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A Bipartisan Way to Lower Costs and Restore Health Care Rights

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President Biden's multi-trillion-dollar "Build Back Better" spending plan includes a proposal to radically expand health care. The President believes that his plan will make health care more affordable, but it's sparked a bitter partisan debate with Republicans that could leave the American people with no help or even worse off than before.

But there is another way—a *bipartisan* way—to make health care more accessible: Let health savings accounts restore the rights of workers to control their health care dollars and choose their health plan. This would solve another problem, too: the fact that for 100 years, Congress has violated Americans' health care rights by taxing workers who want to make their own health care decisions.

Employers who offer health insurance pay an average $16,000 toward the premium of each worker with family coverage. But economists of all political stripes agree that that $16,000 belongs to the worker; employers raise that money by reducing workers' wages. So long as workers let employers control that $16,000 and choose their health plan, Congress doesn't tax it.

But when workers demand that compensation as cash so they can control it and choose their health plan, Congress penalizes them by taxing away an average $4,300 of it. Most workers therefore let an employer control a much larger share of their earnings and control their health plan.

Economists also agree this tax makes health care less affordable. Though workers bear 100 percent of the cost of their health coverage, it feels like they are spending someone else's money. Insulating workers from the costs of health insurance and medical care makes them demand more of both, which increases prices for both. The favorable tax treatment health insurance and medical care receive relative to other uses of income further increases prices.

Taking health care rights seriously requires eliminating this tax. Doing so would be transformative.

Employer payments for health insurance comprise more than a quarter of the $4 trillion Americans spend on health care each year. Eliminating this tax would return $1 trillion each year to the workers who earned it. It would equal the largest effective tax cut Americans have ever seen. Wages would rise an average of $16,000 for workers with family coverage and $6,000 for workers with self-only coverage.

Workers could use that money to choose any health plan they wish, without penalty. They could remain in their employer's plan—or choose a plan that doesn't automatically disappear when they lose their job, divorce, or retire.

Best of all, health care would become more affordable. When patients get to keep the savings, they make providers compete on price. Cost-conscious patients made high-priced California hospitals cut prices for hip and knee replacements by 37 percent (coincidentally, $16,000 per procedure).

A new Cato Institute/YouGov poll of 2,000 adults shows Americans still don't fathom how much this tax violates their health care rights. Half (49 percent) didn't know employers fund employee health coverage by reducing wages; a third (36 percent) incorrectly believed employers reduce company profits or executive compensation. (Democrats do better on this question than Republicans: 56 percent vs. 46 percent.) And most don't understand how much of their income this tax denies them control of; three in four (77 percent) incorrectly believed employers pay less than $16,000 toward family coverage.

Congress can eliminate this harmful and unfair tax by building on a bipartisan success story.

Health savings accounts, or HSAs, are tax-free accounts that let workers control their health care dollars without penalty. Taxpayers with high-deductible health plans can put money in an HSA, then either save those funds or use them to pay out-of-pocket medical expenses, all tax-free.

Many are already taking advandage of HSAs; more than 31 million Americans have saved a combined $131 billion in HSAs. And HSAs became law with bipartisan support: Large majorities of Democrats (73 percent), Republicans (74 percent), and independents (65 percent) view HSAs favorably. Significant shares of each (16 percent, 14 percent, and 11 percent, respectively) report having one.

Unfortunately, Congress forces HSA holders into high-deductible plans. It also sets contribution limits too low. Given these restrictions, HSAs currently reclaim for workers only 4 percent of the $1 trillion Congress coerces them into letting their employers control.

Large majorities of Democrats, Republicans, and independents (76 percent, 80 percent, and 72 percent) support letting workers put all $16,000 in an HSA tax-free. And among low-income households, 78 percent favor the idea.

To make it happen, Congress need only let workers put all $16,000 in an HSA and use those funds to purchase any kind of health plan, tax-free. Congress can do so without increasing taxes or the deficit.

HSAs offer an opportunity to improve health care without partisan sniping. Both parties should seize it.

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