

United States Senate

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Grassley, Baucus, Wyden, Enzi, Nelson Unveil Health Costs Disclosure Discussion Draft, Seek Public Comment

WASHINGTON – Sens. Chuck Grassley, Max Baucus, Ron Wyden, Mike Enzi, and Ben Nelson today released a discussion draft of legislation that would provide for greater disclosure of health insurance costs to workers. Better informing workers about what they pay for health care and how much costs are increasing year after year is a way to begin to help to control health care costs and has been suggested by experts including the director of the Congressional Budget Office. The senators are seeking public comment on their proposal.

Grassley is ranking member and Baucus is chairman of the Committee on Finance. In testimony before a Finance Committee hearing in June, Peter Orszag, director of the Congressional Budget Office, said, “Workers may demand less efficiency from the health system than they would if they knew the full cost that they pay via foregone wages for coverage or if they knew the actual cost of the services being provided. Making the underlying costs associated with employment-based insurance more transparent might prove to be quite important in containing health care costs.”

Grassley said, “The point of the proposal is to inform people about their health care costs. Once informed, they might seek changes including improved efficiency, reduced waste and fewer unnecessary procedures, balanced with the natural need to have good coverage. Some employees might want to receive different compensation in the form of a higher salary, additional vacation, or more child care instead of more health coverage than they need. As long as people are insulated from the cost and just think someone else is paying for it, then it’s easy to overlook expenses. But once they realize they themselves are paying for it, it should spark a genuine conversation about what to do. Without any knowledge of how much they are paying, though, people aren’t equipped to join the debate, and their view, generally, is, don’t touch my health care. And so nothing can get done politically and costs continue to spiral.”

Baucus said, “Today, Americans don’t have enough health care information. We often don’t know how much our health care costs, or why there has been the rapid spike in prices in recent years. Making people aware of how much is spent for their health insurance coverage is an important step in helping us all become more informed about health care costs. When people get a sense of the cost of their insurance, they may look for ways to reduce the waste and inefficiency that are driving up costs in our health care system. This idea goes hand in hand with other steps to lower health care costs, like comparing the effectiveness of medical treatments and getting that information to the public, too. Finding ways to lower health care costs, along with measures to increase access and cover more Americans, will be an important part of the health care reform agenda I intend to pursue in the Finance Committee next year.”

Wyden said, “Educating Americans about their health care costs is an important first step in reforming the system. If everybody could clearly see what their employers were paying for their health insurance coverage, they’d understand why their wages have been so stagnant in recent years. This could lead workers to demand that their employers offer more efficient health coverage options. I hope the public reads this proposal and gives us their reaction so we can craft a bill that will bring health care costs out of the shadows and provide consumers with information to make better decisions about their health care.”

Enzi said, “Most American workers do not realize how much their employers pay for their insurance plans – nor do they realize how these costs reduce their wages and other benefits. By putting this valuable information into the hands of workers, we can help them become smart health care consumers with the knowledge they need to make the best decisions for themselves and their families. Including the cost of employer contributions to health insurance is an important step toward helping families find the health care plans they need at prices they can afford.”

Nelson said, “With health care costs soaring at twice the rate of inflation, Americans must have a clearer picture of how much they and their employers are spending on health care. We need to empower Americans to be better health care consumers and make economic decisions that are in their best interest. This has to happen on the coverage end and on the service end, no matter whose pocket it is coming out of. This has the potential of lowering health care costs across the board.”

The discussion draft legislation would require that an employer disclose the amount of money it pays for an employee’s health insurance coverage on the employee’s annual Form W-2. Many employees are unaware of the amount of money their employer pays for their health insurance coverage. Experts argue that this lack of transparency results in inefficient choices of health coverage, leading to increased health care spending. Disclosing the amount an employer pays for health insurance coverage on behalf of its employees on the Form W-2 would inform workers about the total cost of their coverage and what they may be giving up in wages. Making the cost of health insurance coverage more transparent – in conjunction with other health care reforms such as health information technology, prevention, and pay for performance – could eventually help to control health care costs, the senators said.

Public comments should be sent electronically to disclosure@finance-rep.senate.gov by December 31, 2008. Questions may be directed to Chris Condeluci (Grassley) or Shawn Bishop (Baucus) by calling 202/224-4515. A description of the discussion draft legislation follows here. The legislative language of the discussion draft is attached.

**EXPLANATION OF
SENATORS BAUCUS-GRASSLEY-WYDEN-ENZI-NELSON'S
DISCUSSION DRAFT**

A. Present Law

In many cases, an employer pays all or a portion of its employees' health insurance coverage as an employee benefit. This often includes premiums for major medical, dental, and other supplementary health insurance coverage. Under current law, the amount of money the employer uses to pay for its employees' health insurance coverage is excludible from each employee's wages.

Under current law, every employer is required to furnish each employee with a statement describing, among other things, the amount of wages paid by the employer to the employee, and the taxes withheld from such wages during the calendar year. The statement, made on the Form W-2, must be provided to each employee by January 31 of the succeeding year.

Currently, there is no requirement to report the amount an employer pays for its employees' health insurance coverage on the Form W-2 (unlike the requirement to report wages paid to employees). Some employers, however, voluntarily report tax-free employee benefits provided to employees, including employer-provided health insurance coverage, in box 14 of the Form W-2.

B. Reason for Change

Economists agree that employees receiving health insurance coverage through their employer forego wages in exchange for such coverage. Specifically, during a June 17, 2008, Senate Finance Committee hearing, the Congressional Budget Office ("CBO") Director, Peter Orszag, said:

"[T]he economic evidence is overwhelming, the theory is overwhelming, that when your firm pays for your health insurance you actually pay through reduced take-home pay. The firm is not giving that to you for free. Your other wages...are reduced as a result. I don't think workers realize that."

It is clear that many employees are unaware of the amount of money their employer pays for their health insurance coverage. Experts argue that this lack of transparency results in inefficient choices of health coverage, leading to increased health care spending. This increased health care spending increases the cost of health insurance for everyone. In his June 17th testimony, Peter Orszag further explained that:

"Workers may demand less efficiency from the health system than they would if they knew the full cost that they pay via foregone wages for coverage or if they knew the actual cost of the services being provided. Making the underlying costs associated with employment-based insurance more transparent might prove to be quite important in containing health care costs."

Disclosing the amount of the health insurance coverage an employer pays on behalf of its employees on the Form W-2 would inform workers about the total cost of their coverage and what they may be giving up in wages. Making the cost of health insurance coverage more transparent – in conjunction with other health care reforms such as health information technology, prevention, and

pay-for-performance – could help control health care costs. Moreover, this increased transparency would help employees to make the best economic decisions for themselves and their families. At the same time, there could be other unanticipated consequences in labor markets associated with greater transparency on which we seek further input.

C. Description of the Proposal

An employer would be required to disclose the amount of money it pays for an employee's health insurance coverage on the employee's annual Form W-2. To the extent that the employee receives health insurance coverage under multiple plans, the employer would disclose the aggregate value of such coverage (excluding the value of a health flexible spending arrangement). For example, an employee receiving health insurance coverage under a major medical plan, a dental plan, and a vision plan would only have the total amount reported. For this purpose, employers would generally use the same value for all similarly situated employees receiving the same category of coverage (such as single- or family- health insurance coverage). One possible methodology for valuing an employee's health insurance coverage would be based on the valuation rules for COBRA continuation coverage under Code section 4980B(f)(4) (and accompanying Treasury regulations). This means that, for self-insured arrangements, an appropriate methodology for valuing an employee's health insurance coverage could be based on the COBRA valuation rules. We are seeking input on other methodologies that might also be appropriate.