



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.

CHANGES IN HEALTH PLAN TAX TREATMENT WOULD BE DISRUPTIVE

- **Employment-Based Health Plans are Already Under Enormous Stress:** It would be especially ill-advised to restrict the tax rules for employer-provided health coverage at this transformational moment in our health system. Employers that sponsor health plans have struggled in recent decades with escalating health costs. Now the PPACA has added substantial new administrative burdens and costs. No one can predict with certainty how PPACA implementation will affect employer sponsorship of health benefits. But it is clear that results will not be the same nationwide for every company. There are likely to be significant variations geographically, by type and size of company, and by family size. This somewhat chaotic process is ongoing and it will be years before a basic understanding of the implications of the PPACA becomes clear. With so many consequences unknown and unknowable, altering health plan tax treatment now should be an unacceptable gamble.
- **Employers Face New Burdens and Requirements:** Large and small employers maintaining health plans have been required to devote extraordinary resources to changing their plans to meet new PPACA requirements. These include required plan changes increasing costs, such as prohibitions on lifetime and annual benefit caps, new restrictions on rescissions and waiting periods, required coverage for adult children up to age 26, eliminating pre-existing condition exclusions, and

requiring coverage of a specified set of preventive services without cost sharing. In addition, employers will be required to implement complex and yet unspecified rules on determining and counting full time employees for purposes of the pay-or-play requirements and will need to implement extensive new reporting requirements (although here again the rules have yet to be finalized).

- **New ACA Taxes and Fees Increase Health Plan Costs:** The PPACA includes health plan taxes and fees that will ultimately be borne by employers and employees. Fees for the Transitional Reinsurance Program and Patient-Centered Outcomes Research impose billions of dollars in new costs on health insurers and self-funded group health plans. Another new tax applies to health insurers, but according to the Congressional Budget Office the tax will be “largely passed through to consumers in the form of higher premiums.” That health insurer tax is estimated to raise \$100 billion over 10 years and is expected to increase health insurance premiums by between 2.8% and 3.7% in by 2023 (Oliver Wyman 2011). Similarly, other PPACA taxes and fees will affect plans indirectly. For example, the PPACA imposes new multi-billion dollar fees on pharmaceutical companies and on the sale of medical devices.
- **The Looming “Cadillac Plan” Tax Threatens Employer Plans:** Beginning in 2018, the long-term viability of many employment-based health plans is threatened by a new PPACA high-cost plan excise tax, often called the “Cadillac tax.” This 40% excise tax will apply to employer-provided health plans with benefits that exceed national threshold amounts. Since increases in the thresholds are tied to inflation, and not medical cost trends, more and more health plans will be subject to the tax over time. Because few, if any, employers would offer plans subject to the exorbitant Cadillac tax, the Bipartisan Policy Center (April 2013) estimates that if the Cadillac tax is not repealed, more than half of today’s health plans would be eliminated by 2029 even if health costs increase at lower than historic average rates.