

Economic Analysis

Published by Applied | Economic | Strategies, LLC

December 29, 2010

Economic Analysis No. 2010-12

Improving Health Care Reform and Balancing the Budget

By D. Mark Wilson

The United States tax system subsidizes the purchase of employer-sponsored health insurance for more than 160 million non-elderly Americans at a “cost” of about \$250 billion a year.¹ This tax expenditure is a major reason why most people have health insurance coverage through either their own employer or that of a family member. Self-employed individuals are also able to deduct the cost of health insurance premiums from their taxes. However, employees cannot deduct the cost of health insurance if their employer does not offer coverage and they purchase it individually.

During the debate over the Patient Protection and Affordable Care Act (PPACA) one idea that was seriously considered was leveling the tax treatment related to the purchase of health insurance by eliminating the business tax exclusion for employer-provided care.

- Prior to passing PPACA, the Senate Finance Committee's health care reform options included eliminating the exclusion; S. 391 (Wyden) also would have eliminated the exclusion.
- A number of bills were also introduced in the 110th Congress that would have eliminated the exclusion for employer-provided health insurance, including S. 1019 (Coburn), S. 1875 (DeMint), S. 334 (Wyden), S. 1783 (Enzi), and H.R. 3163 (Baird).
- Groups as diverse as AARP, the American Medical Association, the American College of Physicians, the conservative Heritage Foundation, the Urban Institute, and the liberal Center on Budget and Policy Priorities have all called for either capping or eliminating the exclusion in order to more equitably fund benefits.
- Altering the tax preference for employer-sponsored insurance would also reduce the incentives for the most generous and expensive health plans and help moderate the growth rate of health care costs.²
- In December 2010, the President's National Commission on Fiscal Responsibility and Reform recommended “reducing and potentially eliminating” the tax exclusion as part of their overall tax reform recommendations for reducing the deficit.³
- The Bipartisan Policy Center's Debt Reduction Task Force also recommended capping and then phasing out the tax exclusion for employer-provided health insurance.⁴

As the 112th Congress begins to look at ways to reduce the deficit, reduce the rate of growth in health care costs, and improve PPACA, eliminating the business tax exclusion for employer-provided care might be given serious consideration.

¹ *Restoring America's Future*, Bipartisan Policy Center, Debt Reduction Task Force, December 2010, p. 51.

² *Economic Report of the President*, Council of Economic Advisors, 2006, Chapter 4.

³ *The Moment of Truth*, National Commission on Fiscal Responsibility and Reform, December 2010, p. 36.

⁴ *Restoring America's Future*, Bipartisan Policy Center, Debt Reduction Task Force.