

Friday, May 22, 2009

To: All Members of the Senate Finance Committee

As an employer in Winston-Salem, North Carolina with 16 employees, most of whom receive health coverage through the plan that our company sponsors, I am writing to express my concern about options included in the May 20, 2009 Senate Finance Committee paper, "Financing Comprehensive Health Care Reform: Proposed Health System Savings and Revenue Options."

I agree that steps must be taken to make health care more affordable and accessible. I also believe that the employer-based system and the range of coverage options available today, including flexible spending arrangements (FSAs), health reimbursement arrangements (HRAs), and health savings accounts (HSAs), have worked well overall and can continue to do so in a reformed health system. As President Obama has stated, people who like their current coverage should be able to keep it.

I am concerned that a number of the policies under consideration would undercut both employer-based coverage and current coverage options. The proposals included in the Finance Committee's paper will actually make health coverage less affordable and would ultimately reduce the number of Americans with health care coverage. As noted below, these options would adversely affect working Americans, the majority of whom receive coverage through their employers.

Option to Modify the Exclusion for Employer Provided Health Coverage

- Repealing, reducing, or capping this incentive will increase the cost of health coverage for working Americans and their families. ***This would clearly be viewed as a tax increase for working Americans at a time when our economy can least afford it.***
- Changing the excludability of health care would *increase employer FICA taxes by up to 7.65 percent of the cost of employer paid health care.* For employers that decide to continue to sponsor health plans this would result in an even greater cost shift of health care costs. This will undoubtedly lead some employers to the decision to exit group benefits altogether.

Option to Modify or Repeal the Exclusion for Employer-Provided Reimbursement of Medical Expenses Under Flexible Spending Arrangements and Health Reimbursement Arrangements

- Eliminating FSAs and HSAs would undo the progress made in achieving higher levels of consumer engagement in health care choices and decisions.

Elimination of the tax preference for FSA and HRA benefits will result in an increase in the cost of health care to employees and employers at a time when many are facing severe financial challenges. I am a small employer in North Carolina who has successfully made an affordable and flexible health plan for my employees. The ability to use tax-favored accounts (HRAs and FSAs) is a core component of our plan. This style of plan has enabled my employees to be good consumers of their health care dollars. I have continued to pay the cost of my employee's coverage while keeping my expenditures in check. It's been a win-win for me, my employees, and ultimately a win for our over-all health care system. Health coverage is not a 'one size fits all' product. These types of account-based plans allow for creativity and innovation.

Option to Limit the Qualified Medical Expense Definition

- Reversing the OTC exclusion will likely result in many employees opting for much more expensive prescription drugs in lieu of their much less expensive OTC counterparts -- primarily because prescription drug would be covered by their plan (oftentimes subject to only a nominal copayment).

As an employer who specializes in administering FSAs and HRAs, I have seen these account-based plans not only work in our small organization, but also with plans ranging in sizes from 2 employees to 8,000 employees. The employer based system is not perfect, but studies have shown that the vast majority of Americans who receive their benefits through their employer are pleased with their coverage. As I saw one individual write... "Let's not throw the baby out with the bathwater."

I appreciate that the Committee will need to make a number difficult decisions as its conversations on health care reform continue. I am hopeful that you will work to ensure that Americans will still be able to get affordable coverage through the employer-based system and a benefit design that best meet their needs.

Sincerely,

Gary M. Knight, President & Owner
ProBenefits, Inc.