National Business Group on Health

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Creative Health Benefits Solutions for Today, Strong Policy for Tomorrow

Change in Tax Policy Needed Now to Promote Health, Wellness

Issue: Currently the tax code treats expenses for medical care and treatment of disease favorably but does not do so for expenses to maintain health and prevent disease. Specifically, the current tax treatment of wellness, fitness, health promotion, nutrition, and weight management programs poses a disincentive for employees to participate in employer-sponsored wellness programs and an administrative barrier for employers to offer them. While employers may deduct what they pay for employee wellness as business expenses under current tax law, generally employees must report the value of employer contributions for this purpose as income subject to taxation. Also under current tax law, employees can not use pre-tax dollars to pay for these programs. Only employees whose doctors require participation in wellness programs and activities as part of treatment for medical conditions—including medical obesity—can exclude them from taxable income and use pre-tax dollars to pay for their share of expenses.

Furthermore, the complicated tax requirements make it difficult for employers to pay for health and wellness programs for employees. Employers must determine which employees can exclude employer contributions and which employees must report them as taxable income, raising health information privacy issues along with the extra administrative burden, both of which reduce the number of employers offering and employees participating in wellness programs.

Recently, the Patient Protection and Affordable Care Act (Affordable Care Act) increased the incentives allowed under the voluntary wellness program exceptions to the Health Insurance Portability and Accountability Act's (HIPAA) nondiscrimination rules from 20% to 30% of total plan coverage costs, beginning in 2014.

Position: The National Business Group on Health, representing approximately 300 large employers who provide coverage for over 55 million Americans, believes that extending favorable tax treatment for employer contributions for employee health and wellness programs would remove a major barrier to more widespread adoption of these programs by employers and greater participation by employees and lead to a healthier America.

A change in tax policy is essential to reduce obesity and improve employee wellness:

- The IRS definition of "qualified medical expenses" under Section 213(d) should be expanded to include "expenses primarily to maintain health and wellness, including but not limited expenses for exercise, fitness, weight management and nutritional counseling."

Why the Tax Code Must Promote Wellness Now

America's Obesity Epidemic Continues Unabated

- In the past quarter century, adult obesity has doubled in the United States and childhood obesity has tripled. The Centers for Disease Control and Prevention (CDC) reported in 2007 that more than a third of U.S. adults, over 72 million people, were obese (Ogden, et. al., 2007).

As Obesity Rates Have Climbed, So Have Rates of Associated Health Conditions

- Overweight and obesity associated prevalence of 11 chronic conditions grew 180% from 1997-2005 (8 Years) (Thorpe, et. al., for the National Business Group on Health, 2009).
- The number of working-age adults who report being diagnosed with at least 1 of 7 major chronic conditions (heart disease, hypertension, stroke, diabetes, emphysema, asthma, and cancer) has grown 25% since 1997 to nearly 58 million by 2006 (Hoffman, et. al., 2008).
- CDC reports that more than 133 million Americans—45% of the total population—have at least one chronic disease. Chronic diseases kill more than 1.7 million Americans yearly, and account a third of years of potential life lost before age 65 (CDC, 2005).

Obesity Has Played a Major Role in Rising Health Care Costs

- Average per capita health spending increased by 40% from 1997 to 2005, but the average for the 15 costliest conditions—all associated in some way with obesity—jumped 55% (Thorpe et. al., for the National Business Group on Health, 2009).
- Overall, obesity accounts for 27% of the increase in inflation-adjusted health expenditures among working age adults. Inflation adjusted medical spending for working age adults increased by nearly 70% from 1997 to 2005, growing from $316 million to $526 million (Thorpe et. al., for the National Business Group on Health, 2009).
- If the prevalence of obesity were the same today as in 1987, health care spending in the U.S. would be 10% lower per person, or about ***$200 billion less each year*** (Thorpe et. al., for the National Business Group on Health, 2009).

Wellness and Prevention Programs Work

- The World Health Organization estimates that at least 80% of all cases of heart disease, stroke, and type 2 diabetes and up to 40% of cancers could be prevented if people ate healthier, exercised, and stopped using tobacco (WHO, 2005).
- An authoritative review of more than 50 studies of worksite primary prevention and care management programs concluded that they reduced tobacco use, dietary fat consumption, high blood pressure and total cholesterol levels and days if work lost while also increasing productivity (Goetzel, et. al., 2008).