



May 5, 2025

The Honorable Mike Johnson
Speaker
U.S. House of Representatives
H-232, The Capitol
Washington, DC 20515

The Honorable John Thune
Majority Leader
U.S. Senate
S-230, The Capitol
Washington, DC 20510

The Honorable Hakeem Jeffries
Minority Leader
U.S. House of Representatives
H-204, The Capitol
Washington, DC 20515

The Honorable Chuck Schumer
Minority Leader
U.S. Senate
S-221, The Capitol
Washington, DC 20510

Dear House and Senate Leaders:

The Partnership for Employer-Sponsored Coverage (P4ESC) writes to express our strong concerns regarding proposals to cap either the federal income tax exclusion for employer-sponsored coverage or employers' ability to deduct the cost of employee health insurance as a business expense. Either proposal would be highly disruptive to employment-based coverage – the single largest source of coverage in our nation. Considering caps on employer-sponsored health insurance in the context of tax reform would be unwise and unworkable.

P4ESC is a coalition of employment-based organizations and trade associations representing businesses of all sizes and sectors, and the millions of Americans and their families who rely on employer-sponsored coverage every day. Employer-sponsored coverage has been the backbone of our nation's health care system for nearly eight decades. P4ESC strongly cautions Congress not to change the tax treatment of employer-provided health insurance premiums. Not only is the idea of taxing health benefits widely unpopular with Americans with this type of coverage, but there are drastic economic and health-related consequences associated with capping the income and payroll tax exclusion of employment-based insurance.¹

Health benefits are the most valued employee benefit next to wages.² These benefits are prized because they provide greater peace of mind for employees and their families. Health benefits provide a bulwark against financial impoverishment from health care needs. Employer-sponsored

¹ [Employer Healthcare Tax Benefits: An Economic Impact Study](#)

² [New Voya research finds three-quarters of working Americans prioritize health benefits over higher salaries](#)

group health coverage is generally more affordable for employees than coverage available in the individual market or the exchanges.³

And yet, health care costs are ever-increasing, fueled by market consolidation and a lack of price transparency. Affordability remains a challenge for employers who try to design comprehensive plans and employees who try to navigate the system without adequate information to make informed decisions. While proposals to tax employer-sponsored coverage vary, one option examined by the Congressional Budget Office estimated that working families making \$35,000 would pay an additional \$1,100 in taxes in 2025. Driven by inflation, taxes would increase to \$2,325 by 2030, which represents a 62% higher tax burden.⁴

Employers and employees covered by their health plans differ by size, workforce composition and by region. The task of designing a cap on the exclusion or employer deductibility for all employer-sponsored plans would be very difficult.

Congress passed a similar cap in the Affordable Care Act. The so-called “Cadillac Tax” on high-cost plans faltered during implementation and was ultimately repealed. Regulators could not figure out how to construct a workable cap that accounted for geographic differences in health costs and that did not single out sicker or older individuals. These very same stumbling blocks apply to the current debate.

A cap approach based on a regionally adjusted national average would not work for larger groups which are almost universally experience-rated. Some of these larger groups have older or less healthy employees with higher rates of utilization, and consequently, more expensive plans. Smaller employers with older employees with higher utilization might also be disproportionately affected. A cap would hit employees covered by these plans more harshly than others. All employers and employees would see their FICA contributions increase with higher recognized wages due to a cap on the individual tax exclusion.

We also fear that no matter how carefully crafted a cap on the tax exclusion or employer deductibility may be, there is no logical limiting principle. Every time Congress needs to generate savings, it could return to the tax exclusion or employer deductibility to raise revenue or pay for other policy priorities. Once the principle of a cap on the exclusion or employer deductibility is established, a future Congress could dial the cap ever downward.

The disruption of employer-based coverage would likely be catastrophic. Group coverage would fall as younger, healthier adults migrate out of employer-based plans if given the choice between

³ [Low Marketplace Premiums Often Reflect High Deductibles](#)

⁴ [Reduce Tax Subsidies for Employment-Based Health Benefits](#)

increased costs and reduced coverage. Insurers will have to consider raising premiums to account for the shift in risk pools. Employers will have to consider passing on higher premiums to employees as well as reconsider whether to maintain additional resources meant to help navigate care and coverage. There also would be a disproportionate impact on Americans living in parts of the country where health care costs are higher.⁵ Taxing employee health insurance as income would further burden employees, effectively amounting to a new and unappreciated tax hike and a substantial reduction in after-tax employee compensation.⁶

Employers have a significant stake in developing and implementing innovative, affordable health care policies. We look forward to discussing this and other health care reform proposals with you. If you or your staff would like to meet with members of P4ESC, please contact P4ESC's Executive Director Neil Trautwein.

Sincerely,

The Partnership for Employer-Sponsored Coverage

www.p4esc.org

cc: Members, U.S. House of Representatives

Members, U.S. Senate

⁵ [Reduce Tax Subsidies for Employment-Based Health Insurance](#)

⁶ [Employer Healthcare Tax Benefits: An Economic Impact Study](#)