

# ALLIANCE TO FIGHT THE 40

Stop the 40% tax on health benefits



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 to 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.<sup>1</sup> (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.

---

<sup>1</sup> 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.

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.<sup>2</sup>
- 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.<sup>3</sup>
- 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.<sup>4</sup>
- Employees working for employers in high-cost areas or in specific industries, such as manufacturing or law enforcement, would see the greatest tax increases.<sup>5</sup>
- 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.<sup>6</sup>
- Capping the exclusion could tax even more Americans than are affected by the unpopular 40% “Cadillac Tax.”<sup>7</sup>

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

---

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

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

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

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

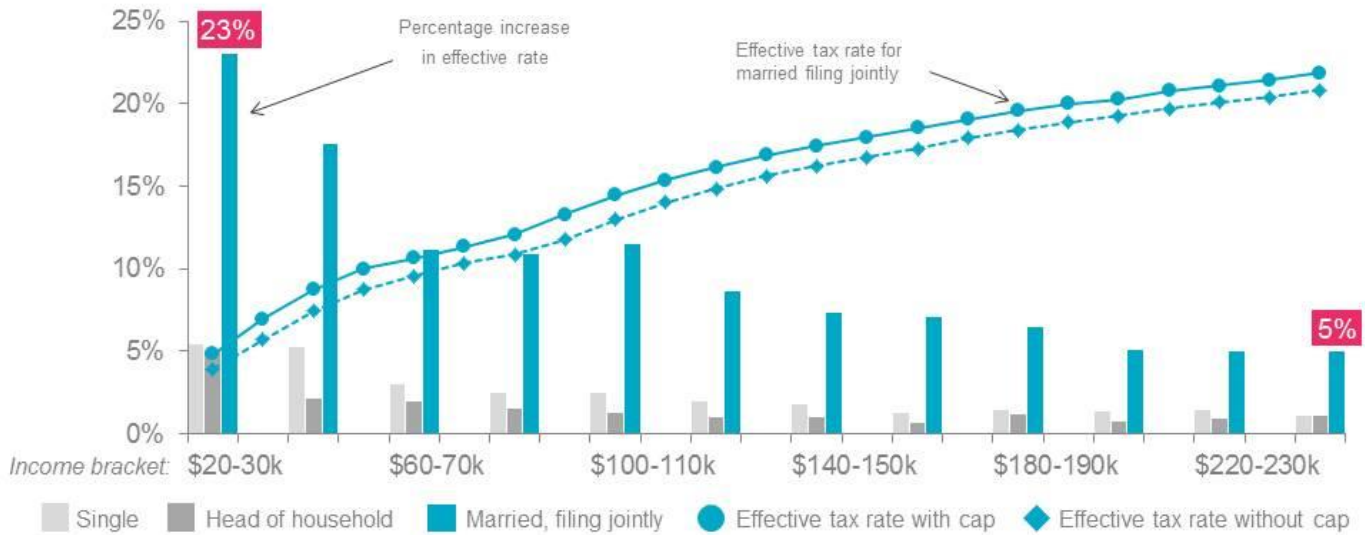
<sup>6</sup> KFF/HRET, “[Employer Health Benefits 2016 Annual Survey.](#)”

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

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

## EMPOWERING PATIENTS FIRST ACT LOW INCOME FAMILIES HIT HARDEST

Cap will result in increased income tax liability for middle-income Americans



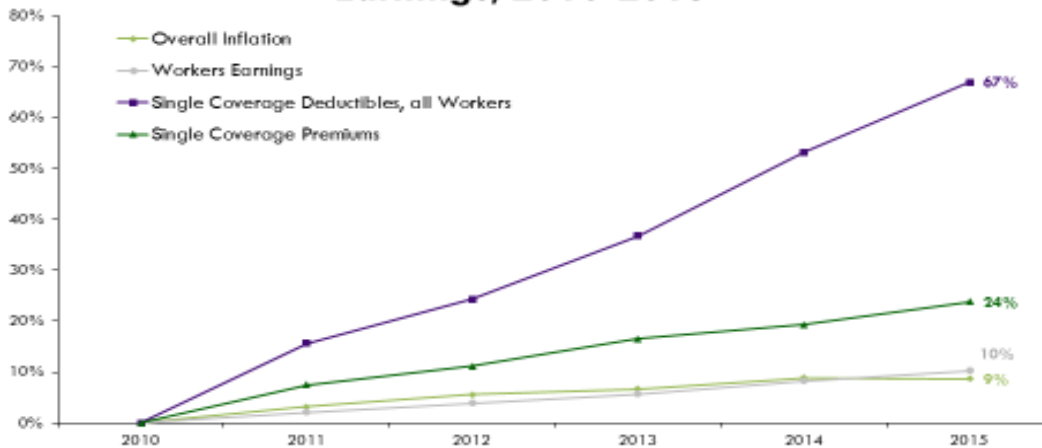
- The bars represent the percentage increase in income tax liability in 2026. Payroll taxes not included
- Proposed caps indexed at CPI% (CPI assumed to be 2%); medical plan trend assumed to be 5.5%
- Projects the impact of including account contributions – FSAs, HRAs and HSAs – in value of coverage
- Based on a Mercer proprietary database of 600,000 members' salary and benefits. Salary information used as proxy for household income.

© MERCER 2017



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

## Cumulative Increases in Health Insurance Premiums, General Annual Deductibles, Inflation, and Workers' Earnings, 2010-2015

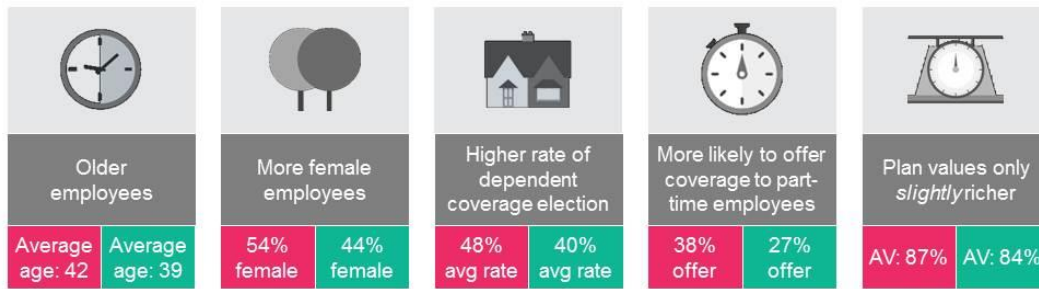


Note: Average general annual deductible is among all covered workers. Workers in plans without a general annual deductible for in-network services are assigned a value of zero.  
Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2010-2015; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April), 2010-2015; Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 2010-2015 (April to April).

**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

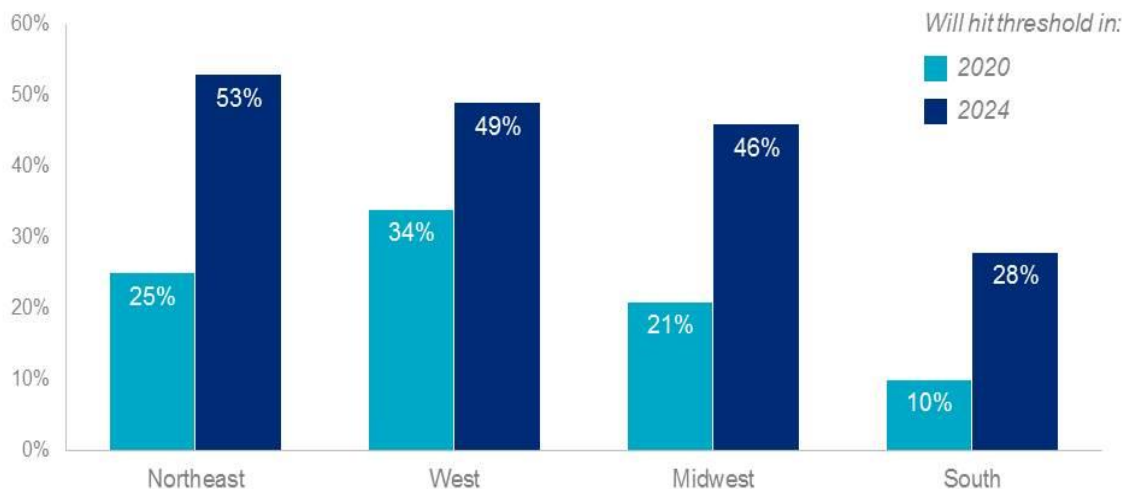
© MERCER 2017



**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

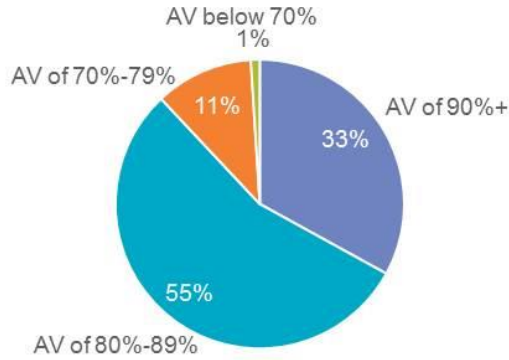
© MERCER 2017



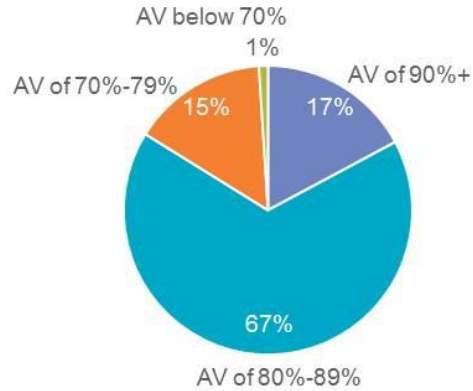
**Figure 5: Demographics not plan value key indicator of which plans will hit the “Cadillac Tax” or Cap**

**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 6%)

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



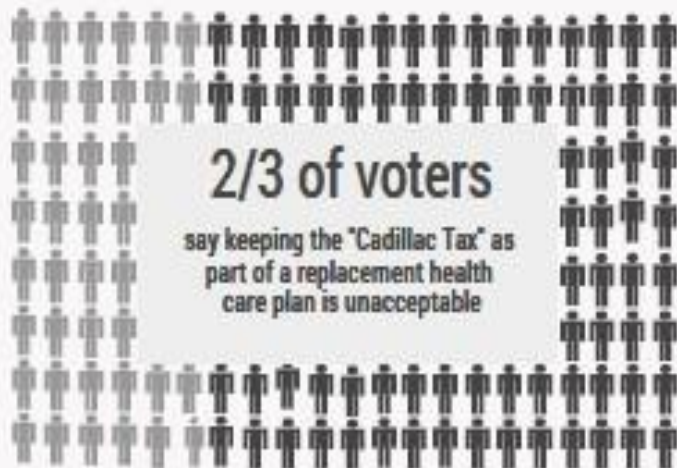


# America Votes NO on the "Cadillac Tax"

2017  
UPDATE

The "Cadillac Tax" is a 40 percent excise tax on the value of employer-sponsored health coverage (including HSAs, wellness programs, and on-site clinics) exceeding thresholds of approximately \$10,800 for employee-only and \$29,100 for family coverage when the tax takes effect in 2020.

Public Opinion Strategies conducted a nationwide online survey of 600 registered voters and found bipartisan opposition to the tax.



Democrat or Republican, the survey  
found that a vote to repeal the  
"Cadillac Tax" has a

**POSITIVE  
IMPACT**

on voters' likelihood to vote  
for their representative.

**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."*

**We Urge Congress to Repeal the "Cadillac Tax"**

The survey was conducted by Public Opinion Strategies on behalf of the American Benefits Council. The survey was a nationwide online survey of 600 registered voters that took place from January 4 to January 6, 2017.

\*Decided voters are those voters expressing an opinion about the "Cadillac Tax."

**ALLIANCE  
TO FIGHT 40**  
Stop the 40% tax on health benefits