October 15, 2024

Dear American Workforce and Working Families Tax Teams,

The ERISA Industry Committee (ERIC) writes to share the policy positions of our large employer member companies, in their capacities as sponsors of health, retirement, and other benefit plans for workers and families, as Congress considers solutions to improve tax policy for 2025. ERIC is a national advocacy organization exclusively representing the largest employers in the United States in said capacity. With member companies that are leaders in every economic sector, ERIC is the voice of large employer plan sponsors on federal, state, and local public policies impacting their ability to sponsor benefit plans. ERIC member companies offer benefits to tens of millions of employees and their families, located in every state, city, and congressional district.

ERIC member companies provide comprehensive health care and retirement benefits to millions of active and retired workers and their families across the country. Our members offer these great benefits to attract and retain employees, be competitive for human capital, improve health – physical, mental, and financial – and provide peace of mind.

Employers can and should be important partners in helping to forge solutions that result in improved benefits for employees, retirees, and their families. ERIC looks forward to working with you to maintain the tax benefits that serve as the bedrock of the employer-sponsored system.

Health

ERIC is concerned with proposals to cap the federal income tax exclusion for employer-sponsored health coverage as conversations occur for 2025 tax reform. We believe this policy proposal would be detrimental to employment-based coverage – the single largest source of coverage for millions of workers and their families.

ERIC's policy agenda is focused on improving employee well-being and financial security; increasing flexibility and opportunity; reducing costs and administrative burdens; and helping large employers continue to deliver uniform benefits. ERIC advocates for measures that ensure continued tax preferences for employer-sponsored benefits and exclusive federal regulation of nationwide benefits plans through ERISA preemption.

The employer tax exclusion for health insurance is a critical component of the U.S. health care system, as it encourages employers to offer health benefits to their employees. By allowing employers to deduct the cost of health insurance premiums from their taxable income, this policy not only reduces the overall tax burden for businesses, but also incentivizes them to invest in their workforce's well-being.

Because of the structure of this tax exclusion, employers are motivated to provide the best value for employees at the lowest cost, which then enables them to offer increased compensation and create more jobs.

ERIC members are at the forefront of creating innovative benefit designs to address the ever-growing costs associated with health care. There are significant expenditures attributed to patients with high-cost chronic conditions or catastrophic health issues.

Employers are committed to moving plan beneficiaries from "sick care" – in which the focus is exclusively on providing access to providers and treatments when treatment is acutely needed – to "health care" that invests in keeping patients healthy and managing chronic conditions. Expanding wellness and other preventive care benefits will continue if the tax benefit remains.

The tax exclusion also plays an important role in increasing access to health care, enabling employees to receive comprehensive coverage without facing the full financial impact of insurance costs. Employers historically have covered a large portion of premiums for employees and have done so to attract and retain workers.[1] Ultimately, this approach helps promote healthier workplaces, reduces employee turnover, and can lead to increased productivity, benefiting both employers and employees.

You are likely familiar with the now-repealed provisions in the *Affordable Care Act* that would have taxed employee health insurance, dubbed the "Cadillac tax." ERIC had a first-hand perspective on the effects of this tax, as employers prepared for its implementation (even though it was inevitably delayed and then repealed). The real-world effect, far from the prognostications of economists, was higher health insurance premiums, deductibles, copays, and coinsurance for workers. It led to narrower provider networks which caused many employees to lose access to the doctors or hospitals that they preferred. More restrictive drug formularies with more utilization management such as step-therapy and try-first requirements created new barriers for patients. Proposals put forth by groups such as the Paragon Institute[2] and the American Enterprise Institute[3] would have the exact same effect. They would be a tax increase on working families, and they would lead to lower quality health benefits for your constituents.

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[1] KFF. "Employer Health Benefits Annual Survey Archives" available at https://www.kff.org/health-costs/report/employer-health-benefits-annual-survey-archives/

[2] Paragon Health institute. "Follow the Money: How Tax Policy Shapes Health Care" (2024) available at https://paragoninstitute.org/private-health/follow-the-money-how-tax-policy-shapes-health-care/

[3] American Enterprise Institute. "A Tax Reform That Would Improve Health Care Too" (September 30, 2024) available at https://www.aei.org/health-care/a-tax-reform-that-would-improve-health-care-too/

Rather than take away a benefit that allows for health care affordability for employees and their families, there are several tax policy recommendations ERIC has submitted to Capitol Hill that can improve health care affordability and competition that we urge you to consider.[4] This includes enacting long-overdue updates to High Deductible Health Plans (HDHPs) paired with Health Savings Accounts (HSAs) to help patients further plan for and mitigate their out-of-pocket costs associated with health care services. The House Ways and Means Committee has advanced several HDHP/HSA modernization policies, including the markup of the "*Bipartisan HSA Improvement Act of 2023*" (H.R. 5688) and the "*HSA Modernization Act of 2023*" (H.R. 5687). These bills make several key improvements to HSAs that would significantly help persons with HDHPs mitigate their out-of-pocket financial costs when seeking commonplace, routine health care. We also Congress to consider the *Health Out-of-Pocket (HOPE) Act* (H.R. 9394), a bipartisan piece of legislation that will create a tax-advantaged account that enables millions of Americans with most types of insurance coverage to save for health care costs through both individual and employer contributions. While an important step forward, more changes are needed to better serve patients, Veterans, and their families who want to access affordable primary care and other health services utilizing their HSA dollars that we encourage you to consider.[5]

Upholding the employer tax exclusion for health insurance is crucial for promoting accessible, affordable health care for employees, retirees, and their families across the nation. By maintaining this vital provision, Congress will incentivize employers to invest in comprehensive health benefits. This approach fosters a healthier workforce, reduces overall health care costs, and ultimately strengthens our economy. As we navigate the complexities of improving the health care system, preserving this exclusion will remain a key pillar in ensuring that quality health care is within reach for workers and their families. **Health benefits are the most valued employee benefit next to wages, and taxing health insurance as income is not a solution that will improve health care affordability.**

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[4] ERIC House Budget Health Care Task Force Response (2023) available at https://www.eric.org/wp-content/uploads/2023/10/10-13-23-House-Budget-Health-Task-Force-RFI-FINAL.pdf
ERIC Statement to the Education and the Workforce Subcommittee Hearing on Lowering Costs and Increasing Access to Health Care with Employer-Driven Innovation Statement for the Record (2024) available at https://www.eric.org/wp-content/uploads/2024/01/1-11-2024-ERIC-Statement-EdLabor-Employer-Innovation-1.pdf
ERIC Statement to the Energy and Commerce Committee Subcommittee Hearing on Health Care Spending in the United States: Unsustainable for Patients, Employers, and Taxpayers (2024) available at https://www.eric.org/wp-content/uploads/2024/01/1-31-24-ERIC-Statement-House-EC-Affordability-Hearing.pdf
ERIC Healthy Future Task Force Affordability Subcommittee Response (2022) available at https://www.eric.org/wp-content/uploads/2022/02/2-2-2022-FINAL-Affordability-RFI.pdf
[5] ERIC. "Making a Mark in Addressing Health Care Affordability Through HDHP and HSA Legislation" (2023) https://www.eric.org/wp-content/uploads/2024/10/Memorandum-for-Ways-and-Means-Committee-Re-HDHP-HSA-legislation.pdf

Policy solutions such as site-neutral payment, honest billing, fairness in contracting, and pharmacy benefit manager (PBM) reform can significantly offset the costs of tax reform by promoting greater efficiency and transparency in the health care system. For instance, implementing site-neutral payment policies could save anywhere from $4 billion to over $100 billion.[6] Honest billing practices could further enhance savings by decreasing billing errors and fraud, potentially saving the government billions annually as well as fairness in contracting could improve competition and reduce prices. Additionally, PBM reform is projected to save the government around $2.2 billion in revenue over 10 years.[7] Collectively, these reforms not only enhance the integrity of the health care system, but also create substantial fiscal offsets that could alleviate the burden of tax reform initiatives.

Retirement

Employer-provided retirement plans are the backbone of retirement savings for tens of millions of Americans. These plans, such as those offered by ERIC member companies, often constitute a large proportion of a family's savings and provide financial security for retirees across the income spectrum. There has long been bipartisan consensus about the importance of encouraging these savings.
Middle class workers rely on tax incentives, longstanding in the tax code, that promote responsible savings and drive investment. These vital provisions that help tens of millions of Americans build a secure financial future. **Congress should not weaken these incentives, but should instead strengthen them.**

Conclusion

Thank you for the opportunity to share our views. ERIC and our member companies are committed to working with you to meaningfully improve benefits for workers, their families, and retirees. We look forward to working with you to further help in policy development and enact legislation.

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[6] Congressional Budget Office (CBO), "Estimate of the Budgetary Effects of H.R. 1314, the Bipartisan Budget Act of 2015," 2015; CBO, "Proposals Affecting Medicare—CBO's Estimate of the President's Fiscal Year 2021 Budget," 2020; and CBO "Estimated Direct Spending and Revenue Effects of H.R. 5378, the Lower Costs, More Transparency Act," 2023.
[7] CBO, "Estimated Direct Spending and Revenue Effects of H.R. 5378, the Lower Costs, More Transparency Act" (December 8, 2023) available at https://www.cbo.gov/publication/59825

Workplace Retirement – Working for Working Americans

ERIC member companies sponsor retirement plans, including both traditional pensions, 401(k) plans, and other retirement programs governed by the Employee Retirement Income Security Act (ERISA). Millions of workers and retirees participate in these plans. These retirement programs are a valuable tool in attracting and retaining talent in an increasingly competitive job market. And retirement benefits offered in the workplace are helping the middle class build a stronger financial future for themselves and their families. **ERIC is committed to protecting and enhancing today's retirement programs while planning for the needs of tomorrow's workforce.**

For many of us, our initial experience with retirement planning came the first time an employer offered us the opportunity to participate in a workplace retirement savings program, like a 401(k). These programs have proven popular for decades. In fact, analysis from the U.S. Bureau of Labor Statistics (BLS) shows that 90% of private employers with 500 or more employees provided access to retirement benefits in 2022.

- That's the good news; the great news is that employees are taking employers up on these benefits. **In the private sector, nearly 70% of all workers who have the opportunity to participate in a retirement plan do so, with 86% – the highest participation – occurring in companies with 500 or more employees.**

In recent surveys, employees confirm the importance of retirement plans to attract and retain talent.

- A WTW survey found that **six in 10 employees (60%) cited their employers' retirement benefits as an important reason they remain with their current employer**, compared with 41% in 2010. **Nearly half of the respondents surveyed (WTW) said their company's retirement programs (47%) and healthcare benefits (48%) were important reasons why they joined their employers.**

Large Employers are Delivering the Retirement Benefit Offerings Employees are Seeking

Retirement benefit take-up rate, 2022

The percentage of private sector workers with access to a retirement plan who participated in it, by company size.

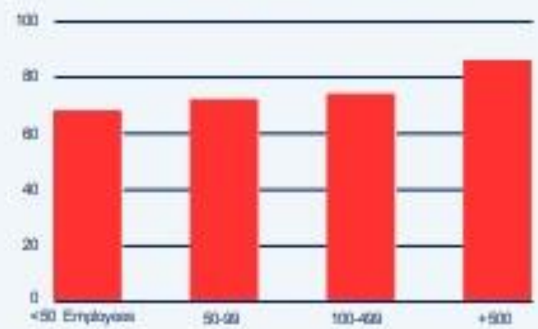

Chart created using data obtained from U.S. Bureau of Labor Statistics (BLS), (Employee Benefits in the United States News Release, 2022)

Retirement Remains a Strong Benefit to Attract and Retain Talent in the Workforce

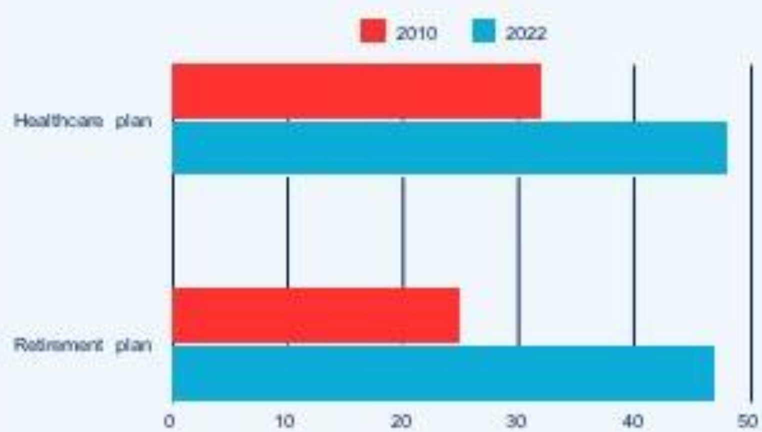

Chart created using data obtained from WTW. (Health and retirement benefits jump as key reasons employees join or stay with employer Press Release, 2022)

ERIC | THE ERISA INDUSTRY COMMITTEE

Workplace Retirement – Working for Working Americans

Employer-provided retirement plans have created opportunities for everyday people to plan and save for their future and are the backbone of retirement savings for tens of millions of Americans. Together with Social Security, employer plans and IRAs are often the bulk of a middle-class family's savings and define a financially secure retirement for millions of Americans.

A Federal Reserve Bank report detailing the economic health of Americans found that almost three-fourths of non-retired adults had at least some retirement savings. For those with retirement savings, these assets were most frequently in defined contribution plans, such as a 401(k). In many families, the assets held in IRAs and Defined Contribution plans (typically associated with either a current or past job) are among the most important components of their net worth and are a key determinant of their future retirement security.

Importantly, savings tools like 401(k)s and IRAs share an important feature in common – **all are tax-preferred savings vehicles**. Surveys routinely highlight the popularity of saving tax-free for retirement and opposition to proposals to change those tax incentives. **In a June 2024 report on retirement accounts, EBRI noted that changes to plans like 401(k)s and IRAs could significantly impact Americans' ability to fund a comfortable retirement.**

Tax-Preferred Retirement Savings Vehicles Work and Help to Create a More Secure Retirement for the Middle Class

Near-Retiree Households Have Retirement Assets, Defined Benefit Plan (DB) Benefits, or Both

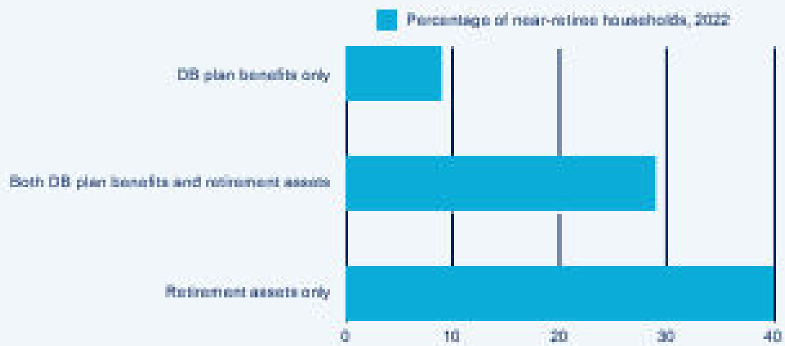

Chart created using data obtained from ICI tabulations of Federal Reserve Board Survey of Consumer Finances, Working for America's Middle Class, (Working for America's Middle Class, 2024)

It's tough to find agreement on much these days. Preserving tax-preferred retirements savings vehicles is an area where consensus is strong – the employer sponsored retirement system is working for working Americans.

Fast Facts about the Retirement System

- Plan sponsors provide pension and health benefits to more than **150 million participants and beneficiaries in over 6 million employee benefit plans covered by ERISA**. (Source: EBSA)
- Retirement accounts now hold a majority of participants' financial assets. Specifically, these assets constituted 65% of financial assets in 2022 for the median family with retirement accounts. (Source: EBRI)
- **As of December 31, 2022, a total of $37.8 trillion was held in U.S. retirement plans and accounts, of which $26.3 trillion was in employer-sponsored plans and $11.5 trillion was in IRAs.** (Source: CRS)