Sources of Health Insurance, 2007

<table>
<thead>
<tr>
<th>Source</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment-Based</td>
<td>177.4</td>
</tr>
<tr>
<td>Other Private</td>
<td>26.7</td>
</tr>
<tr>
<td>Public</td>
<td>83</td>
</tr>
<tr>
<td>Uninsured</td>
<td>45.7</td>
</tr>
</tbody>
</table>

Theory on Current Tax Treatment

• Workers over-insure
  – Premiums excluded from taxable income
  – OOP not excluded from taxable income (except through FSA)
• As a result, workers prefer health benefits with low cost sharing
• Low cost sharing leads to overuse of health care services, which drives up premiums and makes insurance less affordable
Advantages of Tax Proposals

• De-links health insurance from employment
  – Portability/job-lock
  – Increases choice of plan options (though individuals can go into individual mkt now, no increase in limited number of carriers)

• Cost containment
  – Depends on how individuals view additional taxes vs. additional cost sharing

• Instant tax relief
  – Individual market, COBRA, retiree health
Disadvantages of Tax Proposals

• De-links health insurance from employment
  – Adverse selection (employer is natural group), group purchasing efficiencies, employer advocacy, innovation/quality)

• Dysfunctional nongroup market
  – Denials of coverage, lack of cross-subsidies
The End of Employment-Based Health Benefits

• Level the playing field
• Youngest, healthiest drop employer coverage for nongroup market
  – More choices and affordable
• Premiums increase in employer market
• Remaining youngest, healthiest drop employer coverage for nongroup market
The End of Employment-Based Health Benefits

- Premiums increase in employer market
- Remaining youngest, healthiest drop employer coverage for nongroup market
- Death spiral
Why Do Employers Offer Health Benefits?

• Not because workers get tax break?
• Employers started offering health benefits during World War II for business reasons
  – Labor market competition
• Today, primary reason for offering benefits is to be competitive in the labor market
• Workers value health benefits by far more than other benefits
The End of Employment-Based Health Benefits

• Employers will eventually ask “Why am I offering health benefits if my workers no longer value it?”

• Some employers may use level playing field as excuse to drop benefits.
  – Workers get tax break on own
  – Workers get more choice on own, even those in small firms
Administrative Hassle of Continuing to Provide Coverage

• How do you value benefits if you are self insured?

• How do you value benefits if you give workers the option of taking the money, or if workers ask for money, especially in self-insured plan?
Thank you

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