



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.

CAPS ON THE HEALTH PLAN TAX EXCLUSION ARE INEQUITABLE

- **A Cap on the Health Plan Exclusion Would Be Unfair:** Some have suggested that additional revenue could be raised by limiting the health plan exclusion for high-cost plans that are providing “excessively” generous insurance coverage. This view mistakenly assumes that employer-provided health plans with costs above the national average are providing more coverage than is needed. In fact, health plan costs are often driven by factors outside the control of the health plan sponsor, including the composition of the employer’s risk pool, and the size of the firm. As a result, capping the health plan exclusion would disproportionately and unfairly harm workers in small firms, workers in a business with a disproportionate share of older workers or smokers (whether or not they themselves are older or smoke), or workers in industries with relatively higher expected claims costs (such as farming or construction).
- **Capping the Health Plan Exclusion Would Penalize Those Living in High Cost Areas:** The average total cost of employer-sponsored family coverage varied from \$12,474 to \$16,953 across the nation (Commonwealth Fund 2012). A uniform national cap on the health plan exclusion would disproportionately impact employees already burdened with higher health costs. For large employers with uniform nationwide self-funded health plans, a uniform exclusion cap would be particularly problematic because even though all employees would receive the same

health plan, those in a lower cost area might still see a tax increase based on overall plan costs that are inflated by the employees in higher cost areas.

- **A Health Plan Exclusion Cap Could Further Erode Retiree Health Coverage:** Retiree health coverage has decreased in recent years, but many retirees (and their surviving spouses) still receive health coverage through former employers. For example, in 2011, over 37% of large employers offered health coverage to pre-65 retirees (EBRI 2012). The coverage provided by those former employers is excluded from taxable income for the retiree. Because retirees are older and use more health care services than an average employee, the retiree group would be much more likely to incur higher taxes under any cap on the health plan exclusion. If, on the other hand, the employer combined the more expensive retiree group with its active work force in valuing the health plan benefits, then the active workers might experience a larger tax increase because the retirees were covered. Either way, the employer's incentive to continue to maintain retiree health coverage of any kind would be reduced. And this is just one example of the complexity and potential unintended consequences that come with any proposal to cap the health plan exclusion.
- **Caps on the Health Plan Tax Exclusion Would Involve Substantial Middle Class Tax Increases:** Employees in more expensive health plans are not necessarily richer. A recent analysis of a proposal to cap the health plan exclusion at the 75th percentile of 2013 average health plan costs found that the taxpayers that would experience a tax increase were spread across all income levels (Clemans-Cope, Zuckerman, Resnick, 2013). Overall, 20% of taxpayers would see an average estimated tax increase of \$633 in 2013 and \$1,133 in 2023. Affected taxpayers in the middle income quintile (those with 2012 income between \$48,516 and \$78,595) would see an average tax increase of \$914 in 2023.