WHAT DOES THE FUTURE HOLD FOR THE EMPLOYMENT-BASED HEALTH BENEFITS SYSTEM?

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BRIEF HISTORY LESSON ON EMPLOYMENT-BASED HEALTH BENEFITS

• Employer interest in worker “health” dates back to the 1800s
• Growth in health “insurance” occurred during World War II wage and price controls
• 1943, War Labor Board ruled that employer contributions to health insurance were not subject to wage controls
• Employers added health insurance during shortage of labor
• Health coverage tripled by the end of the war
• 1954, IRS clarified that employer contributions were deductible as a business expense, and that worker contributions were to be excluded from taxable income
EMPLOYMENT-BASED COVERAGE IS THE MOST COMMON SOURCE OF INSURANCE FOR INDIVIDUALS UNDER AGE 65

167 million people with employment-based coverage in 2017
TAX BREAK ON EMPLOYMENT-BASED HEALTH BENEFITS IS THE LARGEST “TAX EXPENDITURE” IN THE FEDERAL BUDGET

- Health insurance premiums for employment-based health coverage excluded, without limit, from workers’ taxable income.
- Premiums not subject to federal and state income tax or payroll taxes for Social Security and Medicare.
- Out-of-pocket expenses can be paid with pretax dollars via FSA, HSA and HRA.
- $272 billion in forgone federal tax revenue in 2018 due to exclusion.
- $226 billion for pension contributions and earnings.
- $41 billion for mortgage deduction (down from $66 bil in 2017).
Historical Bi-Partisan Support for Changing the Tax Treatment of Employment-Based Health Coverage

Proposals to change the way health coverage is taxed could have far-reaching implications for worker wages, the number of people with employment-based health coverage, other forms of health coverage, the future of the employment-based health coverage system, and government tax collections.
**Comparison of Subsidies Under Current Law with Possible Changes**

<table>
<thead>
<tr>
<th>Subsidies Under Current Law</th>
<th>Average subsidy</th>
<th>Lives Covered (millions)</th>
<th>Total Subsidy (billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment-Based Coverage</td>
<td>$1,785</td>
<td>165</td>
<td>$294.4</td>
</tr>
<tr>
<td>Non-group &lt; 400% FPL</td>
<td>$6,111</td>
<td>9</td>
<td>$55.0</td>
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<td>Medicaid Expansion</td>
<td>$5,813</td>
<td>12.2</td>
<td>$70.8</td>
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<table>
<thead>
<tr>
<th>Possible Scenarios</th>
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</thead>
<tbody>
<tr>
<td>Employment-Based Coverage &lt; 400% FPL</td>
<td>$1,397</td>
<td>73</td>
<td>$101.9</td>
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<tr>
<td>Move 73 mil. to non-group</td>
<td>$6,111</td>
<td>73</td>
<td>$445.7</td>
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