



January 28, 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:

As the 119<sup>th</sup> Congress convenes, the Partnership for Employer-Sponsored Coverage (P4ESC) writes to commend you for your service to our nation. P4ESC stands ready to work with you to help ensure that employer-sponsored coverage is strengthened and will remain a viable and affordable private-sector health coverage option.

P4ESC is a nonpartisan advocacy alliance 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 health insurance is the single largest source of coverage in our nation.

**Employer-sponsored coverage has been the backbone of our nation's health system for more than eighty years.** Businesses of all sizes contribute vast financial, administrative, and other resources to employees and their families through the employer-sponsored system and have a vested interest in health care quality, value, and system viability.

**Moreover, employer-sponsored group coverage holds a distinct advantage over coverage sold in the individual market.** Workplace-based coverage groups together employees without regard to their health status. These pools tend to be more stable over time and more predictable leading to lower premium trends than other pooling arrangements. Controlled entry and exit from the plan, employer contributions, and the ability of younger healthier employees to offset the cost of older or less healthy employees helps keep coverage more affordable across the entire workforce.

**We urge Congress to find ways to strengthen employer-sponsored coverage rather than to search for alternatives to it.** To that end, P4ESC urges your attention to the following principles that are important to ensuring that employment-based coverage thrives into the future:

- Uphold the current tax treatment of employer-sponsored coverage
- Preserve ERISA preemption – the vital backbone of employer-sponsored coverage
- Address rising medical costs and market dysfunctions to help keep care and coverage more affordable

***Uphold the tax treatment of employer-sponsored coverage***

The Federal Tax Code has long favored employer-sponsored coverage. The value of coverage provided to employees and their dependents is not recognized as income to the employee. This tax code preference has been challenged by some policy makers interested in funding other priorities or shifting our health care system to an individual-based system. **P4ESC strongly cautions Congress not to disrupt what has worked so well through the years.**

The exponential growth in our nation’s employment-based health coverage system can be traced back to a cap on wages initiated during World War II to help stifle inflation. Employers began offering fringe benefits – such as health insurance – to offset the limit on wages and attract employees. This approach has supported coverage for more than 80 years. The direct benefits and federal spending offsets of employer-provided coverage result in an annual net social impact of \$1.5 trillion, driven by increased labor participation, business formation, increased health coverage, and reduced federal health subsidies<sup>1</sup>. Each dollar of federal expenditure – the tax revenue foregone for employer-provided coverage – yields approximately \$5.34 in benefits for covered employees and their families<sup>2</sup>.

**Policymakers and regulators will face great difficulty in constructing a cap on the tax exclusion.** A cap approach based on a regionally adjusted national average would not work for larger groups which are almost universally experience-rated. Some of the 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 tax exclusion.**

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<sup>1</sup> [National Bureau of Economic Research working papers](https://www.nber.org/system/files/working_papers/w28590/w28590.pdf)  
[https://www.nber.org/system/files/working\\_papers/w28590/w28590.pdf](https://www.nber.org/system/files/working_papers/w28590/w28590.pdf)

<sup>2</sup> [Joint Committee on Taxation’s Estimates of Federal Tax Expenditures For Fiscal Years 2019-2023](#); [The Bureau of Economic Analysis’ National Income and Product Accounts](#) (Table 6.11).

**Taxing health insurance benefits is not just impractical, it is unjust.** Employees are already shouldering substantial tax burdens. Taxing their health insurance as income would further burden employees, effectively amounting to a new and unappreciated tax hike.

### ***Preserve ERISA Preemption***

The *Employee Retirement Income Security Act (ERISA)* was enacted in 1974 to encourage voluntary employee benefit plans (particularly retirement and health benefits) and to promote uniformity in these plans across state boundaries. ERISA preempts the application of state laws that “relate to” these employer-sponsored plans. ERISA does not preempt the states from regulating health insurers or health insurance products. ERISA also does not preempt state laws of general applicability, such as taxes. In its 50-year history, ERISA has worked well and effectively to the benefit of employees and employers. **ERISA is the foundation of employer-based coverage.**

Multistate employers seek to build an equitable workplace culture by providing uniform and affordable benefits to their employees regardless of where they live. Employers also want to be able to administer these benefits in an efficient, consistent manner. Uniform design and administration of benefits promotes substantial efficiencies and significantly reduces health care costs for employees and employer plan sponsors.

**P4ESC urges Congress to ensure that ERISA’s preemption principle remains strong and intact,** particularly given the growing number of state laws in recent years that challenge ERISA preemption. Congress must stand firm against these state inroads against ERISA preemption.

### ***Address the Rising Cost of Health Care***

**Health care costs are simply out of control.** The United States spent \$4.5 trillion on health care in 2022, fully 17.3 percent of our national gross domestic product. Hospitals routinely charge employer plans more than two- and one-half time what Medicare pays<sup>3</sup>. Employers of all sizes long have been concerned by increases in the cost of medical care, not fully explained by population growth and population aging<sup>4</sup>. Small business owners have cited this as a leading challenge for more than 30 years<sup>5</sup>. **Greater congressional and regulatory oversight of high health care costs and the failing market for medical care is long overdue.**

According to the Centers for Medicare and Medicaid Services (CMS), health care spending can be broken down into 10 categories<sup>6</sup> (hospital care 31%, physician services 20%, prescription

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<sup>3</sup> [Rand](https://bit.ly/4bUf0I6), May 13, 2024. <https://bit.ly/4bUf0I6>

<sup>4</sup> Peter G. Peterson Foundation, 2023, [Why are Americans Paying More for Healthcare?](https://www.pgpf.org/blog/2024/01/why-are-americans-paying-more-for-healthcare?), [https://www.pgpf.org/blog/2024/01/why-are-americans-paying-more-for-healthcare](https://www.pgpf.org/blog/2024/01/why-are-americans-paying-more-for-healthcare?)

<sup>5</sup> National Federation of Independent Business, [www.nfib.org](http://www.nfib.org).

<sup>6</sup> CMS, <https://www.cms.gov/files/document/highlights.pdf>

drugs 10%, other personal healthcare costs 5%, dental services 4%, home healthcare 3%, other professional services 3%, other non-durable medical products 2%, durable medical equipment 2%). Significantly, the top three categories (hospital care, physician services, and prescription drugs) account for more than 60 percent of total health care spending. No other category of spending tops five percent.

Additionally, P4ESC and businesses of all sizes long have been concerned by health sector consolidation. **P4ESC strongly supports transparency across the health care system and congressional oversight over hospital and physician practice consolidation. This would include greater price transparency across all stakeholders, including pharmacy benefit managers (PBMs), health plans, and hospitals. P4ESC also supports uniform application of site neutral payment policies and honest billing requirements to deter location-based gaming of coverage.** P4ESC has actively opposed benefit mandates and regulatory proposals that would add cost or costly complexity to benefit administration.

### ***Conclusion***

P4ESC is the leading defender of employer-based coverage. We are especially vigilant against the three biggest threats to employer-sponsored coverage: threats to the tax treatment of employer-sponsored coverage; threats to ERISA uniformity; and the rising cost of health care and benefits. We respectfully ask that lawmakers consider the effect on employer-sponsored coverage as they consider health care legislation.

Employers have a significant stake in developing and implementing health care policies, and we look forward to working with you and your colleagues in a bipartisan manner throughout the 119<sup>th</sup> Congress. If you or your staff would like to meet with members of P4ESC, please contact P4ESC's Executive Director Neil Trautwein.

Sincerely,

Members of the Partnership for Employer-Sponsored Coverage  
[www.p4esc.org](http://www.p4esc.org)

cc: Members, U.S. House of Representatives  
Members, U.S. Senate

**The Partnership for Employer-Sponsored Coverage (P4ESC)**

Associated Builders & Contractors

Associated General Contractors of America

The Council of Insurance Agents and Brokers

The ERISA Industry Committee

H.R. Policy Association

National Association of Benefits and Insurance Professionals

National Association of Wholesaler-Distributors

National Federation of Independent Business

National Retail Federation

Self-Insurance Institute of America

Society for Human Resource Management

SPBA – Society of Professional Benefit Administrators

Warner Pacific

The Word & Brown Companies