
Does Employer-Based Health Care Get a Free Ride?

By Editor Test Mon, Aug 24, 2009

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In 2010, the exclusion of contributions to employer-sponsored health insurance plans (ESI) from income and payroll taxes will be worth \$240 billion, according to a July 2009 report from the Synthesis Project of the Robert Wood Johnson Foundation.

The paper, ["Tax Subsidies for Private Health Insurance: Who Benefits and at What Cost?"](#) suggests that the U.S. government already pays part of the bill for private health insurance simply by not taxing it, and asserts that the benefits of the exclusion go disproportionately to those with the richest medical packages and in the highest tax brackets.

Proposals have been put a cap on the amount of contributions to employer-provided health care plans that can be excluded from income tax. The new tax receipts would be used to finance health care or health insurance for the uninsured. But there's little expectation that Congress will remove the entire subsidy.

"If all premiums were taxed as income, you'd get quite a disruption in the employer system," said the Urban Institute's Steve Zuckerman, one of the authors of the study. "There's no chance of the subsidy being taken away in its entirety. But there could be policy changes to lower the exclusion. And that would move us in the right direction."

Activists who favor universal health care believe that the subsidy encourages overly generous health care packages, just as low interest rates appear to encourage the construction of bigger and fancier homes, he said. Reducing the subsidy and taxing health care expenditures might discourage over-spending on health care, the way higher gas prices discourage needless driving.

The main findings from the study were:

- Higher-income workers benefit the most from the current taxes subsidies because they are in a higher tax bracket, are more likely to work for employers offering ESI and more likely to use ESI when offered than lower-income workers.
- The subsidy is worth more than \$4,500 per year to the highest-income families. The average subsidy for the highest income workers is three times the average subsidy for the lowest income workers.
- Lower-income families pay the largest percent of income on insurance (>25%), but receive the smallest tax subsidy.
- Almost 90% of workers with incomes at least three times the poverty level have ESI compared with less than one-quarter of workers below the poverty level.

- The federal subsidy for ESI may encourage overly generous coverage.

The study recommended three policy options:

- Eliminate the tax exclusion for ESI. This policy would increase payroll and income tax receipts to help pay for health coverage for the uninsured and hard-to-insure, but would also raise the cost of ESI for workers and result in much less employer coverage.
- Cap the tax exclusion for ESI. This policy could cap the exclusion at the median premium level, raising an estimated \$22 billion in tax revenue in 2010. A cap at the 75% percentile of premiums would raise \$22 billion. Thus, plans with higher premiums would lose part of their subsidy and would cost employers and employees more.
- Allow non-group coverage to be purchased with pre-tax dollars. This option would expand the subsidy to provide a similar tax advantage to those purchasing coverage outside of the employer system. This change might encourage young people to forego ESI in favor of individually purchased coverage, making ESI more expensive for those remaining.

Health care reform will have a big impact on retirees. Even with Medicare coverage, the average couple is expected to spend \$250,000 out-of-pocket for medical care during retirement, according to the National Coalition on Health Care. Many experts believe that this figure is conservative and that \$300,000 may be a more realistic number.

In 2005, a survey of Iowa consumers by the Iowa Department of Public Health found that in order to cope with rising health insurance costs, 86% said they had cut back on how much they could save, and 44% said that they have cut back on food and heating expenses.

Americans spent \$2.26 trillion on health care in 2007, according to the Office of Actuary Centers for Medicare and Medicaid Services, and an estimated \$2.4 trillion in 2008.