CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

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The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

The Honorable Charles Grassley
Ranking Member
Committee on Finance
United States Senate
Washington, DC 20510

Dear Chairman Baucus and Ranking Member Grassley,

The U.S. Chamber of Commerce, the world's largest business federation representing more than three million businesses and organizations of every size, sector, and region, thanks you for your work toward overhauling America's health care delivery system. The Chamber has reviewed the document, "Financing Comprehensive Health Reform: Proposed Health System Savings and Revenue Options," and would like to offer our thoughts as detailed in the attached document.

The Chamber is committed to working with Congress to find policy solutions that work for business as Congress engages in a comprehensive overhaul of the health system. We support the processes established by the Senate Finance and HELP Committees and continue to hope for a bipartisan bill that is supported by a broad array of stakeholders.

The Chamber thanks you for this opportunity to share its thoughts about the proposed financing options to pay for comprehensive reform, and looks forward to working with you to enact meaningful reform that will lower costs, increase quality, and expand coverage.

Sincerely,

R. Bruce Josten

Cc: The Members of the Senate Committee on Finance
Enclosure

Below please find the comments of the U.S. Chamber of Commerce on "Financing Comprehensive Health Reform: Proposed Health System Savings and Revenue Options."

Section I: Health System Savings

Overall, the Chamber is very supportive of locating savings within the health care system to help finance reform. All of the payment adjustments described in the document will be controversial and require political will to see through. However, their importance cannot be understated. The Chamber is especially supportive of exploring ways to curb the drastic regional variations in the costs of health care. Further, because the Congressional Budget Office does not engage in dynamic scoring, and therefore does not take into account many of the vast savings that prevention, wellness, and other system reforms can bring about, the Chamber does not believe that health reform needs to adhere to a rigid pay-go rule, or that the financing piece needs to directly correlate to the costs associated with expanding coverage and enacting reforms.

Section II: Options to Modify the Exclusion for Employer-Provided Health Coverage

In weighing whether or not to amend this section of the tax code, it is important that decision-makers understand that workers and businesses do not see the employee exclusion as a "tax subsidy" as Congress appears to view it; rather, they view it as duly-earned income that should indeed be protected from the tax collector. This perception perhaps explains why the President was so successful in campaigning against Senator McCain's health reform proposal – Americans generally do not support tax increases, even if they are promised that money back in the form of rebates or credits.

Further, many policy wonks argue that a cap should be placed on the amount of the exclusion for a legitimate policy reason – they believe health care and health insurance costs will come to conform with the amount of the cap. Rather than advance this policy goal, the proposals would instead foster class warfare by placing caps (or repealing the exclusion) for certain income earners and not affecting others. Congress should be looking at health reform as a whole and seeking to advance good, sustainable policy – it would be a major error to look at the revenue piece in a vacuum.

Determining the value of health benefits will be quite complicated, and could deter some businesses from offering plans. This would be especially difficult in light of the regional variations in health care costs. Small businesses might see further difficulty in that a tax on compensation would affect businesses owners' capital contributions to their companies.

If Congress wants to contemplate taxing workers' benefits, the tax should be indexed responsibly. Indexing the tax to the Consumer Price Index (CPI), while knowing full well that medical costs always increase faster than the CPI, would be an underhanded tax increase. Preferred options would be indexing to the Medical Price Index or perhaps the National Health Expenditures. The index should further good policy by giving no special consideration to high-cost areas.

Good policy should not be at the mercy of collective bargaining agreements – if Congress decides to make this landmark change, the changes should apply uniformly.

Section III: Other Health Care Related Revenue Raisers

Chamber members support Health Savings Accounts (HSAs) as well as Flexible Spending Arrangements (FSAs). In an ideal world, Congress would design one account-based option that all workers could take advantage of in a streamlined, administratively simple manner. However, as it is, workers and businesses are concerned with protecting the account-based options they currently have and are committed to offering and improving them in order to foster consumerism.

Proposed changes to HSAs would lead to a decline in these accounts. More than eight million Americans currently use these accounts for health expenses in a way that connects them with costs and makes them better health care consumers. Congress incorrectly perceives HSAs as a tax shelter, while the data clearly demonstrate otherwise. Proposals to limit HSAs, force expenses to be substantiated by third party companies (who lobby Congress for the privilege), or otherwise weaken these accounts should be abandoned as bad policy. The revenue implications of changes to HSAs are so small that it becomes immediately obvious that this change is ideologically-driven, rather than policy-driven.

Proposals to limit or discontinue FSAs may raise revenue, but they would have the effect of further insulating consumers from the costs of health care and taking a step in the wrong direction. Workers have come to depend on these accounts to know that the money is there to pay for out-of-pocket medical expenses as they occur. Congress should strive to move toward a value-based system in which Americans are shopping for the best policies, the most efficient and cost-effective treatments, and the right balance in cost and effectiveness in medications. These goals cannot be achieved if the United States continues down the path of third-party-payers footing the vast majority of every bill and consumers having no motivation to investigate further. FSAs are a useful tool for this purpose and any proposal to limit or eliminate them should take this into account.

The Chamber does not support efforts to further limit the definition of qualified medical expenses. However, we do believe that all workers – including all government workers – should be paying equally into the system, including FICA taxes.

Section IV: Lifestyle Related Revenue Raisers

Raising taxes on a narrow sector of the U.S. economy with the aim of funding broad-based reform is grossly unfair and burdensome to American businesses and consumers. Alcohol and sugary drink taxes are startlingly regressive – Americans with the lowest incomes will be the hardest hit. Worse, regions of the United States whose economic well-being relies upon agricultural and industrial activities to produce these products would bear the brunt of this tax increase.

Some in Congress claim that there is a legitimate policy reason to levy these taxes – namely, combating obesity. However, if Congress was serious about fighting obesity, there would be a much broader conversation: more physical education in schools, increased emphasis on physical activities, and investigation into the government subsidies paid to producers of high-fructose corn syrup, a product that many scholars believe its use has coincided directly with the obesity epidemic. Instead this appears to be just another tax increase targeted at specific populations.

Section V: Administration's Revenue Raising Proposals

According to the non-partisan Congressional Budget Office (CBO), the Administration's proposal would create a deficit that exceeds 13 percent of GDP in 2009, remain more than 9.5 percent of GDP in 2010, and never drops below 4 percent of GDP over the entire 10-year budget horizon. Moreover, federal spending as a percent of GDP would rise sharply by the end of the budget horizon. According to CBO, the proposal would amass almost $5 trillion in additional deficits over the CBO baseline in 10 years. As a result, the level of debt held by the public would jump to almost 65 percent of GDP by 2010 and rise inexorably from 2011, ultimately reaching over 82 percent of GDP by 2019.

The proposal would "pay" for much of the additional spending through a huge tax shift on businesses and higher income individuals. The proposal would take an already highly progressive tax system (the top 1% of the income distribution control about 22% of income and pay almost 40% of federal income taxes) and turn it into a punitive system on those who save, invest, and create jobs.

The proposal includes a $353 billion tax increase on corporate businesses achieved by, among other things, repealing long-standing accounting practices, double taxing the profits multinational companies earn abroad, codifying the economic substance doctrine, levying punitive new taxes on the oil and gas industry, taxing the carried interest in partnerships, and reinstating superfund taxes.

The proposed tax increases on upper income individuals that total over $950 billion would also hit the most successful U.S. small businesses that pay taxes as individuals and hinder their ability to grow and create jobs. These proposed increases include raising the top marginal tax rates, reducing or eliminating personal exemptions and itemized deductions, limiting the rate at which the remaining deductions could be taken, and raising the tax rate on capital gains and dividends.

Taken together, these tax increases would discourage saving and investment and slow job growth at a time when the economy is mired in the steepest downturn since the Great Depression. Moreover, these tax increases would create a tax code that is so skewed that virtually half the

taxpayers in the country would be excluded from paying federal income tax and thus have no interest in the way the government is run.

In addition to these direct income taxes, the budget proposal would establish a massive new indirect tax on energy via the auction of carbon emission credits. This proposal is estimated by the Administration to raise $646 billion over 10 years, but reputable private sources place the cost at two to three times that amount. Moreover, it is imprudent to assume legislation to tax carbon dioxide emissions will be approved by the full Congress when several carbon regulations schemes have been repeatedly rejected by the past several Congresses.