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5/11/2010

**MYTH: IF YOU LIKE YOUR HEALTH INSURANCE, YOU CAN KEEP IT**  
**FACT: If you like your Insurance you may LOSE it – The Proof**

Dear Colleague:

I wanted to make sure you saw the *Fortune* magazine [blockbuster report](#) (attached) showing that major US companies are recognizing the extraordinary risk of continuing to provide health benefits for their workers under the recently passed health law.

It finds "many companies are examining a course that was heretofore unthinkable, dumping the health care coverage they provide to their workers in exchange for paying penalty fees to the government."

If this happens -and there is every incentive for it to - the costs of the health law would skyrocket, and tens of millions would lose their employer-provided plans. This will send fear into the hearts of working Americans who have been promised if they like their current health insurance coverage, they can keep it.

Stability may not be an option. The costs of the fines, penalties, mandates, and risk under the new law are significant but not as great as the skyrocketing cost of maintaining their employee's coverage.

These revelations came by way of an ill-fated Energy and Commerce Committee investigation, in which Democrats wanted to scold companies for revising their SEC filings. Democrats requested and received 1,100 pages of documents and quickly cancelled the hearing because the documents revealed what the rest of America knew. **Clearly they did not want the full story to be told.**

The health care law made retiree benefits more expensive. The SEC required that these new costs be disclosed. Democrats cried foul, even though they were warned in advanced.

The documents obtained also show the companies analyzed the impact of the law and the conclusions are undeniable: It is cheaper to pay the fines for not providing coverage than to continue to provide it.

This process has done a great service to the country. While the bill is law, the debate hasn't stopped. It is imperative that we continue to keep the pressure on the Majority and the Administration to answer to the severe harm their legislation is already having on the American taxpayer and worker.

I encourage you to visit the Energy and Commerce Committee's minority website to learn about just one of the Patient Protection and Affordable Care Act's many devastating consequences: <http://bit.ly/9VBmjQ>

Sincerely,

  
Michael Burgess M.D.  
Member of Congress



# Documents reveal AT&T, Verizon, others, thought about dropping employer- sponsored benefits

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## Health Care Law

### > Medical Cost Versus No Coverage Penalty

#### 2009 Medical Costs

Active Employees	\$2.4B
Retirees	\$2.3B
<b>Total Company Cost</b>	<b>\$4.7B</b>

#### Penalty for No Coverage

Employees	283K
Annual Penalty per Employee	\$2K
<b>Total Annual Penalty</b>	<b>\$0.6B</b>

AT&T-EC-00000

COURTESY: HOUSE OF REPRESENTATIVES COMMITTEE ON ENERGY AND COMMERCE

By Shawn Tully, senior editor at large

May 6, 2010: 11:52 AM ET

(Fortune) -- The great mystery surrounding the historic health care bill is how the corporations that provide coverage for most Americans -- coverage they know and prize -- will react to the new law's radically different regime of subsidies, penalties, and taxes. Now, we're getting a remarkable inside look at the options AT&T, Deere, and other big companies are weighing to deal with the

new legislation.

Internal documents recently reviewed by Fortune, originally requested by Congress, show what the bill's critics predicted, and what its champions dreaded: many large companies are examining a course that was heretofore unthinkable, dumping the health care coverage they provide to their workers in exchange for paying penalty fees to the government.

That would dismantle the employer-based system that has reigned since World War II. It would also seem to contradict President Obama's statements that Americans who like their current plans could keep them. And as we'll see, it would hugely magnify the projected costs for the bill, which controls deficits only by assuming that America's employers would remain the backbone of the nation's health care system.

Hence, health-care reform risks becoming a victim of unintended consequences. Amazingly, the corporate documents that prove this point became public because of a different set of unintended consequences:

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they told a story far different than the one the politicians who demanded them expected.

## Why the write-downs happened but the hearings didn't

In the days after President Obama signed the bill on March 24, a number of companies announced big write downs due to some fiscal changes it ushered in. The legislation eliminated a company's right to deduct the federal retiree drug-benefit subsidy from their corporate taxes. That reduced projected revenue. As a result, AT&T (T, Fortune 500) and Verizon (VZ, Fortune 500) took well-publicized charges of around \$1 billion.

The announcements greatly annoyed Representative Henry Waxman, who accused the companies of using the big numbers to exaggerate health care reform's burden on employers. Waxman, chairman of the House Energy and Commerce Committee, demanded that they turn over their confidential memos, and summoned their top executives for hearings.

But Waxman didn't simply request documents related to the write down issue. He wanted every document the companies created that discussed what the bill would do to their most uncontrollable expense: healthcare costs.

The request yielded 1,100 pages of documents from four major employers: AT&T, Verizon, Caterpillar and Deere (DE, Fortune 500). No sooner did the Democrats on the Energy Committee read them than they abruptly cancelled the hearings. On April 14, the Committee's majority staff

issued a memo stating that the write downs were "proper and in accordance with SEC rules." The committee also stated that the memos took a generally sunny view of the new legislation. The documents, said the Democrats' memo, show that "the overall impact of health reform on large employers could be beneficial."

Nowhere in the five-page report did the majority staff mention that not one, but all four companies, were weighing the costs and benefits of dropping their coverage.

AT&T produced a PowerPoint slide entitled "Medical Cost Versus No Coverage Penalty." A document prepared for Verizon by consulting firm Hewitt Resources stated, "Even though the proposed assessments [on companies that do not provide health care] are material, they are modest when compared to the average cost of health care," and that to avoid costs and regulations, "employers may consider exiting the health care market and send employees to the Exchanges." (Under the new bill, employees who lose their coverage will purchase health care through state-run

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exchanges.)

Kenneth Huhn, vice president of labor relations at Deere, said in an internal email that his company should look at the alternatives to providing health benefits, which "would amount to denying coverage and just paying the penalty," and that he felt he already had the ability to make this change under his company's labor agreement. Caterpillar felt it would have to give "serious consideration" to the penalty option.

It's these analyses -- which show it's a lot cheaper to "pay" than to "play" -- that threaten to overthrow the traditional architecture of health care.

#### **The cost side**

Indeed, companies are far more likely to cease providing coverage if they predict the bill will lift rather than flatten the cost curve. Deere, for example said, "We do expect double digit health care increases as most Americans will now have insurance and providers try to absorb the 15% uninsured into a practice."

Both Caterpillar (CAT, [Fortune 500](#)) and Verizon believe the requirement to allow dependents to remain on their parents' policies until age 26 will prove costly. Caterpillar puts the added expense at \$20 million a year.

#### **How two new taxes and the employer penalty change the health care calculus**

First, there is the "Cadillac Tax" on expensive plans. This is a 40% excise tax on policies that cost over \$8,500 for an individual or

\$23,000 for a family. Verizon's document predicts the tax will cost its employees \$255 million a year when it starts in 2018, and rise sharply from there. Hewitt also isn't sure that Verizon can pass on the full tax to its employees; so it could impose a heavy weight on the company as well. "Many [have] characterized this tax as a pass-through to the consumer," says the Verizon document. "However, there will be significant legal and bargaining risks to overcome for this to be the case for Verizon."

In a statement to Fortune, Verizon said it is not, "considering or even contemplating" the plans laid out in the report, though records show the company did send the report to its board shortly after the reform plan was passed by Congress.

Second, the bill imposes new taxes on drug manufacturers, medical device-makers, and health insurance providers. Hewitt leaves little doubt Verizon will be paying for them: "These provisions are fees or excise taxes that will be shifted to employers through increased fees and rates."

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An advertisement for Life Insurance. It features a white background with a faint, large, stylized 'L' in the background. The text 'Some things you've just got to see.' is centered in a green, serif font. Below this, the word 'LIFE' is written in large, bold, white capital letters inside a red rectangular box. To the left of the box, the words 'SEE IT HERE' are written in a small, black, sans-serif font. To the right of the box, '.com' is written in a small, black, sans-serif font.

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Caterpillar and AT&T actually spell out the cost differences: Caterpillar did its estimate in November, when the most likely legislation would have imposed an 8% payroll tax on companies that do not provide coverage. Even with that immense penalty, Caterpillar stated that it could shave \$25 million a year, or almost 10% from its bill. Now, because the \$2,000 is far lower than 8%, it could reduce its bill by over 70%, by Fortune's estimate. Caterpillar did not respond to a request for comment.

AT&T revealed that it spends \$2.4 billion a year on coverage for its almost 300,000 active employees, a number that would fall to \$600 million if AT&T stopped providing health care coverage and paid the penalty option instead. AT&T declined comment.

#### **So what happens to the employees who get dropped?**

And why didn't these big employers drop employee coverage a long time ago? The Congressional Budget Office, in its crucial cost estimates of the bill, projected that company plans will cover more employees ten years from now than today. The reason the bill doesn't add to the deficit, the CBO states, is that fewer than 25 million Americans will be collecting the subsidies the bill mandates in 2020.

Those subsidies are indeed big: families of four earning between \$22,000 and \$88,000 would pay between 2% and 9.5% of their incomes on premiums; the federal government would pay the rest. So policies for a family making \$66,000 would cost them just \$5,300 a year with the government picking up the difference: more than \$10,000 by most estimates.

As bean counters know, that's not a bad deal for a company's rank-and-file, and it's a great deal for the companies themselves. In a competitive labor market, the employers that shed their plans will need to give their employees a big raise, and those raises could be higher, even after taxes, than the premiums the employees will pay in the exchanges.

What does it mean for health care reform if the employer-sponsored regime collapses? By Fortune's reckoning, each person who's dropped would cost the government an average of around \$2,100 after deducting the extra taxes collected on their additional pay. So if 50% of people covered by company plans get dumped, federal health care costs will rise by \$160 billion a year in 2016, in addition to the \$93 billion in subsidies already forecast by the CBO. Of course, as we've seen throughout the health care reform process, it's impossible to know for certain what the unintended consequences of these actions will be.

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