

What Experts Have Said about the Tax Treatment of Health Insurance

“Many members of Congress from both sides of the aisle have offered proposals that would move public policy forward regarding the tax treatment of health insurance... The most important thing here is that we are having a conversation about this important issue. I facilitate a group called the Health Policy Consensus Group that is composed of the leading health policy experts from the market-oriented think tanks. We have long advocated addressing the tax treatment of health insurance...”

-Grace-Marie Turner

President, Galen Institute

(Source: http://budget.house.gov/hearings/2007/10.18turner_testimony.pdf)

“Many analysts would agree that the current tax exclusion for employment-based health insurance—which exempts most payments for such insurance from both income and payroll taxes—dampens incentives for cost control because it is open-ended. Those incentives could be changed by replacing the tax exclusion or restructuring it...”

-Douglas W. Elmendorf, Ph.D.

Director, Congressional Budget Office

(Source: <http://www.cbo.gov/ftpdocs/100xx/doc10016/Testimony.1.1.shtml>)

“The tax exclusion of employer expenditures from individual taxation has three flaws. First, \$250 billion/year is an enormous sum of money which could be more effectively deployed elsewhere, especially through alternative approaches to increasing insurance coverage. Second, this is a regressive entitlement, since higher income families with higher tax rates get a bigger tax break; about three-quarters of these dollars go to the top half of the income distribution. Third, this tax subsidy makes health insurance, which is bought with tax-sheltered dollars, artificially cheap relative to other goods bought with taxed dollars, leading to over-insurance for most Americans. As result of these limitations, *no health expert today* would ever set up a health system with such an enormous tax subsidy to a particular form of insurance coverage.”

-Jonathan Gruber, Ph.D.

Professor of Economics, Massachusetts Institute of Technology

(Source: <http://finance.senate.gov/hearings/testimony/2008test/073108jgctest.pdf>)

“It is unlikely that anyone designing a health system from scratch would tie insurance to employment (thus hampering labor market mobility), and would design a subsidy that accrued primarily to those with the most expensive policies and the highest incomes...”

Many policy-makers share the goal of creating a system in which everyone is covered by an affordable health insurance policy that delivers high-value care, and share the belief that our current system does not achieve that goal. Most economists would agree that our current tax treatment of health insurance is an important part of the problem, and that reforming that system would be a key component of a broader solution. Reforms that promote both broad coverage and high-value care can foster innovation and quality and help our health care dollar go further.”

-Katherine Baicker, Ph.D.

Professor of Health Economics, Harvard University

(Source: <http://finance.senate.gov/hearings/testimony/2008test/073108kbttest.pdf>)

“Any discussion of health care reform should include a close look at the current tax treatment of health insurance premiums. Currently, [employer-sponsored insurance] ESI premiums are exempt from income and payroll taxes, while insurance purchased by individuals and self-employed workers lacks some or all of these tax privileges. ESI has many advantages... but these advantages are supported by an

inefficient and unfair tax subsidy. These conclusions are not controversial among health economists, who agree, virtually unanimously, that excluding ESI premiums from taxable compensation causes workers to demand more insurance than they would in the absence of that exclusion. There is also general agreement that this higher level of coverage leads to inefficiently high levels of health care spending, and finally, that the tax subsidy is 'upside-down' with the largest subsidies going to high-income taxpayers. I believe there is also general agreement that the tax subsidy should be reformed so that it does not encourage consumption of more insurance on the margin, and so it should not disproportionately benefit high-income taxpayers."

-Roger Feldman, Ph.D.

Blue Cross Professor of Health Insurance, University of Minnesota

(Source: <http://waysandmeans.house.gov/hearings.asp?formmode=view&id=7416>)

"The tax treatment of health insurance...leads more people to have insurance and people to have more generous insurance, both of which increase health spending...The most promising way to move forward in all three dimensions – coverage, cost, and long-run fiscal situation – is to replace the employer exclusion with a tax credit, a step that has been proposed many times before... The current exclusion provides an incentive to go from no insurance to some insurance and from some insurance to more insurance. A reformed system would eliminate the incentive to go from some insurance to more insurance, and put much or all of those dollars into increasing the incentive to go from no insurance to some insurance."

-Jason Furman, Ph.D.

Deputy Director of the National Economic Council

(Source: http://www.taxpolicycenter.org/tpccontent/healthconference_furman.pdf)

"Health and public-finance economists agree, virtually unanimously, that excluding compensation paid in the form of health-insurance premiums from workers' income taxes causes workers to end up with more health insurance than they would have absent the exclusion. Because the value of the exclusion increases in proportion to a worker's taxable income, this stimulus causes higher-wage workers to be more likely not only to have insurance but to have more generous insurance than lower-wage workers. Despite dissent from some journalists and a few health economists, there is also general agreement that this higher level of coverage leads to increased consumption of medical care, both in quantity and quality."

-Mark Pauly, Ph.D.

Bendheim Professor of Health Care Systems, The Wharton School of Business at the University of Pennsylvania

(Source: [http://www.law.duke.edu/shell/cite.pl?69+Law+&+Contemp.+Probs.+83+\(autumn+2006\)](http://www.law.duke.edu/shell/cite.pl?69+Law+&+Contemp.+Probs.+83+(autumn+2006)))

“The tax subsidy is regressive, offering more benefits to those with higher incomes... This distribution also helps to explain the political popularity of the tax exclusion. The policy gives more to those who have higher incomes and who work for firms that offer health insurance – a powerful bloc of voters.”

-Robert Helms, Ph.D.

Resident Scholar and Director of Health Policy, American Enterprise Institute
(Source: http://www.aei.org/publications/filter.all,pubID.21921/pub_detail.asp)

“...[T]he mount of tax forgiveness well-to-do people in America get because their insurance is tax deductible. Where is that fair? That is what’s wrong, in my view, and the politician alone is to blame for that. There’s no one else to blame but the politician in Washington, D.C. They have to answer for what I consider a highly immoral tax policy on health care.”

-Uwe E. Reinhardt, Ph.D.

James Madison Professor of Political Economy
Professor of Economics and Public Affairs Princeton University
(Source: http://www.pbs.org/healthcarecrisis/Exprts_intrvw/u_reinhardt.htm)

“The tax exclusion for employer-sponsored health insurance has made a fine mess of private-sector health care. Even though workers pay for their job-based coverage through lower wages, that cost is not salient to them. Workers feel like they are spending someone else’s money. They therefore demand more health insurance than they would if they owned and controlled those dollars. The additional coverage they demand in turn insulates workers from the cost of medical care, which encourages workers to consume many low-value services.”

-Michael F. Cannon

Director of Health Policy Studies, Cato Institute
(Source: <http://www.cato.org/pubs/handbook/hb111/hb111-14.pdf>)

“The high cost and inequitable character of our medical care system are the direct result of our steady movement toward reliance on third-party payment. A cure requires reversing course, reprivatizing medical care by eliminating most third-party payment, and restoring the role of insurance to providing protection against major medical catastrophes. The ideal way to do that would be to reverse past actions: repeal the tax exemption of employer-provided medical care...”

-Milton Friedman, Ph.D.

Nobel Laureate in Economics
(Source: <http://www.hoover.org/publications/digest/3459466.html>)

“The current tax treatment of employer-sponsored health insurance costs the treasury a bundle in lost tax revenues every year and is highly regressive (because this particular tax break is worth more to people who make more and have higher income tax rates and because high-income Americans are more likely to have employer-sponsored health insurance than those with lower incomes.). Eliminating or capping the employer tax exclusion is one option that could play a substantial role in financing comprehensive reform....Given the realities of both our current health care system and economy, my message to journalists is this: the employer tax exclusion represents an opportunity to help fund a more efficient health care system for every American in a 21st century global economy.”

-Len Nichols Ph.D.,

Director, Health Policy Program, New America Foundation
(Source: <http://www.newamerica.net/blog/new-health-dialogue/2008/health-politics-getting-whole-story-employer-sponsored-insurance-6098/>)