



JOINT ECONOMIC COMMITTEE  
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## THE HEALTH BENEFIT TAX EXCLUSION DISTORTS THE HEALTH INSURANCE MARKET

*Has Promoted Employer-Provided Insurance, but Hindered  
Market-Based Cost Controls and Individual Choice*

**Washington, DC**—The Joint Economic Committee (JEC) today released a study on how federal tax policy has influenced the way the U.S. health insurance market has developed over the past sixty years since the Internal Revenue Service (IRS) issued a special ruling that the portion of employees' health insurance paid by employers is treated as a tax -free benefit.

“The tax exclusion has created a distortion in the health insurance market, favoring employer-based health insurance with comprehensive coverage as opposed to individually purchased plans emphasizing protection against major risks,” said Chairman Bennett. “When employers struggle to make one-size-fits-all health insurance decisions for their employees, mismatches often occur between individual needs and options available at the group level.”

Because employers, not the employee, are making health plan choices, employer-based health insurance arrangements tend to focus more on shorter-term cost considerations and less on longer-term quality and continuity of care concerns. Although the tax exclusion does not prevent employees and other health care consumers from purchasing health insurance through other means, such purchases are more expensive because they cannot take advantage of the tax-free discount available for equivalent insurance coverage purchased by an employer.

“Comprehensive group health insurance coverage hides the true cost of health care decisions and fosters the illusion that 'someone else' is paying for the care,” said Bennett.

“We can't preserve the status quo for another 60 years. We must give greater consideration to alternatives to employer-paid group health plans and expand the use of Consumer-Driven Health Care options such as Health Savings Accounts,” said Chairman Bennett. “This change is sorely needed to reacquaint individuals with the cost and quality of the health care choices they can manage on their own.”

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