PARTNERSHIP FOR
**EMPLOYER-SPONSORED COVERAGE**

November 12, 2024

The Honorable Mike Johnson
Speaker
U.S. House of Representatives
H-232, The Capitol
Washington, DC 20515

The Honorable Chuck Schumer
Majority Leader
U.S. Senate
S-221, The Capitol
Washington, DC 20510

The Honorable Hakeem Jeffries
Minority Leader
H-204, The Capitol
Washington, DC 20515

The Honorable Mitch McConnell
Minority Leader
S-230, The Capitol
Washington, DC 20510

Dear House and Senate Leaders:

The Partnership for Employer-Sponsored Coverage (P4ESC) writes to express our continued concern regarding proposals to cap the federal income tax exclusion for employer-sponsored health coverage. Doing so would be highly disruptive to employment-based coverage – the single largest source of coverage in our nation. Considering a tax exclusion cap in the context of tax reform or for other purposes would be terribly unwise in our view.

P4ESC is a nonpartisan advocacy alliance of employer-based and oriented organizations and trade associations representing businesses of all sizes and sectors, and the millions of Americans and their families who rely upon employer-sponsored coverage every day. Employer-sponsored coverage has been the backbone of our nation's health system for nearly eight decades. P4ESC strongly cautions Congress not to jeopardize what has worked so well through the years.

Some advocates argue that there is too much demand for health care services because benefits are too rich. We strongly disagree. The real problem is with the supply side of the health care cost curve: health care services are far too expensive. The health care industry as a whole is still quite resistant to practical transparency, which could help drive beneficial competition and lower health care costs. The surer path to a reduced budget cost of the exclusion is a determined effort to clamp down on health care spending across the board.

Health benefits are the most valued employee benefit next to wages. These benefits are prized because they provide greater peace of mind for the employee and their family. Health benefits provide a bulwark against financial impoverishment from health care needs. Employer-sponsored group health coverage is generally more affordable for employees than the individual market or the exchanges.

Employers and employees covered by their health plans differ by size, workforce composition and by region. The task of designing a cap on the exclusion for all employer-sponsored plans would be very difficult.

Congress passed a similar cap during the Affordable Care Act debate. The so-called “Cadillac Tax” on high-cost plans faltered during implementation and was ultimately repealed. Regulators could not figure out how to construct a workable cap that accounted for geographic differences in health costs and that did not single out sicker or older individuals. These very same stumbling blocks apply to the current debate.

A cap approach based on a regionally adjusted national average would not work for larger groups which are almost universally experience-rated. Some of these larger groups have older or less healthy employees with higher rates of utilization, and consequently, more expensive plans. Smaller employers with older employees with higher utilization might also be disproportionately affected. A cap would hit employees covered by these plans more harshly than others. All employers and employees would see their FICA contributions increase with higher recognized wages due to a cap on the tax exclusion.

We also fear that no matter how carefully crafted a cap on the tax exclusion may be, there is no logical limiting principle to a cap. Future Congresses could well return to the tax exclusion to generate additional savings. Once the principle of a cap on the exclusion is established, a future Congress could dial the cap ever downward.

The disruption of employer-based coverage would likely be catastrophic. Group coverage would fall as younger, healthier adults migrate out of employer-based plans if given the choice between increased costs and lack of coverage. Insurers will have to consider raising premiums to account for the shift in risk pools. Employers will have to consider passing on higher premiums to employees as well as reconsider whether to maintain additional resources meant to help navigate care and coverage. Not to mention, there would be a disproportionate impact on Americans living in parts of the country where health care costs are higher.

Taxing health insurance benefits is not just impractical, it is unjust. Employees are already shouldering substantial tax burdens. Taxing their health insurance as income would further burden employees, effectively amounting to a new and unappreciated tax hike. Taxpayers are unlikely to reward these efforts.

Employers have a significant stake in developing and implementing health care policies. We look forward to discussing this and other health care reform proposals with you. If you or your staff would like to meet with members of P4ESC, please contact P4ESC’s Executive Director Neil Trautwein.

Sincerely,

**The Partnership for Employer-Sponsored Coverage**
www.p4esc.org

cc: Members, U.S. House of Representatives
Members, U.S. Senate