

Statement for the Record
U.S. House of Representatives
Ways and Means Committee

Regarding
Tax Treatment of Health Care

April 14, 2016

Submitted by:
The National Association of Health Underwriters



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Chairman Brady,

I am writing on behalf of the National Association of Health Underwriters (NAHU), a professional association representing more than 100,000 licensed health insurance agents, brokers, general agents, consultants and employee benefit specialists. Our members service the health insurance policies of millions of Americans and work on a daily basis to help individuals and employers purchase, administer and utilize health insurance coverage that best fits their needs and budgets, and service this coverage on a year-round basis. NAHU appreciates the opportunity to provide written testimony for the House Committee on Ways and Means hearing on "The Tax Treatment of Health Care," and we would like to take this opportunity to encourage the committee's support for the continuation of the "employer exclusion."

The employer exclusion is used to reference the tax benefit that excludes employer-provided contributions toward an employee's health insurance from that employee's compensation for income and payroll tax purposes. This exclusion makes employer-provided health coverage an attractive form of compensation for workers. According to a new poll from Accenture, three-quarters of workers see health benefits as a "vital reason" for continuing to work for their employers, and one-third would quit if their employers stopped offering insurance. A similar percentage said they wouldn't work as hard if their benefits disappeared.¹

Employer-sponsored coverage is the bedrock of private insurance coverage in the United States. According to the Bureau of Labor Statistics, about 175 million Americans have employer-sponsored coverage and are statistically more likely to maintain coverage year after year.² Providing coverage through employers or other group arrangements offers controlled entry and exit in the health insurance market, which ensures the spreading of risk, federally guaranteed consumer protections like portability rights, the ease of group purchasing and enrollment, and the economies of scale of group purchasing power. In addition, it is a means for employers to provide equitable contributions for their employees.

Several recent health insurance and tax-reform proposals have suggested eliminating or capping the tax exclusion provided to individuals who have employer-provided group coverage and perhaps substituting it for some other tax preference. Capping the exclusion for employees would degrade the benefit and serve as a tax increase for middle-class Americans. Eliminating the exclusion would mean that most of the advantages of employer-provided coverage would no longer exist: No longer would there be a potent means for spreading risk among healthy and unhealthy individuals; employers and individuals would lose many group purchasing efficiencies; workers would be less likely to have their employer as an advocate in coverage disputes; employers would be less likely to involve themselves in matters of quality assessment and innovation; and employers could suffer in terms of worker productivity and labor costs because employer-sponsored insurance leads far more workers to purchase health insurance than they would on their own. Some employers would not meet participation requirements for group coverage so the entire workforce would lose employer-sponsored coverage. This shift might seem minor, but it could compel employers to stop providing health insurance, according to the

¹ <http://www.plansponsor.com/Health-Insurance-Critical-for-Retaining-Employees/>

² <https://www.census.gov/content/dam/Census/library/publications/2015/demo/p60-253.pdf>, Table 1

Congressional Budget Office and the Joint Committee on Taxation.³ Companies will expect their employees to secure affordable coverage in the individual market. For many people, particularly older and lower-income workers, that may be impossible, even with the implementation of the Affordable Care Act.

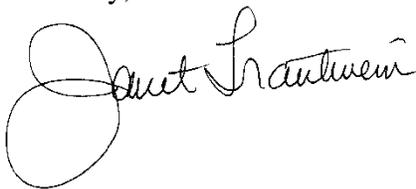
One plan would eliminate the tax exclusion for employer-provided health insurance, preventing companies from purchasing coverage with pre-tax dollars, and instead provides individuals with a tax deduction of \$7,500 a year for buying insurance. Families would receive a deduction worth \$20,500.⁴ These types of tax deductions would encourage young, healthy workers to forgo employer-sponsored insurance because they could purchase cheaper plans elsewhere. Employers would be left with an older, sicker risk pool, thus higher costs – if they can get group coverage at all. As costs escalate, even the most generous employers may quit offering health insurance altogether. De-linking coverage from employment like this would make health insurance more expensive and less accessible, thereby contradicting the objectives of the Affordable Care Act.

Adding to the threat to employer-sponsored insurance is the increase in cost to the employers. In a recent survey, almost 90 percent of businesses reported that their costs had increased because of the law.⁵ Employers are responding by laying off workers, making full-timers part-time so the mandate doesn't apply or dropping coverage altogether. In all three cases, the result is fewer people with employer coverage.^{6 7 8 9}

Getting businesses out of the healthcare business would be a mistake. We urge you to maintain the system that has worked for Americans for decades, and preserve employer-sponsored health coverage through the continuation of the employer exclusion.

NAHU sincerely appreciates the opportunity to provide these comments and we look forward to working with you as you continue to make improvements for health insurance consumers and employer-sponsored coverage. If you have any questions, or if NAHU can be of further assistance to you, please feel free to contact me at 202-595-0787 or jtrautwein@nahu.org.

Sincerely,



Janet Trautwein
CEO, National Association of Health Underwriters

³ <http://www.cbpp.org/research/health/republican-study-committee-health-plan-would-likely-result-in-many-more-uninsured>

⁴ <http://eba.benefitnews.com/news/health-care-reform/republicans-propose-controversial-aca-fix-eliminating-employer-exclusion-2746596-1.html>

⁵ <https://www.ifebp.org/bookstore/aca2014/Pages/default.aspx>

⁶ <http://news.investors.com/politics-obamacare/090514-669013-obamacare-employer-mandate-a-list-of-cuts-to-work-hours-jobs.htm?fromcampaign=1>

⁷ <http://www.help.senate.gov/imo/media/doc/Webb.pdf>

⁸ <http://healthaffairs.org/blog/2014/06/04/repeal-and-replace-the-employer-mandate/>

⁹ http://www.mlive.com/business/west-michigan/index.ssf/2015/01/affordable_care_act_prompting.html