American Benefits Council

Protect employer-provided health plans in tax reform. *Most Americans get health insurance through plans voluntarily sponsored and financed by their employers. Long-standing tax rules that protect employees from tax on health coverage are a major reason employer-provided health insurance is so prevalent. Even seemingly modest changes in those tax rules would result in dangerous disruption that would include increased costs of health insurance for employees and the potential loss of health care protection as more employers drop health plans or reduce the scope of coverage. With employers already under enormous stress from the uncertainty and costs of Patient Protection and Affordable Care Act (PPACA) implementation, this is not the time to change the tax rules for employer-provided health plans.*

Health Plan Taxation Changes Could Be Counterproductive

- **Employees Would Lose Access to Quality Health Coverage:** The current tax rules encourage employers to maintain plans and also assist employees in being able to afford their share of the cost of those plans. Over the years, a variety of proposals have been made to cap, replace, reduce, or eliminate the employee health plan tax exclusion, with most requiring complex calculations of the value of health coverage. All those proposals run the risk of doing serious harm to middle class working Americans who are the primary beneficiaries of the health plan tax exclusion – either through direct tax increases or indirectly as more employers terminate their health plans or reduce the coverage provided.

- **Reduction in Health Plan Exclusion Will Increase Spending on PPACA Subsidies:** PPACA subsidies are only available to individuals that are not offered affordable minimum value coverage by their employers. That means that the cost of those subsidies is directly related to the number of employers that continue to offer health insurance. Studies vary widely regarding how the PPACA will affect the number of employers offering insurance, but all studies agree that the current tax rules are an important factor in employer decisions to maintain plans. If the health plan exclusion is eroded and employers drop plans, government spending on PPACA subsidies will increase. Just how much is uncertain, but according to Treasury Department economists, of the 157 million people younger than age 65 that had employer-sponsored health insurance in 2010, 62% would have had income low enough to qualify for generous federal subsidies under the PPACA (Gillette, Hunter, Lurie, Siegel, and Silverstein, 2010). If even a relatively small number of employers drop their plans, the increased spending on the PPACA subsidies could increase dramatically. That is not a chance we can afford to take at this time.

- **Reduction in Health Plan Exclusion Could Destabilize Health Care Exchanges:** The employers that would be most likely to drop their plans if the health plan exclusion is limited would be those with more expensive plans, often those with a workforce that is sicker, older, or otherwise needs more health care. Many of those employees will migrate to the new PPACA exchanges. But because they use more health care, the premiums for all others in the exchange would increase.

- **Limits on the Health Plan Exclusion Would Substantially Reduce Take-Home Pay:** Limiting the health plan exclusion would reduce take-home pay by up to 3% for middle income Americans (CBO 2013), plus increase state income taxes in many cases. For example, in 2014 a 40-year old with adjusted gross income of $37,000 might face a combined federal, state and payroll tax burden of over 40% (e.g., a 25% federal income tax rate, a 5% state income tax rate, and a 15.3% payroll tax rate). Taking away the health plan exclusion would mean a $1,600 tax increase if his or her employer-provided health plan were valued at $4,000. And that is only if the employer decides to keep paying for the plan. If the employer dropped the plan, the worker might be eligible for a small subsidy in the state exchange ($342, according to the Kaiser Family Foundation subsidy calculator), but that would not come close to offsetting the loss of employer-provided coverage.