

ALLIANCE TO FIGHT THE 40

Stop the 40% tax on health benefits



For Immediate Release
February 13, 2017
Contact: Tara Bradshaw
202-467-4306

HOUSE ACA REPLACE PROPOSAL COULD INCREASE INCOME TAXES ON 177 MILLION AMERICANS *FIGHT THE 40 | DON'T TAX MY HEALTH CARE* *URGES QUICK ACTION FROM WHITE HOUSE*

Washington— Today the Alliance to Fight the 40 | Don't Tax My Health Care urged the White House to prevent Congress from imposing the largest tax increase on low income earners in U.S. history by taxing employer-sponsored health benefits.

In a letter to the Trump Administration, Fight the 40 | Don't Tax My Health Care, a broad-based coalition committed to protecting employer-sponsored health benefits, raised concerns about the Affordable Care Act repeal-and-replace legislation currently being drafted by the House of Representatives. Lawmakers are reportedly contemplating taxing the health benefits workers receive from their employers, which our letter notes could raise taxes on workers and destabilize the employer-sponsored health care system that is efficient and effective in covering 177 million Americans.

The full text of the letter follows:

February 13, 2017

President Donald J. Trump
The White House
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Dear Mr. President:

[The Alliance to Fight the 40 | Don't Tax My Health Care](#) is a broad-based coalition that stands together asking you not to raise federal income taxes on working Americans and their health plans. During the campaign, Americans heard you promise you would work to cut taxes on middle-class Americans and “alleviate the economic burden of the Affordable Care Act—Obamacare.”

The Alliance to Fight the 40 | Don't Tax My Health Care is a growing coalition comprised of businesses, patient advocates, public-sector and private-sector employer organizations, unions, consumer groups and

other stakeholders that recognize employer-sponsored health coverage is the backbone of the nation's health benefits system on which 177 million Americans depend.

We are writing to ask you to support a full and permanent repeal of the 40% “Cadillac Tax” and oppose any new taxes on health care benefits. Taxing workers by placing a cap on the current tax treatment of health care coverage could be the largest income tax increase on the lowest quartile earners ever signed by an American president.¹ (see also figure 1)

The Affordable Care Act’s 40% “Cadillac Tax” on Benefits

The Affordable Care Act included a 40% tax on the cost of employee health plans above a threshold set by the federal government. The “Cadillac Tax” was intended to hit “overly generous” plans. Unfortunately, this tax is particularly pernicious because it disproportionately taxes employer-sponsored health plans that may be expensive solely because they cover large numbers of older or disabled Americans, women, families suffering catastrophic health events or chronic conditions, or those who live in high cost areas. Workers that protect our safety like firefighters and police officers are also disproportionately affected. (see figures 3 and 4)

Instead of reducing the actual cost of health care, the 40% tax is forcing employers to shift costs to workers to avoid triggering the ACA’s onerous 40% tax. Americans know this tax will increase their health care costs and will not increase their wages. (see figures 2)

Taxing Workers by “Capping the Exclusion”

Some legislators in Congress are considering raising taxes on working Americans to pay for repealing and replacing the Affordable Care Act. Specifically, proposals would tax health benefits provided by employers, meaning higher income taxes for millions of hard-working people. But the message from Americans is clear: Don’t tax my health care.

The employer-sponsored health care system is stable, efficient, and effective in covering more than 177 million Americans – leading to better health outcomes, lower costs, and more satisfied employees. Employers are the foundation of a health care system that provides quality health coverage – and this coverage should be the basis of any health care reform solution. As Congress looks to stabilize the individual market, it should avoid destabilizing the employer-sponsored system which covers ten times more Americans.

When Americans receive their health care coverage through an employer, the cost of that coverage is “excluded” from an employee’s taxable income. Some lawmakers want to tax employees on the cost of their health benefits if it exceeds new thresholds that would be set by Congress. The effects of increasing taxes by capping the employee exclusion would not “alleviate the economic burden of the Patient Protection and Affordable Care Act—Obamacare,” it would create new ones.

- Capping the exclusion is a direct tax increase on employees and their health care. The CBO estimated that capping the exclusion at levels just below those outlined in the Empowering Patients First Act would increase taxes on working Americans by an average of **\$3860 per taxpayer** in 2026.²
- Capping the exclusion will increase health care costs for millions of Americans, increase the number of people without insurance, and result in higher deductibles and greater out-of-pocket costs for working Americans.³

¹ Personal Exemptions and Individual Income Tax Rates: 1913–2002, Internal Revenue Service; U.S. Federal Individual Marginal Income Tax Rates History, 1913–2009, The Tax Foundation.

² CBO, “[Options for Reducing the Deficit: 2017-2026](#)”;

³ CBO, “[Options for Reducing the Deficit: 2017-2026](#)”; AHPI, “[Benefits of the Tax-Preferred Status of Employer-Sponsored Health Insurance.](#)”

- Just like the 40% “Cadillac Tax,” this new tax would target people who work for employers with higher numbers of older workers, women, or those with larger families or family members with chronic or acute illnesses.⁴
- Employees working for employers in high-cost areas or in specific industries, such as manufacturing or law enforcement, would see the greatest tax increases.⁵
- Over 177 million Americans get their health insurance from their employers, and employers typically pay, on average, 82% of the cost of coverage. Taxing these benefits could undermine the core of American’s health care coverage.⁶
- Capping the exclusion could tax even more Americans than are affected by the unpopular 40% “Cadillac Tax.”⁷

We know you are committed to tax reform that results in a middle-class tax cut. Capping the exclusion would not achieve this goal—and would be a significant tax increase on working families. A recent study by the benefits consulting firm Mercer estimates that a cap on the exclusion would increase income taxes on families making \$20-\$30K by nearly 25 percent. (see Figure 1)

Raising taxes on workers does not control health care costs and could destabilize the employer-sponsored health care system that is efficient and effective in covering 177 million hardworking Americans. Please support repeal of the “Cadillac Tax” and oppose capping the exclusion. We look forward to working with you and the Administration to preserve the coverage so many American families like and want to keep.

Sincerely,

The Alliance to Fight the 40 | Don’t Tax My Health Care

CC:

The Honorable Tom Price, Secretary of Health and Human Services

Mr. Jared Kushner, Senior White House Advisor

Mr. Gary Cohn, Director, National Economic Council

Attachments:

Figure 1: Low-income families hit hardest by cap on the exclusion

Figure 2: Over the last five years deductibles rose over 67% with limited wage growth

Figure 3: The 40% “Cadillac Tax” affects plans with high-cost participants, not rich benefits.

Figure 4: Employer plans in high-cost regions much more likely to hit “Cadillac Tax” threshold

Figure 5: Demographics not plan value key indicator of which plans will hit the “Cadillac Tax” or Cap

⁴ Mercer, “Capping the Employee Tax Exclusion for Employer Coverage: Projection of the Long-term Impact” February 2017.

⁵ Ascende, “[Not Your Father’s Cadillac: The Impact of the Cadillac Tax on the Energy Industry.](#)”

⁶ KFF/HRET, “[Employer Health Benefits 2016 Annual Survey.](#)”

⁷ CBO, “[Options for Reducing the Deficit: 2017-2026.](#)”

Figure 1: Low income families hit hardest by cap on the exclusion

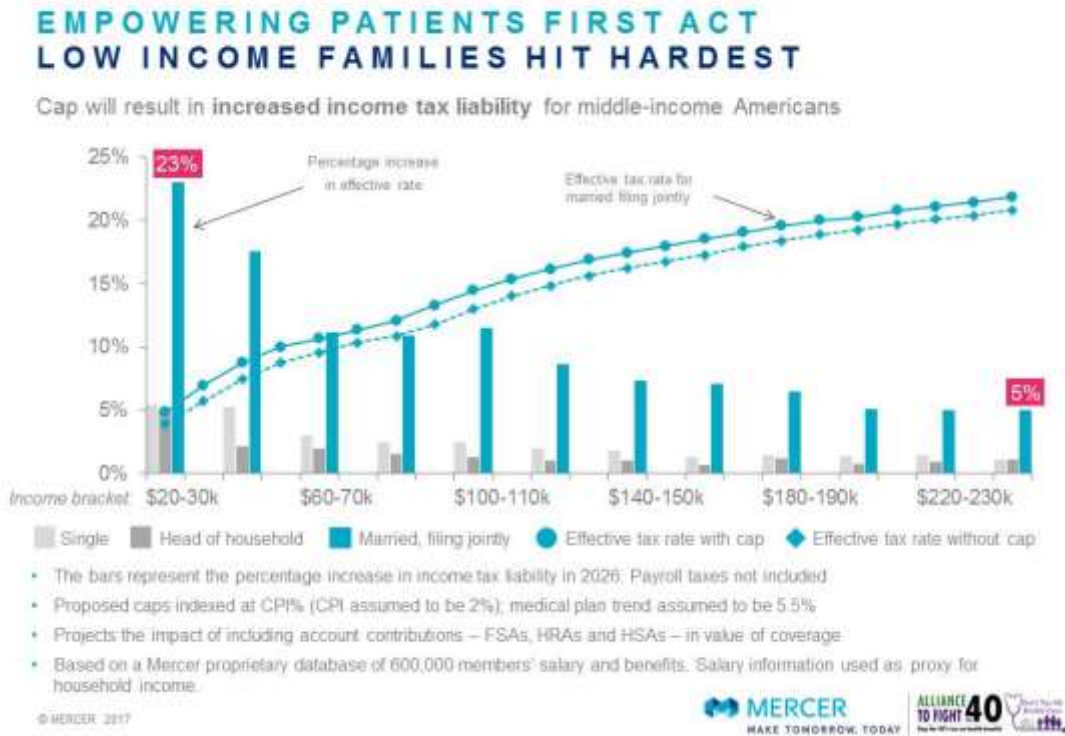


Figure 2: Over the last five years deductibles rose over 67% with limited wage growth

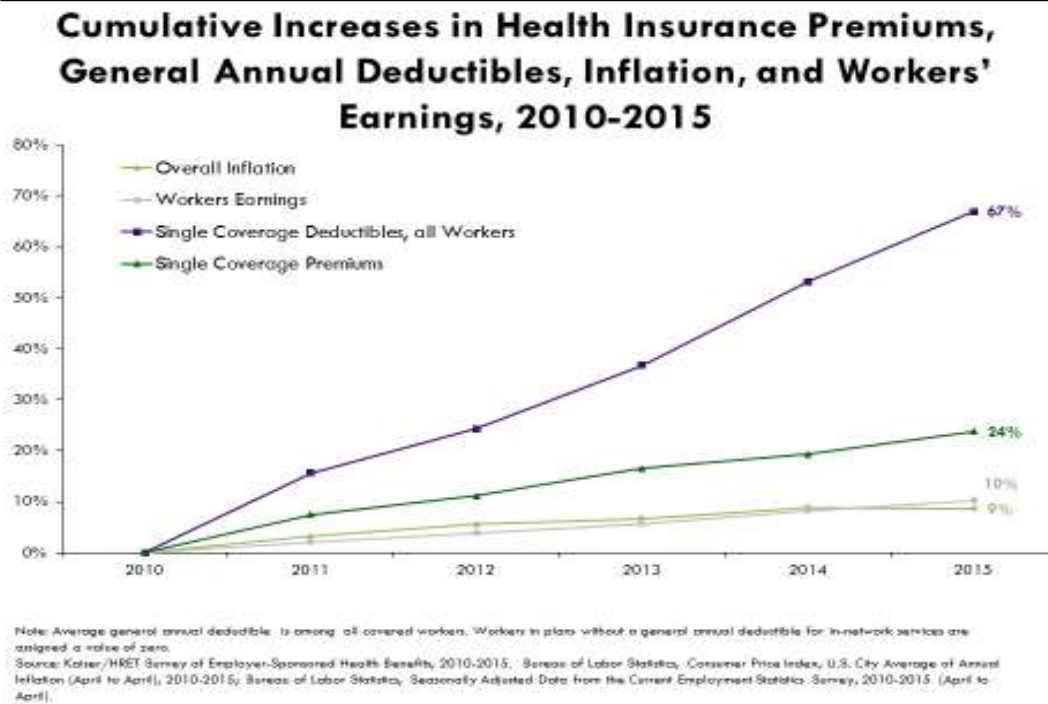


Figure 3: The 40% “Cadillac Tax” effects plans with high cost participants, not rich benefits.

**FACTORS THAT AFFECT PLAN COST
NOT JUST PLAN DESIGN—DEMOGRAPHICS MATTER**

Characteristics of employers plans that **will reach** versus **won't reach** the Cadillac tax threshold in 2020:



Like the Cadillac tax, capping the exclusion will penalize older workers, women, people with families, and employers who provide health benefits to part-time employees...
...And there is little difference between the plan designs of those employers who will reach the threshold and those who won't.

Estimates based on data from Mercer National Survey of Employer-Sponsored Health Plans 2016; premium trended at 6%, tax threshold trended at 3% in 2021 and 2% in future years

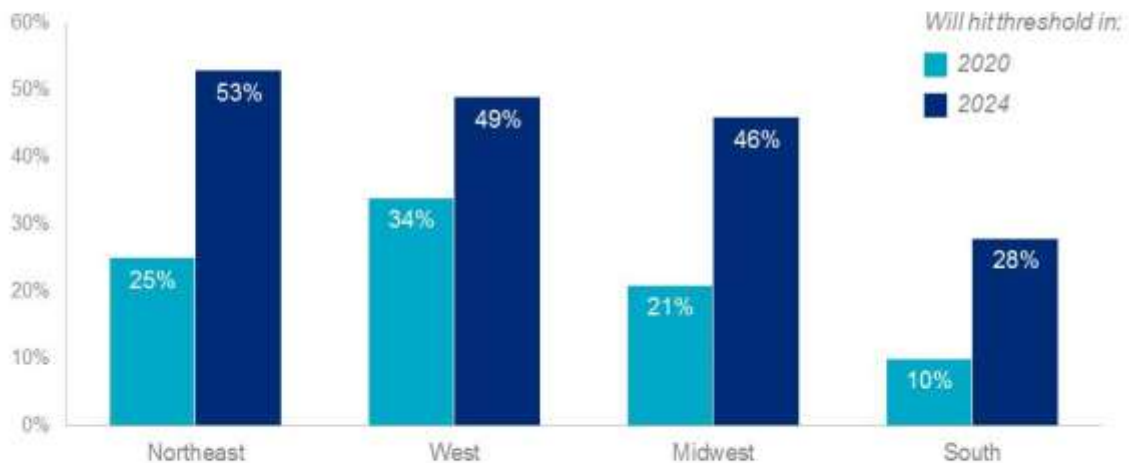
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Figure 4 Employer plans in high-cost regions much more likely to hit “Cadillac Tax” threshold

EMPLOYER PLANS IN HIGH-COST REGIONS MUCH MORE LIKELY TO HIT CADILLAC TAX THRESHOLD

Percentage of employers (50+ employees) with plans that will be subject to excise tax by the specified year if they make no changes to their current plans. Regional cost variation would be a factor in all proposals based on premium.



Estimates based on data from Mercer National Survey of Employer-Sponsored Health Plans 2016; premium trended at 6%, tax threshold trended at 3% in 2021 and 2% in future years

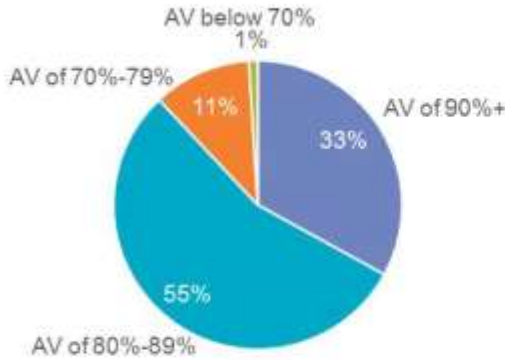
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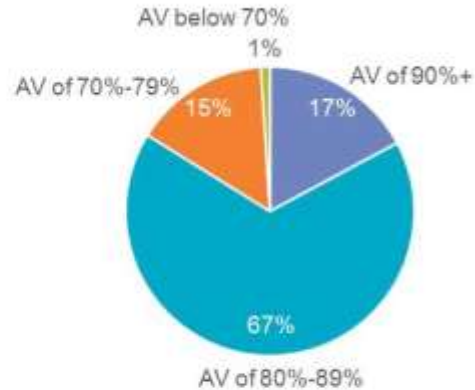
Figure 5: Demographics not plan value key indicator of which plans will hit the “Cadillac Tax” or Cap

ONLY A THIRD OF THE EMPLOYER-SPONSORED PLANS ON TRACK TO EXCEED CADILLAC TAX THRESHOLD BY 2024 CURRENTLY HAVE ACTUARIAL VALUES OF 90% OR HIGHER

Distribution of actuarial values of plans offered by large employers that will exceed tax threshold by 2024



Distribution of actuarial values of plans offered by large employers that will not exceed tax threshold by 2024



More than half of large employers (57%) are estimated to have plans that will exceed excise tax threshold by 2024 (based on their 2016 medical plan premiums for the employer's highest-cost or only plan, trended forward at 8%)

Source: Mercer National Survey of Employer-Sponsored Health Plans 2016 © MERCER 2017



America Votes NO on the “Cadillac Tax”

2017 UPDATE

The “Cadillac Tax” is a 4.2 percent excise tax on the value of employer-sponsored health coverage (including HDAs, wellness programs, and on-site clinics) exceeding thresholds of approximately \$15,000 for employee-only and \$25,100 for family coverage when the tax takes effect in 2022.

Public Opinion Strategies conducted a nationwide online survey of 500 registered voters and found bipartisan opposition to the tax.

71% of decided voters favor repeal of the tax.

74% of decided voters who say “health care” is the most important economic issue facing America support repeal of the tax.

2/3 of voters say keeping the “Cadillac Tax” as part of a replacement health care plan is unacceptable.

NEARLY SEVENTY PERCENT of survey respondents agreed with this statement: “The Cadillac Tax should be repealed because it will not bring in the expected \$70 billion in new revenue. Employers will drop or reduce health benefits to avoid paying the tax, and proponents are wrong when they assume that employers will raise their workers’ taxable wages to make up for these reductions. Congress should find another way to fund health care reform.”

POSITIVE IMPACT on voters’ likelihood to vote for their representative.

We Urge Congress to Repeal the “Cadillac Tax”

The survey was conducted by Public Opinion Strategies on behalf of the American Health Coalition. The survey was a nationwide online survey of 500 registered voters that took place from January 9-14, January 9, 2017.

ALLIANCE TO FIGHT THE 40

The Alliance to Fight the 40 | Don’t Tax My Health Care is a broad-based coalition comprised of businesses, patient advocates, employer organizations, unions, local governments, health care companies, consumer groups and other stakeholders that support employer-sponsored health coverage. This coverage is the backbone of our health care system and protects over 177 million Americans. The Alliance seeks to repeal the 40% “Cadillac Tax” on health benefits and work with Congress and the Administration to prevent increased income taxes on workers, families and retirees who rely on employer-sponsored health coverage. The Alliance is committed to ensuring that employer-sponsored coverage remains an effective and affordable option for working Americans and their families.

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