

*Notice 2015-16*

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May 15, 2015

Internal Revenue Service  
Room 5203  
P.O. Box 7604  
Ben Franklin Station  
Washington, D.C. 20044

RE: Notice 2015-16, Public Comments relating to Excise Tax on High-Cost Employer-Sponsored Health Coverage

To Whom It May Concern,

Quad/Graphics, Inc. and QuadMed respectfully submit these comments in response to Notice 2015-16. They are intended to inform the process of developing regulatory guidance with respect to the excise tax on high cost employer-sponsored health coverage (a.k.a the "Cadillac Tax").

As has been well documented, the clearly stated goal of the Affordable Care Act is to ensure that all Americans have access to high quality and affordable health care. In order to accomplish this goal, direct primary care must be the focus of our healthcare system and the most efficient and effective delivery system for high-quality primary care is through a workplace onsite clinic. Today's onsite clinics are not for the exclusive use by the company executives with high-priced concierge service. Instead, they are designed to serve the entire employee population with extraordinary results that result in healthier employees and families, along with reduced costs. The cost reductions are not the result of cutting benefits or shifting costs to employees (Quad/Graphics pays 83% of the employee premium) but rather by the result of a healthier employee base. Quad/Graphics spends more on primary care per patient than the average employer, but makes up the difference in lower costs for emergency department visits and hospitalizations. Lower costs and a much healthier employee is a win-win for everyone involved and ensures that the goals of the Affordable Care Act are achieved.

#### **BACKGROUND ON QUAD/GRAPHICS AND QUADMED**

Quad/Graphics is the second largest commercial printing company in the western hemisphere focusing on the printing of high quality magazines, catalogs, retail inserts, direct mail, in-store signage, packaging and books. In 1971, Harry Quadracci along with 11 original employees, one printing press and a borrowed stitcher founded the company. From those modest beginning the company is now headquartered in Sussex, Wisconsin and employs over 25,000 people worldwide. In the United States the company operates 57 facilities in 28 states and provides family supporting jobs for nearly 22,000 people. The company has annual revenues of approximately \$5 billion.



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By 1990, Harry Quadracci had become frustrated with the ever growing cost of healthcare and employee complaints about the poor quality of medical care they and their families were receiving. Harry's idea was to "cut out the middle man" by bringing medical care in-house and transforming Quad/Graphics from a purchaser of health insurance to an investor in employee health and productivity.

In 1991, at Quad/Graphics' plant in Pewaukee, Wisconsin, QuadMed was founded with a small onsite clinic. This would be the beginning of what has been a bold new approach of bringing nearly all primary healthcare in-house thereby eliminating excess costs and bureaucracy. As word of our success spread, other companies turned to QuadMed to create and manage their onsite clinics and deliver accessible, affordable and high-quality health care for their employees. Today, QuadMed provides workplace solutions on a national level to employers of all sizes. Our clinics provide medical, laboratory, pharmacy, fitness and rehabilitation services along with coordinated care through relationship with local hospitals, providers and specialists.

The IRS has asked a number of questions as part of the comment period. We will provide our perspectives on those questions:

**Should the value of coverage for on-site medical clinics providing more than de-minimis medical care be counted toward the excise tax?**

No. Including on-site medical clinics in the calculation for the "Cadillac Tax" works against the Institute for Healthcare Improvement's Triple Aim initiative. The Triple Aim Initiative seeks to increase the quality of care, improving the overall health of the patient population and lowering healthcare plan spending.

Specifically, the idea of limiting the tax preference for employer-sponsored health insurance as a means to reduce health care spending is fundamentally flawed. Basic economics dictates that if something is taxed, consumers will demand less of that item or service. That basic principle holds true for healthcare but in a perverse manner. By taxing on-site clinics the result will be fewer companies willing to invest in these clinics which in turn results in a less convenient delivery system for healthcare. The result of that is fewer employees will use the healthcare system. This may sound like a way to reduce costs but history tells us that by avoiding regular contact with one's primary care physician results in manageable healthcare issues going unchecked and becoming much harder to manage and expensive problems. In order to bend the curve of healthcare costs it is critical that pro-active management of patient health be the primary focus of our health care system. As our founder, Harry Quadracci, framed the objective: "We'll keep you well; and by the way, if you get sick, we'll take care of that, too." The point is clear, it is much more expensive and harmful to the patient and to the healthcare system overall to allow health issues to linger and become a chronic problem that reduces the quality of life for the patient.

The critical success factor is ensuring that care is oriented toward prevention and outcomes rather than volume-based production. The QuadMed model which includes on-site clinics with salaried physicians and nurses are not incentivized by the perverse incentive of fee-for service reimbursement which results in rushing through a patient visit because they are paid by the volume of patients they see each day. At a QuadMed clinic patient visits, which last 30 minutes or longer, enable physicians to address health prevention needs and promote the company's wellness programs which are focused on weight loss,

smoking cessation and early identification and control of diabetes, as well as risk factors for cardiovascular disease.

QuadMed's clinics physicians, nurses and other medical personnel are judged based on patient satisfaction and healthy outcomes. When you consider the following statistics, it is clear that the payoff is more than financial – investing in employee health and not simply being a payer of health care claims and premiums results in high quality healthcare, improves retention of employees and increases productivity.

Onsite medical clinic results for employee health are significant and must not be overlooked. As examples please consider the following:

- The ROI for Quad/Graphics' health care and wellness programs resulted in an overall savings in 2013 of over \$5.3 million and nearly \$3 million in 2014. These savings were directly attributed to the onsite clinic model.
- A significant number of diabetic patients in Quad/Graphics' workforce are participating in the "Well You for Diabetes" program. This program has reduced their hemoglobin A1c levels (a measure of blood glucose control) from 8 percent to 7.5 percent on average.
- As noted earlier, Quad/Graphics does spend more on primary care per patient than the average employer, but makes up the difference in lower costs for emergency department visits and hospitalizations.
  - Quad/Graphics' outpatient visit rate has traditionally been approximately 15 percent higher for employees and family members in Wisconsin compared with the Midwest norm, however, the increased visits to the family physician results in fewer emergency room visits and hospital admissions which Quad/Graphics' employees usage rates of these much more expensive healthcare services have been more than 9 percent lower.
- Between 2013 and 2014 the Quad/Graphics' onsite clinics increased by 18,000 the total number of services provided. Moreover, we have successfully reduced the cost per service by over \$12/service. These expanded service options provides additional benefits to Quad/Graphics employees and continue to invest in their overall health and well-being.

As employers across the country adjust their businesses to the new healthcare landscape it is critical that all available tools be at their disposal in order to provide the highest quality of care for their employees while helping to reduce the cost of healthcare. QuadMed's onsite clinics have also worked to the benefit of other major national employers. In addition to the results that Quad/Graphics has enjoyed due in large part to the effective utilization of onsite clinics, consider these "case studies" showing the results of our clients:

- A major manufacturer of outdoor power equipment (3,700 employees):
  - 15% increase in primary care visits from Q3 2012 to Q4 2012 – which was the result of superior patient experience and convenient access
  - 100% patient satisfaction on all metrics in 2012

- Total savings in 2012 was nearly \$200,000 (nearly \$140,000 above the expected savings)
- Savings drivers: increased direct primary care clinic utilization and reduced ER utilization
- A manufacturer of small engines and machines (2,000 employees):
  - Clinic objective – to improve diabetic population health and diabetic attributable healthcare expenditures.
    - Program Return on Investment = reduced per member per year annual spend by \$8,565
    - Medical claim savings + labor, supplies and diabetic medication savings = \$400,594 in 2011 and \$365,436 in 2012
- A National Financial Services Firm (8,900 members):
  - Clinic objective – create a culture of healthcare consumerism
    - Over 6,000 primary care visits in year 1
    - More than \$2.5 million in savings generated
    - Customer satisfaction composite score of 98%

As shown by the results of these examples, employers with on-site clinics view such clinics as a significant cost-control measure that results in a healthier employee base.

**Would excluding the value of coverage for on-site medical clinics providing more than de minimis medical care be an “end-run around” the excise tax?**

No. Employers’ motivation to invest in onsite medical clinics is to improve employee health which in turn will result in higher productivity in the workplace, lower healthcare costs and a happier workforce. Employers are not attempting to replace medical services that can be performed at local hospitals or other community healthcare facilities. Additionally, if the value of the onsite medical clinics were not taken into account for the “Cadillac Tax” this motivation would remain the same. In fact, given the proper market incentives more employers would offer direct primary care through onsite clinics which for all the reasons stated above will begin to “bend the cost curve” down and help to achieve the stated goals of the Affordable Care Act – namely to provide quality healthcare at an affordable cost.

**CONCLUSION:**

It is imperative to the success of the Affordable Care Act and for the health of our employees that direct primary care, delivered through onsite clinics, continue to be promoted. Onsite primary care clinics provide so much more than a “de minimis” value and by including the clinics in the “Cadillac Tax” the cost savings they offer will be lost to the tax and therefore unavailable to continue to invest in employee health. As a result, fewer employers will offer their employees these valuable clinics hurting population health and costs will continue to increase, thereby thwarting the goals of the Affordable Care Act.

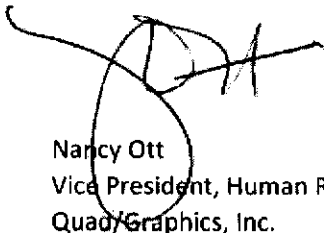
Furthermore, by tying the tax threshold to the CPI+1%, more and more plans will be subject to the tax even though they are by no means a “Cadillac” plan. According to the Congressional Budget Office, healthcare costs are expected to increase by an average of 5.6% annually over the next decade while inflation will increase 2% per year. Mercer, a benefits consulting firm conducted a survey in March 2015. The results of this survey showed that about one-third of all employers will be subject to the tax by 2018 and by 2022 almost 60% will be facing the tax. If these employers are denied the necessary

tools that onsite clinics provide, namely to control costs without sacrificing quality, they will undoubtedly react the only way they can – by reducing benefits or pushing additional costs onto employees through higher deductible plans. This will all be done in an effort to come in under the tax threshold but will do little to enhance the health of the employees.


The experiences of Quad/Graphics and other QuadMed clients shows clearly that on-site direct primary care clinics are an effective solution to the rising costs of healthcare while simultaneously improving healthcare outcomes.

Thank you for considering these comments. We greatly appreciate your attention to this matter and look forward to working with the Internal Revenue Service to ensure that the goals of the Affordable Care Act are achieved and that our employees continue to enjoy the quality healthcare that they have come to depend upon for themselves and their families.

Sincerely,



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Quad/Graphics, Inc.



Susan M. Buettner  
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Quad/Med, LLC