

The Honorable Mitch McConnell
Majority Leader
United States Senate

July 29, 2019

The Honorable Charles Schumer
Minority Leader
United States Senate

Dear Senator McConnell and Senator Schumer,

The House of Representatives recently voted to repeal the “Cadillac tax,” an excise tax on high-cost employer-sponsored health coverage (above a tax-free amount). For the reasons set forth below, we urge the Senate not to repeal this tax.

For decades, economists and health policy experts of all political persuasions have agreed that the unlimited exclusion of employer-financed health insurance from income and payroll taxes is inflationary, inefficient, and regressive. The Affordable Care Act established the Cadillac tax to address these issues.

The Cadillac tax will help curtail the growth of private health insurance premiums by encouraging employers to limit the costs of plans to the tax-free amount. The excise tax will discourage the provision of insurance that covers such a large proportion of health care spending that consumers have little incentive to insist on cost-effective care and providers have little incentive to provide it. As employers redesign health insurance plans to hold costs within the tax-free amount, cash wages or other fringe benefits will increase. Furthermore, repealing the Cadillac tax would add directly to the federal budget deficit, an estimated \$197 billion over the next decade according to the Joint Committee on Taxation.

We, the undersigned health economists and policy analysts, hold widely varying views on other provisions of the Affordable Care Act, and we recognize that measures other than the Cadillac tax could have been used to restrict the open-ended health insurance tax break.

But we unite in urging Congress to take no action to weaken, delay, or reduce the Cadillac tax until and unless it enacts an alternative tax change that would more effectively curtail cost growth.

Sincerely,

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