



## Employer-Sponsored Health Insurance

**Employer-sponsored health insurance is a major source of coverage in the U.S. Affordable Care Act provisions such as the Cadillac tax, and market developments such as the emergence of high-deductible health plans, could impact the generosity of employer-sponsored health insurance. A reduction in the generosity of employer-sponsored health insurance could have consequences for utilization of medical services.**

### Background

Most non-elderly Americans receive health insurance coverage from their employer (about 156 million in 2017).<sup>1</sup> Employer coverage tends to have a high actuarial value, which means that a large share of health expenses is paid by the plan, and only a small share is paid by the employee in the form of deductibles or cost-sharing. Even though there are now affordable alternatives to employer coverage in the form of public Health Insurance Exchange plans, the Congressional Budget Office projects that most employers will continue to offer coverage, in part because of the employer mandate under the Affordable Care Act (ACA).<sup>2</sup> However, there are other ACA-related provisions and market developments that are likely to result in reduced generosity of employer-sponsored coverage. These changes could impact the utilization of medical services, including pharmaceuticals.

One ACA provision that is likely to affect the generosity of employer coverage is the Cadillac tax (Section 9001 of the ACA). Originally to be implemented in 2018 but delayed until 2022, the tax affects employers who offer plans whose value exceeds a certain threshold. Specifically, these employers will be required to pay a 40 percent tax on the excess value of their plans. Based upon analysis by the Joint Committee on Taxation, most of the revenue to be raised by the tax will not come from employers paying the tax, but rather from them shifting compensation away from health benefits towards taxable wages.<sup>3</sup> This is likely to mean higher employee cost-sharing for health care.

Many employers are adopting a high-deductible plan design as a means of reducing their expenditure on health insurance. Numerous studies indicate that the high-deductible can discourage utilization of medically appropriate utilization, which can have adverse long term consequences for employee health and employer costs. Research indicates that high-deductible plans can suppress both branded and generic pharmaceutical utilization.<sup>4</sup>

Because employer-sponsored insurance is tax exempt, employers are able to purchase more coverage for their employees than employees could if they were given an equivalent amount of wages with which to purchase coverage directly. Complete or partial repeal of the tax exemption for employer-sponsored insurance could cause major reductions in the number of Americans receiving insurance from their employer, because it would reduce the advantages to employees of having their employer purchase coverage on their behalf.

### Key Facts and Figures

- The typical employer-plan pharmacy benefit is significantly more generous than the typical Silver plan found on the Health Insurance Exchanges.<sup>5</sup>
  - Actuarial value of typical employer plan pharmacy benefit: 80 percent.
  - Actuarial value of typical Silver plan pharmacy benefit: 54 percent.
- The Cadillac tax is a concern to employers, and many are contemplating or taking action to avoid it or reduce its impact:<sup>6</sup>

- Twenty-nine percent of small firms and twenty-seven percent of large firms who have analyzed the Cadillac tax report that their largest health plan would exceed the Cadillac tax threshold in 2020 if they do not make changes.
- In 2015, employers made a variety of changes to prepare for the tax: four percent of small firms and fifteen percent of large firms increased cost sharing; three percent of small firms and nine percent of large firms switched to a lower cost plan or eliminated a plan option; and four percent of small firms and two percent of large firms selected a plan with a smaller network of providers.

## Pfizer's Position

Employer-sponsored insurance is an important form of health care coverage that should be preserved. The long-term employer/employee relationship offers incentives for greater investments in prevention and wellness than in the individual market or the Health Insurance Exchanges. In addition, economies of scale and risk pooling can give employer-sponsored insurance an efficiency advantage over the individual market or Health Insurance Exchange offerings.<sup>7</sup>

The Cadillac tax is designed in a way that penalizes employers for health care cost factors they cannot control like higher numbers of disabled workers, larger families, or location in high-cost areas. This is one reason why Pfizer supports repeal of the Cadillac tax, and the preservation of incentives for employer-sponsored insurance.

## How Patients and Health Care Professionals Benefit

Patients enrolled in an employer plan typically receive comprehensive coverage that makes necessary medicines and medical care affordable.

## How the Health Care System Benefits

Employer-sponsored insurance can encourage efficient use of preventive and other medical services.

## What It Means for Pfizer

Employer-sponsored insurance is a major way in which we are able to reach patients needing our medicines.

## Related Pfizer Activities

- Sponsoring research on the role that pharmaceutical coverage plays in lowering employer medical costs, and the downstream impact on Medicare costs of employer-sponsored insurance.
- Developing a value-based approach to restructuring health benefits that may exempt certain pharmaceuticals from high deductibles and cost sharing.

<sup>1</sup> Congressional Budget Office Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2017 to 2027 September 2017

<sup>2</sup> Thomas Buchmueller, Colleen Carey and Helen G. Levy "Will Employers Drop Health Insurance Coverage Because of the Affordable Care Act." *Health Affairs*, 32, no.9 (2013):1522-1530.

<sup>3</sup> March 2010 Joint Committee on Taxation report JCX-18-10 "Technical Explanation of the Revenue Provisions of the *Reconciliation Act of 2010*, as Amended, in Combination with the *Patient Protection And Affordable Care Act*."

<sup>4</sup> *Brand-Name and Generic Prescription Drug Use After Adoption of a Full-Replacement, Consumer-Directed Health Plan With a Health Savings Account* was published in the March 2014 EBRI Notes.

<sup>5</sup> May 2014 Milliman Client Report "Impact of the Health Insurance Marketplace on Participant Cost Sharing for Pharmacy Benefits."

<sup>6</sup> Kaiser/HIRET Survey of Employer-Sponsored Health Benefits September 2016

<sup>7</sup> Thomas Buchmueller and Alan Monheit "Employer-Sponsored Health Insurance and the Promise of Health Insurance Reform" NBER Working Paper 14839.

