



# AMERICAN BENEFITS COUNCIL

July 18, 2013

United States Senate  
Washington, DC 20510

## **RE: Employer-Sponsored Retirement and Health Benefits**

Dear Senator,

The American Benefits Council is a public policy organization representing principally Fortune 500 companies and other organizations that assist employers of all sizes in providing benefits to employees. Collectively, the Council's members either sponsor directly or provide services to retirement and health plans covering more than 100 million Americans. On their behalf, we ask you to ensure that Americans' retirement and health security not be diminished during the tax reform process.

As you know, the Senate Finance Committee has begun a review of the Internal Revenue Code and Chairman Baucus and Ranking Member Hatch have asked their colleagues for input on possible reforms. Notably, they have suggested that they are considering starting with a "blank slate" that would eliminate all forms of exclusions, deductions, and credits – the so-called tax expenditures. Senators Baucus and Hatch have emphasized that this blank slate will not be the end product and that some provisions serve important objectives and should be preserved.

We appreciate that to be successful, the tax reform process cannot be about preserving each interest group's cherished tax provisions which, in an ideal world, would not be touched. Rather, the value of maintaining tax expenditures must be justified by demonstrating that (1) they are meeting important national objectives, and (2) changes would result in other costs to the government; thereby mitigating any perceived revenue gain from eliminating or limiting the current provisions. On both counts, the evidence is overwhelming that protecting the tax-favored treatment of employer-sponsored benefits is sound policy. Accordingly, throughout consideration of any tax reform legislation, we urge you to strongly advocate for retention of the very successful tax incentives for employer-provided retirement and health plans that are vital to Americans' financial security.

The tax reform process offers an opportunity to enhance retirement savings through relatively modest changes that build upon the existing successful structure. But major changes in today's retirement savings policies are not needed or advisable. Congress must recognize that proposals purporting to increase federal tax receipts by curtailing retirement savings incentives would do so by reducing the amount workers can save for retirement and/or retroactively changing the promise made to them when they and their employers contributed to plans, by taxing the assets already accumulated. Making matters worse, any short-term revenue gain that might be derived from changes in the retirement savings incentives is largely illusory because when workers save less money today it will mean smaller distributions (and less tax revenue collected) when they retire.

Similarly, it would be extremely ill-advised to restructure the tax rules governing employer-provided health coverage at this transformational moment in our employer-sponsored health system. No one can predict with certainty exactly how implementation of the Affordable Care Act will affect employer sponsorship of health benefits. But two consequences are indisputable. First, the result will not be the same nationwide for every company and for all employees and family members. There are likely to be significant variations geographically and by type and size of company. Second, to the extent taxing health benefits results in some workers no longer seeing the value of receiving coverage from their employers and their employers respond by no longer sponsoring a plan, there will be a corresponding cost to the federal government as workers obtain their coverage in the insurance exchanges where many of them will be eligible for premium tax credit subsidies. With so many consequences unknown and unknowable at this time, altering the tax treatment of health benefits could be tremendously disruptive and costly.

Current employee benefit rules have evolved over decades. Today's structure ensures fairness through rules prohibiting discrimination in favor of highly compensated employees and, in many cases, through caps on annual contributions. Moreover, retirement assets account for the nation's largest pool of investment capital. If a major purpose of tax reform is to promote economic growth, it would be counter-productive to adopt policies that will limit private retirement savings – and which would also impose a greater burden on our Social Security system and other public retirement programs.

In light of the foregoing, we urge Congress to:

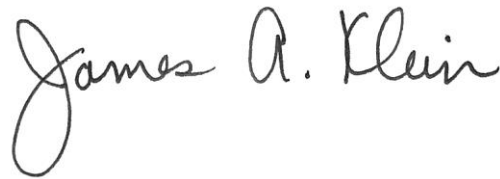
- Ensure that tax reform does not alter the tax treatment of assets already saved in retirement plans, does not reduce future retirement savings, and does not in any other way undermine the successful existing retirement savings system;
- Ensure that tax reform does not erode employers' flexibility to continue providing quality health care coverage to employees and families;

- Prevent the tax reform process from being used to make fundamental changes to employee benefit policies. Those policies should be changed, if at all, only in ways that improve retirement and health security, not raise revenue for deficit reduction, or to offset the cost of other tax changes or new spending; and
- Consider even modest changes in retirement and health care rules during the tax reform process only if they demonstrably increase overall retirement savings or enhance health care efficiency, coverage, or quality.

Senator, we respectfully request that you formally contact Senators Baucus and Hatch to express your keen interest in ensuring that the tax reform process will not undermine incentives for employment-based health and retirement coverage.

Thank you for your assistance and leadership on these critical issues. If you or your staff have any questions, or if we can be of further assistance, please contact Lynn Dudley (Senior Vice President, Policy), Kathryn Wilber (Senior Counsel, Health Policy), or me at (202) 289-6700.

Sincerely,

A handwritten signature in cursive script that reads "James A. Klein". The signature is written in black ink and is positioned to the right of the word "Sincerely,".

James A. Klein  
President