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**New Research from EBRI:**

**Elimination of Tax Benefits for Employment-Based Health Coverage May Drive Workers to Insurance Exchanges**

WASHINGTON—A new analysis from the nonpartisan Employee Benefit Research Institute (EBRI) finds that workers may prefer to enter insurance exchanges over keeping employment-based health coverage if the tax treatment for health benefits through work is eliminated or significantly cut back as part of the federal debt-reduction effort.

Most workers would face an increase in taxes and may question the value of keeping employment-based health coverage if they have to start paying taxes on a benefit that is currently not taxed, EBRI says. Lowest-income workers in particular, would find the health exchanges more advantageous than employment-based health benefits, while higher-income workers would not.

And if enough workers do not prefer their employer's health benefits, EBRI notes, the likelihood grows that many employers will stop offering health benefits at all.

“Even if only a fraction workers preferred an insurance exchange over employment-based coverage, it would send a clear message to employers that millions of workers will no longer value the benefit,” said Paul Fronstin, director of EBRI's Health Research and Education Program and author of the report. “

The findings are published in the July 2011 EBRI *Issue Brief*, “Employment-Based Health Benefits and Taxation: Implications of Efforts to Reduce the Deficit and National Debt” and are available online at [www.ebri.org](http://www.ebri.org)

As EBRI points out, the tax preference associated with employment-based health coverage is the largest tax expenditure the U.S. budget, accounting for \$1.1 trillion in foregone tax revenue during 2012-2016. President Obama's bipartisan National Commission on Fiscal Responsibility and Reform released proposed changes in December 2010 that would achieve \$4 trillion in deficit reduction by 2020. As part of the proposal, the commission called for reducing the preferential tax treatment of employment-based health benefits as it applies to workers, first by capping, then freezing, phasing down, and ultimately eliminating them.

Currently, workers will be able to enroll in health exchanges beginning in 2014 as a result of the Patient Protection and Affordable Care Act (PPACA), enacted in 2010.

Employment-based health coverage is the most common source of health coverage in the United States. In 2009, 59 percent of nonelderly individuals were covered by an employment-based health benefits plan, with 68.2 percent of workers covered, 34.6 percent of nonworking adults covered and 55.8 percent of children covered.

The Employee Benefit Research Institute (EBRI) is a private, nonprofit research institute based in Washington, DC, that focuses on health, savings, retirement, and economic security issues. EBRI does not lobby and does not take policy positions.

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