



April 23, 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
U.S. House of Representatives
H-204, The Capitol
Washington, DC 20515

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

Dear House and Senate Leaders:

The Partnership for Employer-Sponsored Coverage (P4ESC) writes to express concern regarding the recent resurgence of interest in capping the tax exclusion from income for employer sponsored health coverage. Doing so would be highly disruptive to employment-based coverage – the single largest source of coverage in our nation.

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.

It is not surprising then, that the Federal Tax Code favors employer-sponsored coverage. The value of coverage provided to employees and dependents is not recognized as income to the employee. This tax code preference has been challenged by some policy makers¹ – particularly those interested in shifting our health system to an individual-based system. P4ESC strongly cautions Congress not to jeopardize what has worked so well through the years.

The exponential growth in our nation's employment-based health coverage system can be traced back to a cap on wages initiated during World War II to help stifle inflation. Employers began to offer fringe benefits – such as health insurance – to offset the cap on wages and attract employees. This approach has supported coverage for nearly 80 years. The direct benefits and federal spending offsets of employer-sponsored coverage results in an annual net social impact of

¹ <https://paragoninstitute.org/newsletter/surprise-billing-aca-plan-switching-capping-the-exclusion/>

\$1.5 trillion, driven by increased labor participation, business formation, increased health coverage, and reduced federal health subsidies. Each dollar of federal expenditure – the tax revenue foregone for employer-sponsored coverage – yields approximately \$5.34 in benefits for covered employees and their families.²

Many employers reinvest in their workforce by offering benefits beyond medical coverage. Ninety four percent of employers with 500 or more employees reported³ that they have strengthened their mental health care coverage or put in place new programs or systems to help employees with their mental health care needs in the last three years.

Some assert that capping or eliminating the tax exclusion from income for employer-sponsored coverage would raise federal revenue and/or offset the cost of other federal reforms or programs. However, such actions would increase the taxable exposure of the majority of Americans covered by employer-sponsored insurance, jeopardizing the level and quality of care their employers are able to provide.

Employer-sponsored health coverage is built off of broad participation. Employees are grouped together without regard to their health status. These pools tend to be more stable over time and more predictable leading to lower premium trends than other pooling arrangements. Controlled entry and exit from the plan, employer contributions and the ability of younger, healthier employees to offset the cost of older or less healthy employees helps keep coverage more affordable across the entire workforce. These natural pooling characteristics are unique to employer-sponsored health plans and have not been successfully replicated by other health care coverage options.

Private insurance plans already pay close to 230% of what Medicare pays for the same services.⁴ Squeezing more from employer-sponsored health plans does nothing to address the major factors driving increased healthcare costs nor does it address the utilization of medical services, which has been mostly flat. A cap on the tax exclusion will also likely stifle private-sector innovation of benefits and delivery designs. To tamper with the current tax treatment of employer-sponsored coverage would be especially devastating to businesses and American workers.

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 ask your staff to contact P4ESC's Executive Director Neil Trautwein at neil@trautweinstrategies.com.

² National Bureau of Economic Research Working Papers, https://www.nber.org/system/files/working_papers/w28590/w28590.pdf

³ Mercer/PACT, <https://www.mercer.com/en-us/insights/us-health-news/employers-support-growing-demand-for-mental-health-services/>

⁴ Prices Paid to Hospitals by Private Health Plans, https://www.rand.org/pubs/research_reports/RRA1144-1.html

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Sincerely,

The Partnership for Employer-Sponsored Coverage

www.p4esc.org

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