

Don't Destroy Private Sector Health Care, End the Cadillac Tax

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In July, the U.S. House of Representatives overwhelmingly voted 419-6 to repeal the health care "Cadillac Tax." As the Senate returns to work, it is now time for the bipartisan group of more than 60 Senators to repeal the Cadillac Tax and end the threat that will destroy the health care of 181 million hard-working Americans and their families.

Hard-working Americans and their families have already been negatively impacted by the looming "Cadillac Tax" on the health care plans that the job creating employers of America provide to their workers. This tax was part of the Affordable Care Act and has been delayed twice because it will devastate employer-provided health care if allowed to go into effect.

When the Cadillac Tax takes effect in 2022, the employers will be subject to a 40% excise tax on the health care deemed "too generous" by Congress.

When the Cadillac Tax was enacted, Congress believed that it would receive a massive windfall of new tax revenue. Today, some believe that taxing employee health care will promote "consumerism" in health care, lower health care costs and the trajectory of health care inflation, and increase wages.

Unfortunately, "wishing" for outcomes in a world that does not exist, does not make these wishes come true. So, let's leave the ivory tower and make policy for the world that we actually live in.

The simple fact is that employer-provided health care is not the driver

behind the cost of health care or health care inflation in the economy. There are many factors pushing up the cost of health care. For example, the U.S. Government is the largest purchaser of health care in America through Medicare and Medicaid, but also the cheapest. It uses its monopoly power to impose reimbursement rates on private health providers that have nothing to do with the full cost of providing these services.

According to the government's own data, Medicare and Medicaid pays health care providers between 25% and 50% less than what the private sector pays for the same services. Under current law, the Center for Medicare and Medicaid Services (CMS) projects that over the long-range, Medicare and Medicaid will pay roughly 37% of what private health insurance pays. CMS also notes that hospitals have a negative margin of almost 10% on Medicare patients, which is before one imputes the very real cost of capital that every provider actually incurs.

What does all of this mean? Simply put, Medicare and Medicaid are massively subsidized by hard-working American's through their employer provided health care. Medicare and Medicaid underpay the same health care providers that the private sector uses by between \$430 billion and \$860 billion annually. Policies like the Cadillac tax not only undermine the stable health care of 181 million Americans, but they also undermine the stability of our hospitals and other health care providers, while doing nothing to address the real issues.

This government underpayment has had predictable consequences on the health care costs of hard-working American's and their families. While worker's wages have generally kept pace with overall inflation, health care premiums, deductibles and out-of-pocket costs have skyrocketed.

Employers and their health care plans have been innovators in cost

containment and the efficient delivery of health benefits. We have to be because we are forced to pay health care providers for their uncompensated costs of Medicare and Medicaid and the uninsured.

The Cadillac Tax has not collected one dime in revenue, and never will, but the tax results in employers looking to proactively lower their costs. This has meant scaled-back health plans combined with significantly higher deductibles and out-of-pocket costs for workers.

Some have suggested that the Cadillac Tax will lower non-taxable spending on health care and that this will translate into higher wages. There is NO evidence to suggest that this will ever happen. In fact, the evidence from the threat of the Cadillac Tax is that it simply drives lower employer spending while increasing the after-tax, out-of-pocket costs of the American family.

The interesting idea of consumerism in health care has provided pockets of success toward this ideal. However, health care is substantially different than shopping for Pop Tarts, Tide, computers or cars. The opaqueness, asymmetry, uncertainty of health care information, and the often-urgent timeframes from which health care is needed, limits the amount of consumerism that can be reasonably achieved from the current system.

Employer-provided health care is a vital part of the competitiveness of America's employers. Healthy employees and those that have access to high quality health care are less costly and more productive. A strong culture of health also improves the finances of the business with lower turnover and disability rates, reduced absenteeism, better engagement and safer workers. High quality health care should be celebrated and encouraged, not punished.

It is now time for the Senate to act and repeal the Cadillac Tax.

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