



July 27, 2009

Sen. Max Baucus  
Chairman  
Senate Finance Committee  
219 Dirksen Senate Office Building  
Washington, DC 20500

Sen. Charles Grassley  
Ranking Minority Member  
Senate Finance Committee  
219 Dirksen Senate Office Building  
Washington, DC 20500

Dear Chairman Baucus and Ranking Member Grassley:

On behalf of the National Small Business Association (NSBA), I am writing in support of limiting the value of employer-provided health coverage that is excludible from gross income, based on a minimum benefit package.

NSBA's support is conditional on the implementation of appropriate and necessary reforms to the insurance market. In order to ensure equity in the overall system, an individual responsibility to carry a federally defined, true minimum health benefit package that ensures both affordability and choice are critical. In addition, insurance market reforms that provide for guaranteed issue and renewal, the elimination of pre-existing conditions, and modified community rating rules with defined rate bands are essential.

There currently is an open-ended tax exclusion for employer-provided health coverage for both the employer and employee. This tax status has made health insurance preferable to other forms of compensation, leading some Americans to be "over-insured." This over-insurance leads to a lack of consumer behavior, increased utilization of the system, and significant increases in the aggregate cost of health care. Insurance now frequently covers (on a tax-free basis) non-medically necessary services, which would otherwise be highly responsive to market forces.

The health insurance tax exclusion also creates equity concerns for small employers and their employees. Since larger firms experience less volatile rate increases, and have greater bargaining power than a small firm, their health insurance packages are typically richer than what a small business can afford. Therefore, a large firm can build very rich benefit packages which are tax exempt for the business and are considered a piece of the employees' compensation package. This gives large employers a significant competitive edge over small businesses with regards to both their tax treatment as well as their ability to recruit employees.

For these reasons, the individual tax exclusion for health insurance coverage should be limited to the value of the basic benefits package. But this exclusion (deduction) should also be extended to individuals purchasing insurance on their own. These changes would bring equity

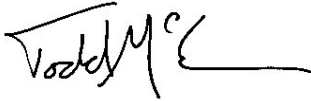
to small employers and their employees, eliminate the federal subsidy for over-insurance, induce much greater consumer behavior, and reduce overall health care expenses.

Sen. Kerry's proposal attempts to accomplish these goals by taxing insurance companies who offer high-cost plans. However, NSBA urges the Committee to carefully consider the full implications of taxing health insurers to ensure that their added costs would not be passed off to the purchaser of the health insurance in the form of higher premiums. Since insurers would likely spread these additional costs out, everyone could be impacted, particularly small businesses, their employees and their families.

While capping the tax exclusion for employer-provided health insurance is an unpopular subject among those with excessive benefit packages or "Cadillac" health insurance plans, it is a fair and equitable means to control health care cost while ensuring a true shared responsibility for health care reform. Capping the tax exclusion for employer-provided health care is one of the best ways to reduce the rate of health care spending, because it would discourage people from buying high-end insurance plans.

Thank you for your persistence in finding a bipartisan solution to our nation's health care challenges. Please contact me with any questions, or if we can be of assistance in any way.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd McCracken". The signature is stylized and written in a cursive-like font.

Todd O. McCracken  
President

Cc:  
Senate Finance Committee Members