax also imposes very high rates on savings. As Figure IV shows, for someone in the 15% bracket for ordinary income with more than $24,000 in retirement income:

- The Social Security benefits tax can increase the tax rate on pension income and IRA withdrawals from 15% to 27.75%. When the ColoradoCare tax is added in, this tax rate climbs to 37.75%.
- When both taxes are combined, the tax rate on capital gains and dividend income can climb from zero to 22.75%.
- Tax exempt income can also be taxed at a rate of 22.75%.
- And Social Security income itself will be taxed at another 10%.

With the new taxes, ColoradoCare could make Colorado one of the worst states in the nation for prospective retirees.

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