Talking Points

Legislation to Repeal the 40 Percent Excise Tax on Health Benefits

1. The Affordable Care Act (ACA) includes a 40 percent excise tax on the cost of employer-based health insurance that exceeds certain amounts—generally $10,200 for individual coverage and $27,500 for family coverage—beginning in 2018.

2. According to the Joint Tax Committee (JTC), the CMS Actuary, and the Congressional Budget Office (CBO), employers will respond to the excise tax by reducing the value of health care coverage —by increasing deductibles, copays, coinsurance, and maximum out-of-pocket limits.

3. The tax is specifically intended to weaken the financial protection provided to consumers by health insurance. Proponents of the tax argue that it reduces "overinsurance," providing consumers with more "skin in the game," so that they will be incentivized to reduce their utilization of services.[1]

4. Recent surveys of employers find that a large proportion are expecting to be hit by the tax and that they are cutting their health benefits now to avoid paying the tax in 2018:

    a. Aon Hewitt found in its fall 2014 survey of U.S. employers that—

        i. 40 percent of employers expect at least one of their health care plans to be affected by the tax in 2018.

        ii. 33 percent are increasing out-of-pocket costs to reduce the premium costs of their plans and avoid the tax.[2]

    b. A fall 2014 Towers Watson survey of U.S. large employers found that—

        i. 48 percent reported they were likely to trigger the health benefits tax in 2018.

        ii. 82 percent said they would be hit by the tax by 2023.

        iii. 62 percent say they are planning substantial changes in their health coverage strategy as a result of the tax. [3]

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[1] http://ourfuture.org/report/jost-white

[2] http://ir.aon.com/about-aon/investor-relations/investor-news/news-release-details/2014/New-Aon-Hewitt-Survey-Shows-Majority-of-Companies-Taking-Immediate-Steps-to-Minimize-Exposure-to-Excise-Tax/default.aspx

[3] http://www.towerswatson.com/en-US/Press/2014/09/nearly-half-us-employers-to-hit-health-care-cadillac-tax-in-2018-with-82-percent-by-2023

c. The Federal Reserve Bank of New York's August 2014 survey of the state's manufacturing and service firms found that—

    i. 12 percent of manufacturers and 19 percent of service firms said that the tax would apply to their plans in 2018 if they made no changes to their coverage.

    ii. 60 percent of manufacturers and 54 percent of service firms reported changing their health plans, with "the most widely reported adjustments involv[ing] higher deductibles, increased co-pays, higher out-of-pocket maximums, and an increased employee contribution to the premium."[4]

5. Working families are actually more likely to be underinsured than "overinsured."

    a. 43 percent of privately insured adults indicated that their current deductibles are difficult to afford. 21 percent spent 5 percent or more on out-of-pocket costs (excluding premiums), and 13 percent spent 10 percent or more, according to the Commonwealth Fund.[5]

    b. The proportion of employer-based health plans with annual deductibles of $2,000 or more has increased by 600 percent since 2006, according to the Kaiser/HRET Survey of Employer-Sponsored Health Benefits.[6]

6. The health benefits tax is intended to increase consumer cost-sharing (deductibles, copays, coinsurance). The economic theory behind taxing benefits is that health care cost inflation is driven by "excess insurance" that leads to excess demand, utilization, and spending. Taxing health benefits is intended to lead to cuts in health benefits through higher cost-sharing and reduced coverage. However—

    a. The enormous waste and expense of the U.S. health care system is not driven by consumers.
    b. Health care is not like other markets. Health consumers rely on providers to tell them what to consume, and providers have market power and the ability to steer consumers towards higher-cost care.
    c. About 80 percent of U.S. health care spending is for the sickest 20 percent of the population, people with chronic and acute conditions. Whether the remaining 80 percent of the population has low or high cost sharing has little to do with this key cost driver.[7]

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[4] http://www.newyorkfed.org/survey/business_leaders/2014/2014_08Supplemental.pdf
[5] http://www.commonwealthfund.org/publications/issue-briefs/2014/nov/out-of-pocket-health-care-costs
[6] http://kff.org/health-costs/report/2014-employer-health-benefits-survey/
[7] http://www.chrt.org/assets/price-of-care/CHRT-Issue-Brief-August-2010.pdf.

d. Research has found that overall costs can increase, especially for people with chronic conditions, when cost-sharing forces people to self-ration necessary care.[8]
e. The 40 percent tax on health benefits is a well-intended but deeply flawed policy. In effect, it outsources the job of controlling health care cost growth to many of the sickest, most vulnerable Americans, forcing them to choose between paying more and delaying or declining necessary care. Cost-shifting to individual *consumers* is not the answer to health care cost growth.
f. The key to reining in cost growth is getting *providers* (hospitals, physicians, drug companies) to become more efficient and deliver care in more cost-effective ways—which is what every other industrialized country does to constrain health care cost growth.

7. Employers and employer organizations oppose the tax.

   a. 88% of employers support repealing this federal tax on high cost employer sponsored plans.[9]

   b. American Benefits Council (ABC) recommends repealing the excise tax. ABC's position is "Repeal or modify the excise tax on high-cost health plans. The 40 percent excise tax should be repealed."[10]

   c. National Association of County Officials (NACO) adopted a Policy Resolution opposing this tax: "**Adopted Policy:** NACo opposes the taxation of health insurance benefits to county employees through the application of the ACA excise tax on health insurance benefits for county employees, the capping of the tax exclusion for employer-based defined contributions made by counties and any new taxes which would apply to the health benefits that counties provide to their employees."[11]

8. The legislation will repeal section 4980I of the Affordable Care Act (ACA), and it makes conforming amendments. It does not offset the revenue that the Congressional Budget Office (CBO) estimated it would collect because of the tax.

9. Introducing a bill to repeal the tax, without offsets, is the best way to attract a broad range of support for relief from the tax. While different stakeholders will readily agree on the need for relief, more work needs to be done to build consensus around which offsets should be used.

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[8] http://www.rwjf.org/en/research-publications/find-rwjf-research/2011/12/cost-sharing--effects-on-spending-and-outcomes.html
[9] http://ir.aon.com/about-aon/investor-relations/investor-news/news-release-details/2014/New-Aon-Hewitt-Survey-Shows-Majority-of-Companies-Taking-Immediate-Steps-to-Minimize-Exposure-to-Excise-Tax/default.aspx
[10] http://www.americanbenefitscouncil.org/documents2014/a2020vision_092314.pdf
[11] http://www.naco.org/legislation/Documents/American-County-Platform-and-Resolutions-2013-2014.pdf