Roll Call

By: Reps. Joe Courtney and Tom Cole

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Since the end of World War II, employer-sponsored health care coverage has been exempt from taxable income. As a result, two out of every three non-elderly Americans are insured through their employer, making health care benefits a core pillar of compensation for the middle class and the foundation of America's system of health care coverage.

Despite the exemption's broad benefit for tens of millions of people, Washington's primary deficit-reduction proposals — Domenici-Rivlin and Simpson-Bowles — would cap and then phase out the exemption for employer-sponsored coverage, exposing the benefits to taxation for the first time in more than six decades

The result of such a move would run completely counter to the stated goal of deficit reduction.

Expert analysis of these proposals has concluded that eliminating the tax exemption reduces health care coverage for millions of Americans and would increase long-term federal spending obligations, driving millions out of their existing coverage into federally subsidized coverage. It would also erode self-insured health care plans and multi-employer health care plans that operate on a nonprofit basis.

Defying conventional wisdom about Washington, D.C., we have joined together as a Democrat and Republican in an effort to convince the super committee that this idea is a nonstarter. Over the past weeks, we have collected more than 80 bipartisan co-signers on a letter urging the committee to oppose the taxation of health care benefits.

At the heart of these proposals are the inaccurate notions that tax exclusion leads to excessively generous benefits and overutilization of care and that high-premium plans tend to exist exclusively among high-income earners. A study published in Health Affairs, “Taxing Cadillac Health Plans May Produce Chevy Results,” concluded that richness in benefits explains less than 4 percent of variation in premiums, discrediting the claim about generous policies and overutilization.

Premiums are not tied to benefits as much as they are attributed to factors such as region, firm size, workforce age and riskiness of profession.

A study on the “Cadillac tax” proposal conducted by the American Academy of Actuaries in January 2010 concluded that the proposal would disproportionately affect early retirees by a striking margin, not because their plans are more generous but because they are more expensive to cover. The report also concluded that small businesses and high-risk professions would also be affected disproportionately, again, not based on generosity of benefits but because of long-standing actuarial realities.

Further, a recent survey conducted by Mercer found that an average employer-sponsored plan in the Northeast is about 23 percent more costly than in the South, and plans at firms where the average employee age is 45 or older are 7 percent more expensive on average for comparable benefits.

Proposals to cap and to rescind tax exclusions for employer-sponsored health care coverage would have a disproportionately negative effect on millions of Americans who currently obtain coverage through their employers.

As the tax preferences are phased out, employees in the high-cost regions, in high-risk fields, in smaller firms — all factors beyond personal control and unrelated to overutilization or excessive benefits — would be disproportionately affected. And as more employers drop coverage as a result of these changes, economies of scale inherent in the employer-sponsored system will be lost. Both outcomes would shift costs instead of producing savings.

Our country faces serious fiscal challenges today, and the super committee has a formidable task ahead of it. But undermining our existing employer-sponsored health care coverage would not fix our budget issues. In fact, it could make them significantly worse.

Rep. Joe Courtney (D-Conn.) serves on the Agriculture and Armed Services committees. Rep. Tom Cole (R-Okla.) is a member of the Appropriations and Budget committees.

http://www.rollcall.com/news/courtney_cole_taxing_health_benefits_would_make_budget_problem_worse_not-209893-1.html