

PROMOTE INDIVIDUAL CONTROL OF HEALTHCARE

The country's decades-long debate on healthcare has too frequently maintained the status quo of greater centralized control, rather than promoting policies that put American individuals and families first. As a result, Americans have seen their agency and control stripped away and replaced with onerous government mandates that have led to fewer choices and higher costs.

The Patient Protection and Affordable Care Act (ACA), President Obama's signature healthcare plan, implemented two health coverage mandates—one requiring individuals to obtain health insurance, and one requiring employers with 50 or more full-time employees to provide health insurance. These mandates forfeited individual control of healthcare and forced individuals and employers to make hard choices.

Some individuals chose to pay the penalty rather than obtain health coverage. For tax years 2014 through 2017, a total of 24.4 million tax returns reported penalties for a cumulative amount of \$11.97 billion. In tax year 2017, the average reported penalty per return was \$774. As part of the Tax Cuts and Jobs Act of 2017 that was signed into law by President Trump, the individual mandate penalty was reduced to \$0, effectively repealing the policy.

However, the employer mandate remains in effect today. Employers, particularly small businesses, still face decisions of whether to add costly new expenses or downsize their workforces. The employer mandate is a greater burden for smaller firms, as costs are approximately one-third more per worker than the costs for firms with more than 10,000 workers. The National Bureau of Economic Research found that between 28,000 and 50,000 businesses nationwide eliminated an estimated 250,000 positions to avoid being subject to the employer mandate. This mandate

causes employers to lose agency in their business operations and likely leads to the shifting of health insurance costs to employees through wage reduction or a decrease in workforce size. Either scenario strips individual employees of the ability to steward their own resources and control their health coverage options.

Penalty enforcement is burdensome. It requires 114 full-time Internal Revenue Service (IRS) employees and has significantly underperformed expectations. Despite projections of \$13 billion in net revenue from employer penalty payments, the IRS had assessed just \$264 million in penalties and collected only \$66 million as of June 2020.

The far-left Inflation Reduction Act of 2022, passed earlier this year, doubled down on ACA policies and included an inflationary subsidy structure for individual market coverage that largely benefits insurance companies. A previous estimate of the effect of these policies projected 1.6 million people would lose their employer-sponsored health insurance and be forcibly transitioned to government-subsidized coverage in the individual market. This policy will likely lead to a continued increase in United States healthcare spending while Americans will continue to see fewer choices and less flexibility in obtaining health coverage.

Instead of this approach, two policies that promote individual control of healthcare dollars should be expanded to give Americans more control. The expansion of health savings accounts (HSAs) and health reimbursement arrangements (HRAs) would help address Americans' lack of individual control over how their money is spent.

Health savings accounts are tax-advantaged accounts that can be used to pay and save for unreimbursed medical expenses. They were first

authorized in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and are associated with enrollment in high deductible health insurance plans. In 2021, 40% of covered employees in firms with 50 or more employees were enrolled in high deductible consumer-directed health plans.

Yet HSA contributions are limited by the Internal Revenue Service. In 2022, these limits are \$3,650 for individuals and \$7,300 for families. These funds can be used to pay for medical expenses or can be invested, which can create another avenue to grow wealth over time. Currently, 31 million Americans have HSAs. However, of the \$1 trillion in employer-sponsored health insurance premiums in 2021, only a small portion of that amount—\$39 billion, or 4%,—was contributed to HSAs.

Health reimbursement arrangements allow employer contributions to reimburse employee health expenses through an account-based group health plan. These come with a tax advantage to employees. In 2019, the Departments of Treasury, Labor, and Health and Human Services finalized a regulation that expanded HRAs. This adjustment provided greater flexibility for employers who want to reimburse employee health expenses through integration with individual health insurance coverage and still maintain the tax-advantaged status of the contributions. It also benefits employees by creating a portable health insurance option for Americans that allows them to keep the same policy when moving between jobs.

The Trump Administration's HRA rule is projected to be used by 800,000 employers and decrease the number of uninsured individuals by 800,000 by 2029. It is also expected to increase insurance coverage for low- and moderate-wage workers and to make it easier for individuals to retain coverage when changing jobs. A distinguishing factor between this policy and the Inflation Reduction Act is that the intent of the HRA rule is to give employers and employees more coverage options, rather than to abandon employer-sponsored insurance and shift costs to the taxpayer through government-subsidized coverage.

Importantly, this policy creates a new mechanism for offering health benefits for small employers who may otherwise be unable to do so. It also effectively

equalizes the preferred tax treatment of traditional employer group coverage.

THE FACTS

- ★ The ACA created a tax penalty for Americans without health insurance. From tax years 2014 through 2017, 24.4 million tax returns showed individual mandate penalties amounting to \$11.97 billion.
- ★ The ACA's employer mandate is a greater burden to smaller firms, as costs are approximately one-third more per worker than the costs for firms with more than 10,000 workers.
- ★ Approximately 250,000 jobs were eliminated by businesses nationwide to avoid being subject to the ACA's employer mandate.
- ★ In 2021, 40% of covered employees in large firms were enrolled in high deductible health plans that are eligible for health savings accounts (HSAs).
- ★ 31 million Americans currently have HSAs. Of the \$1 trillion in employer-sponsored health insurance premiums in 2021, only a small portion of that amount—\$39 billion, or 4%—was contributed to HSAs.
- ★ The Trump Administration's health reimbursement arrangement rule is projected to be used by 800,000 employers, and to decrease the number of uninsured individuals by 800,000 by 2029.

THE AMERICA FIRST AGENDA

At the federal level, support policies that:

- ★ Return
- ★ Nullify the employer insurance mandate in the Affordable Care Act, as was done for the individual mandate.
- ★ Remove unnecessary restrictions on health savings accounts:
 - Increase individual and employer contribution limits;
 - Remove the required association with high deductible health plans; and
 - Allow individuals to purchase any health plan and direct care services with funds from health savings accounts.

- ★ Make the Trump Administration's health reimbursement arrangements rule from 2019 permanent to provide more health coverage flexibility for employers and employees.

At the state level, support policies that:

- ★ Utilize health reimbursement arrangements in state employee health plan benefits to allow employees to choose their own coverage and have portability between jobs.

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