

Karen Ignagni
President &
Chief Executive Officer



PRESIDENT'S ADVISORY
PANEL
ON FEDERAL TAX REFORM

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May 6, 2005

✓ The Honorable Connie Mack
Chairman, The President's Advisory Panel on Federal Tax Reform
1440 New York Avenue NW
Suite 2100
Washington, DC 20220

The Honorable John Breaux
Vice-Chairman, The President's Advisory Panel on Federal Tax Reform
1440 New York Avenue NW
Suite 2100
Washington, DC 20220

Dear Senators Mack and Breaux:

On behalf of America's Health Insurance Plans (AHIP), I am writing to reaffirm our commitment to the nation's private, market-based health insurance system, and to underscore the fundamental role that employer-sponsored coverage plays in that system. AHIP is the national trade association representing nearly 1,300 companies providing health, long-term care, dental, disability, and supplemental benefits to more than 200 million Americans.

AHIP and our members believe that tax incentives for private health insurance are compatible with the President's goal of simplifying the tax code and stimulating economic growth. While the commission is charged with ensuring that the tax code recognizes incentives for private homeownership and charitable donations, we believe that incentives for private health insurance are equally important.

Much as the mortgage interest deduction and the development of the 30-year mortgage led to unprecedented levels of private homeownership since World War II, tax incentives for employer-sponsored health insurance have allowed the private health care market to provide coverage to over 175 million Americans.

Employer-based health insurance works because it distributes risk broadly, is convenient for workers, and is relatively efficient for employers to administer. To ensure that most workers sign up for coverage -- including younger and healthier workers, and workers with low incomes -- employers typically pay at least half of the premium. Tax incentives reward employers and workers alike by excluding employers' contributions from their paychecks. This is similar to the exclusions of certain retirement contributions, such as 401k contributions, from employees' taxable incomes.

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Over time, the tax incentives for employer-based health insurance have allowed a large private-sector health system to flourish in the U.S. By contrast, most other developed nations feature tax-financed, heavily regulated government-run health insurance systems.

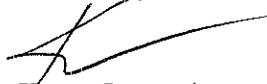
Private health insurance uses market forces to adjust benefits and control costs, and government programs often look to innovations in private coverage -- such as prescription drug benefits, disease management, and care coordination -- as a model. Innovation among private health plans is one hallmark of our current system deriving support from these tax incentives. Among the many current examples of such innovation are Individual Health Records (IHRs), standards for improved quality and outcomes, "pay for performance" systems, disease management and care coordination, and new "consumer directed" health insurance products. These and other measures contain costs and improve outcomes to ensure that Americans get maximum value for health care spending.

Still, at a time when 45 million Americans are uninsured and employers report that rising costs are straining their budgets for compensation, the need to expand access to coverage is growing. AHIP supports efforts to extend incentives to employees without access to employer-based coverage, such as the President's tax credit proposal. We also support proposals designed to help unemployed people maintain their private health coverage, such as the bill introduced by Senators Grassley and Baucus in the 108th Congress.

Above all else, we should build on systems that work well for most Americans. Tax incentives have led to a 69 percent homeownership rate in the U.S. Likewise, the fact that 70 percent of non-elderly Americans have private health insurance is due largely to incentives in the tax code.

We hope you will recommend maintaining the deduction for contributions made to provide access to private health insurance, as well as extending tax support to lower income individuals who are not offered or not able to purchase coverage on the job. We pledge our support to work with the commission as it evaluates options and look forward to engaging in dialogue with you.

Sincerely,

A handwritten signature in black ink, appearing to read 'Karen Ignagni', with a long horizontal flourish extending to the right.

Karen Ignagni