



December 15, 2009

The Honorable Harry Reid  
Majority Leader  
United States Senate  
Washington, D.C. 20510

Re: Patient Protection and Affordable Care Act

Dear Majority Leader Reid:

We are writing to express our serious concerns regarding two provisions included in the Senate's pending Health Care Reform legislation. Both provisions would impact the tax status of providing employee and retiree group benefit plans and both provisions impact the feasibility of continuing to provide such plans. The first provision affects the Medicare Part D subsidy for prescription drug coverage, which has significant implications for both retirees and employers participating in the Medicare Part D program to provide needed drugs. The second provision taxes high-value health plans, which we believe will result in diminished coverage for both active employees and retirees.

The Patient Protection and Affordable Care Act now being considered by the Senate changes the tax treatment of the financial support provided by employers to provide retiree drug coverage, effective in 2011. Placing a new tax on these employer subsidies is projected to raise \$5.4 billion over a 10-year period; but that projection assumes that no more than 25 percent of beneficiaries currently receiving this benefit from their former employer will move into the Medicare Part D program. In fact, we believe that many employers will see the need to drop or revamp their programs, moving more retirees into the government's program than those assumptions predict. Such movement of people from retiree plans will generate more costs to the federal government than revenues, thus adding to the federal deficit, rather than financing the health care reforms.

Congress should also be aware that the change in tax treatment would prove to be a distraction to the capital markets, at a time of grave economic uncertainty. That is because accounting rules dictate that, immediately upon the signing of the health reform legislation, employers would have to recognize, on their books, the long-term impact of the new tax liability.

While we commend your efforts to help mitigate the adverse impact of the 40 percent excise tax on high-cost plans, we continue to believe that, even in its current form, the tax is a misguided tool. If it was intended to address only excessive or luxury health benefits plans, it will, in fact, impact the health plans covering tens of millions of workers, including those in telecommunications, manufacturing,

construction, mining, public sectors. While the Congressional Budget Office estimates that 1 of every 5 workers would be impacted by the excise tax in 2016, the number of impacted workers will rise over time since the thresholds for the tax are significantly below actual health care cost increases.

The tax misses its mark because it assumes that high cost health plans have rich benefits. It does not recognize what we know to be true: the cost of health plans is heavily influenced by the age of the covered workforce and retirees, the proportion of covered dependents, the health status of the covered population, and the cost and practice patterns in the markets covered.

In order to avoid the additional financial burden of the 40 percent tax, many employers will be compelled to make significant changes in their benefit plans. Some predictable changes would be to cut back on dental and vision coverage, increase out of pocket payments by employees, and reduce family coverage. Further reductions in retiree coverage are also a certain result.

These two significant issues would likely have the unintended effect of discouraging the provision of employer-sponsored health coverage, thereby undermining one of the goals of health reform legislation and placing more of the cost and burden of providing this vital coverage onto the federal government.

As the legislation moves forward, we hope to work with you and your colleagues to ensure that health reform legislation extends health insurance coverage to millions of people who do not currently have coverage and guarantee that most Americans will have access to quality, affordable coverage. At the same time, we hope to assure that reform does not jeopardize the coverage that millions of Americans rely on to meet their health care needs.

Sincerely,



Larry Cohen  
President  
Communications Workers of America



Ivan G. Seidenberg  
Chairman and CEO  
Verizon



Edwin D. Hill  
International President  
International Brotherhood of Electrical Workers



Randall L. Stephenson  
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