Congress of the United States
Washington, DC 20515

Speaker Pelosi
Office of the Speaker
H-232, US Capitol
Washington, DC 20515

October 7, 2009

Dear Speaker Pelosi:

As Congress continues to consider revenue sources for America's Affordable Health Choices Act and other health insurance reform proposals, we strongly encourage you to reject imposing an excise tax on so called high cost insurance plans. Such a tax would impact regions with high health care costs in the short-term, and, in the long-term, inevitably extend to more and more middle-income Americans across the country.

As you know, the Senate Finance Committee reform proposal, America's Healthy Future Act, currently includes a 40 percent excise tax on insurers for plans that exceed certain cost thresholds. Real life experience with both health insurers and inelastic markets for services such as health insurance has clearly warned us that this tax will be passed along to insurance payers. Beginning in 2013, the threshold for individual plans will be $8,000 and $21,000 for family coverage. In subsequent years, increases in the cost thresholds will be tied to the Consumer Price Index for urban consumers (CPI-U) plus one percent. The proposal also includes a transition relief rule, which will set cost thresholds 20 percent higher for the 17 highest cost states. The transition relief rule will be phased out by 2016. It is important to note that the proposed thresholds for such a tax already have been surpassed for many middle-income Americans in 2009.

For middle-income Americans that have forgone wage and salary increases for strong insurance benefits, these thresholds are simply too low. And, for middle-income Americans who live in the nation's highest cost regions for health care, the transition relief rule is also too low and phased out far too soon.

A Commonwealth Fund report issued on August 20, 2009, *"Paying the Price: How Health Insurance Premiums Are Eating Up Middle-Class Incomes,"* outlined projected increases in insurance premiums if nothing is done to change the current cost trajectory. According to the report, average insurance premiums will increase 94 percent over the next ten years, with average annual increases of 5.7 percent. The report went on to conclude that average premium costs for family coverage in 2015 will range from $15,508 in the lowest cost state to $19,731 in the highest cost state. Considering high and low cost states will be treated the same with regard to the proposed excise tax in 2015, the average premium projections in high cost regions teeter on the projected cost thresholds of the excise tax.

Further, the lessons learned from the alternative minimum tax (AMT) should also serve as a warning for the creation of an excise tax on high cost insurance plans. Over the past four

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decades, the AMT has morphed from a tax on the wealthiest Americans to a tax on the middle class. In 1969, when the AMT was first enacted, the tax impacted only the wealthiest of Americans. In 2010, nearly one in five Americans will be subjected to the tax. A similar situation with the proposed excise tax is possible considering our experiences with medical inflation.

While America's Affordable Health Choices Act will work to rein in insurance premium costs, these savings will be generated from long-term fixes and may not substantially mitigate premium costs in the short-term before the costs of such an excise tax are passed from the insurer to the customer, including middle-income families.

Beyond these other arguments, there is a fundamental flaw in assuming a tax on so called high cost plans will sway choice of insurance coverage, and in turn, discourage wasteful health care spending. This assumption is based on access to a substantial choice in coverage, which is certainly not the case under our current system. Today, small employers pay more for a given insurance plan than a large employer – not because of benefit quality or an employees' excessive use of plan benefits, but due to smaller risk pools. While America's Affordable Health Choices Act will help close most of these price discrepancies, this won't be achieved until 2018 when all reforms are enacted. Further, America's Affordable Health Choices Act will allow for continued use of age rating with determining premium costs. While age rating will be restricted, the practice underscores limited choice for cheaper coverage options.

America's Affordable Health Choices Act includes sensible revenue sources to pay for the legislation. However, inclusion of an excise tax on high cost insurance plans, as proposed by the Senate Finance Committee, could have significant and detrimental implications for millions of middle-class Americans. The short-term impact would be greatest on individuals and families living in high cost regions and for those that have sacrificed pay increases for strong benefits. Over the long term, the number of individuals and families subjected to the tax would likely continue to grow. **To this end, we urge you to continue to reject proposals to enact an excise tax on high cost insurance plans that could be potentially passed on to middle class families.**

We look forward continuing to work with you to advance health care reform legislation that expands coverage and lowers care costs.

Sincerely,

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