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.

THE HEALTH PLAN EXCLUSION IS NOT THE CAUSE OF SPIRALING HEALTH CARE COSTS

- **Limits on the Health Plan Exclusion Have Not Been Shown to Decrease Health Spending:** Some contend that placing an overall limit on the health plan exclusion would create incentives for individuals to select less comprehensive insurance plans or otherwise restrain health spending. That has not been proven. What is clear is that limits on the exclusion would mean employees and their families would have to bear a greater portion of their health costs, or accept less protection from unexpected illness. But it is difficult to see how changes in the health plan exclusion would lead to more cost conscious consumers of health care when the consequence (i.e., the additional tax on employer-provided coverage) is remote in time from the employee’s decisions on when to utilize health services.

- **High Health Care Spending is the Result of Many Interrelated Factors:** There are myriad reasons why the United States spends more on health care than any other developed nation. Some of the solutions are clear. We need to strengthen incentives for individuals to take greater personal responsibility for their own health and to participate in effective programs to promote wellness, manage chronic health conditions, and make regular preventive care a priority. Medical liability reform is needed to make our health care system less litigious and to lower those costs that are driven by “defensive medicine.” And those utilizing medical care must have better tools to be value conscious consumers, including performance and price information to locate health care providers with a record of delivering high quality care. But taxing employer-provided health coverage will not tame health care cost inflation.
Employers Have Been a Principal Source of Health Care System Innovation:
Employers that sponsor health plans have long been the leaders in containing costs, while improving quality. If the health plan exclusion is curtailed and more employers stop offering health plans, quality improvements and cost saving innovations that have originated in the private sector will be stifled. Today, employers are motivated to continually improve the management and delivery of the health coverage they sponsor. Employers have been at the forefront of efforts to increase consumer engagement through the development of “consumer-directed” plans that encourage employees to be actively involved in choices about health care services and providers. Employers have also led in developing plans, workplace wellness programs, and educational programs that promote wellness and encourage greater personal responsibility for adopting a healthy and safe lifestyle.

Targeting Higher Income Taxpayers Would Harm All Workers: Some argue that tax exclusions should be limited for higher income taxpayers because they provide marginally greater benefit to those in higher tax brackets. That reasoning is unconvincing when applied to the health plan exclusion. The “tax” benefit of a tax preference is, by nature, worth more to people in higher tax brackets. But the crucial issue is the value of the “benefit” provided. And since comparable employer-provided health benefits are generally provided to the entire workforce, the benefit is worth much more to lower-wage workers. Moreover, the payroll tax exclusion provides little benefit for higher income taxpayers who already reach the maximum level subject to Social Security payroll taxes. Another concern that would arise from limiting the exclusion for higher income individuals is that in the small business setting it could reduce incentives for key company decision-makers to offer a health plan. If the plan is dropped, all employees would be harmed. Even if further increases in taxes on those with higher income were deemed prudent, it should not be accomplished through changes that penalize rank and file workers.