

Employer Provision of Health Insurance Under the Patient Protection and Affordable Care Act

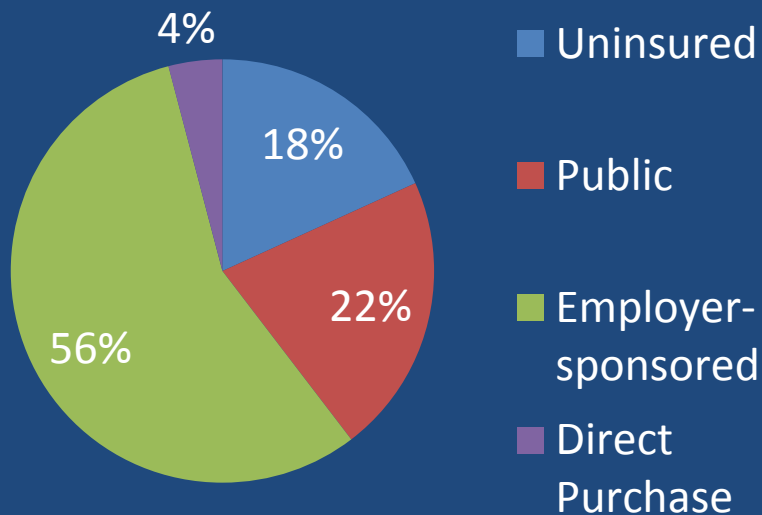
Jean Marie Abraham
University of Minnesota
October 25, 2013

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Key Motivations

- **High Rate of Uninsurance**

- 47 million non-elderly uninsured individuals in 2012



- **High Costs**

- \$2.9 trillion projected spending in 2013
- 17.8% of GDP
- Real health care spending growth exceeding overall economic growth
- Government share of total health care spending is almost 50% (CBO).

Rationale for Employer Role in Health Insurance Provision

- Preferential tax treatment of ESI premiums
 - \$260 billion tax subsidy in 2009 (Gruber, 2011)
- Economies of scale in provision through workplace
 - Loading fee ranges from 4% for large firms to 42% for smallest firms (Karaca-Mandic, Abraham, and Phelps, 2011)

“If you like your health care plan, you can keep your health care plan.”

President Barack Obama
August 11, 2009

Small
(< 50 workers)

Large
(50+ workers)

Number of
Establishments

5,121,268

1,668,613

Number of
Workers

30.6 million

80.5 million

% of Establishments
that Offer

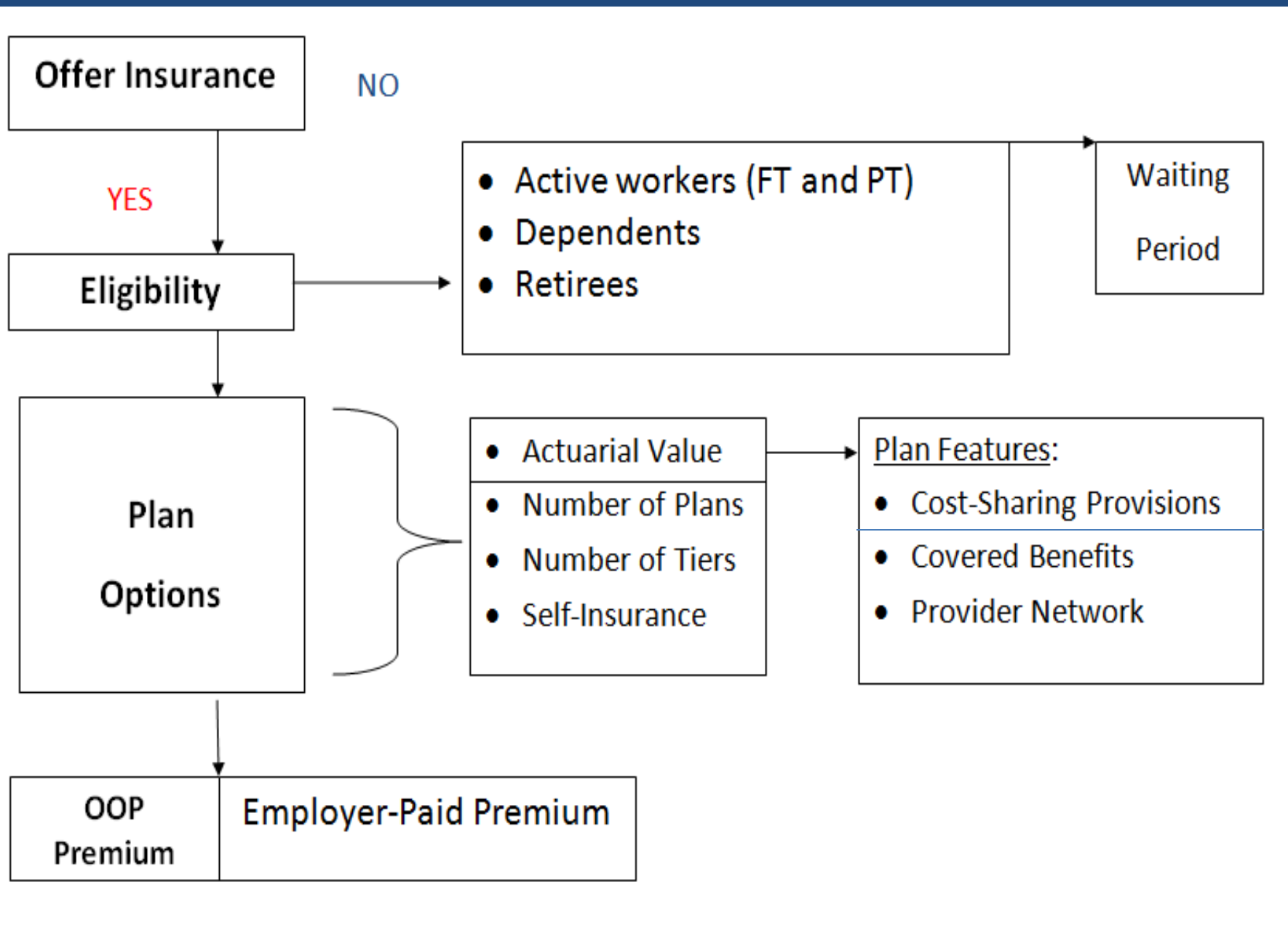
35.2%

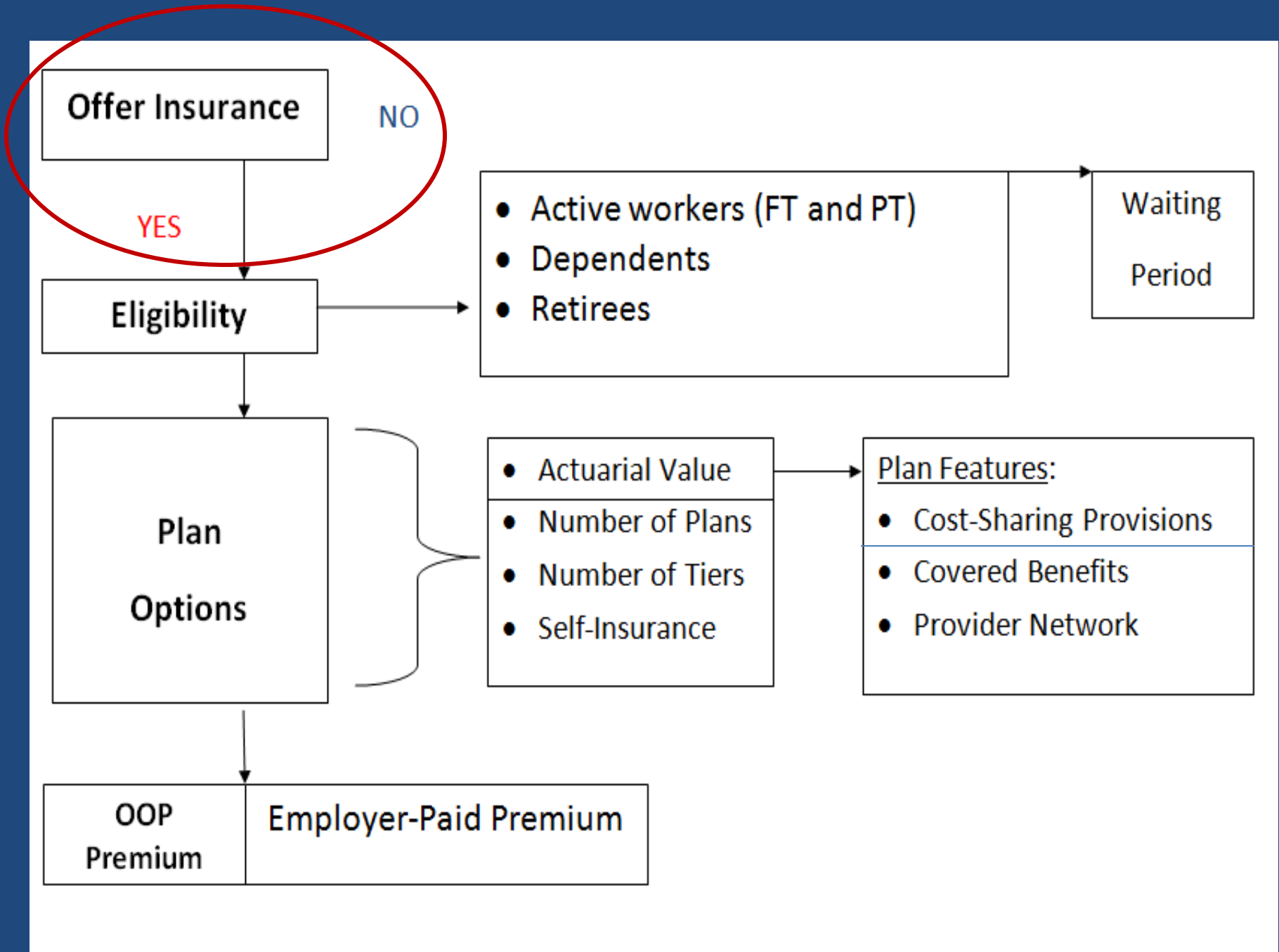
95.9%

% of Part-Time
Workers Eligible at
Establishments
Offering Coverage

23.4%

33.0%





Offer Insurance

NO

YES

Eligibility

- Active workers (FT and PT)
- Dependents
- Retirees

Waiting
Period

Plan
Options

- Actuarial Value
- Number of Plans
- Number of Tiers
- Self-Insurance

Plan Features:

- Cost-Sharing Provisions
- Covered Benefits
- Provider Network

OOP
Premium

Employer-Paid Premium

Assumptions

- Employer offers combination of wages and health insurance that minimizes its labor costs, subject to maintaining employees' utility at a level that keeps the establishment competitive in the labor market (Feldman and Dowd, 1987)
- Workers have preferences for wages vs. non-wage compensation (Goldstein & Pauly, 1976; Pauly, 1986)
 - Influenced by tax rates, family income, family size, age, gender, and other factors
- Workers are heterogeneous on these dimensions

Employer Shared Responsibility Requirement

(Delayed until 2015)

- Employers with at least 50 *full-time equivalent* employees that:
 - Do not offer ESI will pay \$2,000 per year per *full-time* employee in the firm (exempting the first 30) if any full-time employee obtains subsidized coverage in an exchange
 - Offer unaffordable ESI and have ≥ 1 full-time employee receive a premium tax credit will pay the *lesser* of \$3,000 per year per employee receiving a credit or \$2,000 for each full-time employee (exempting the first 30).
 - *Unaffordable* means employee share of premium for single coverage exceeds 9.5% of family income
- Full-time = 30 or more hours per week
- Special rules for seasonal and temporary workers

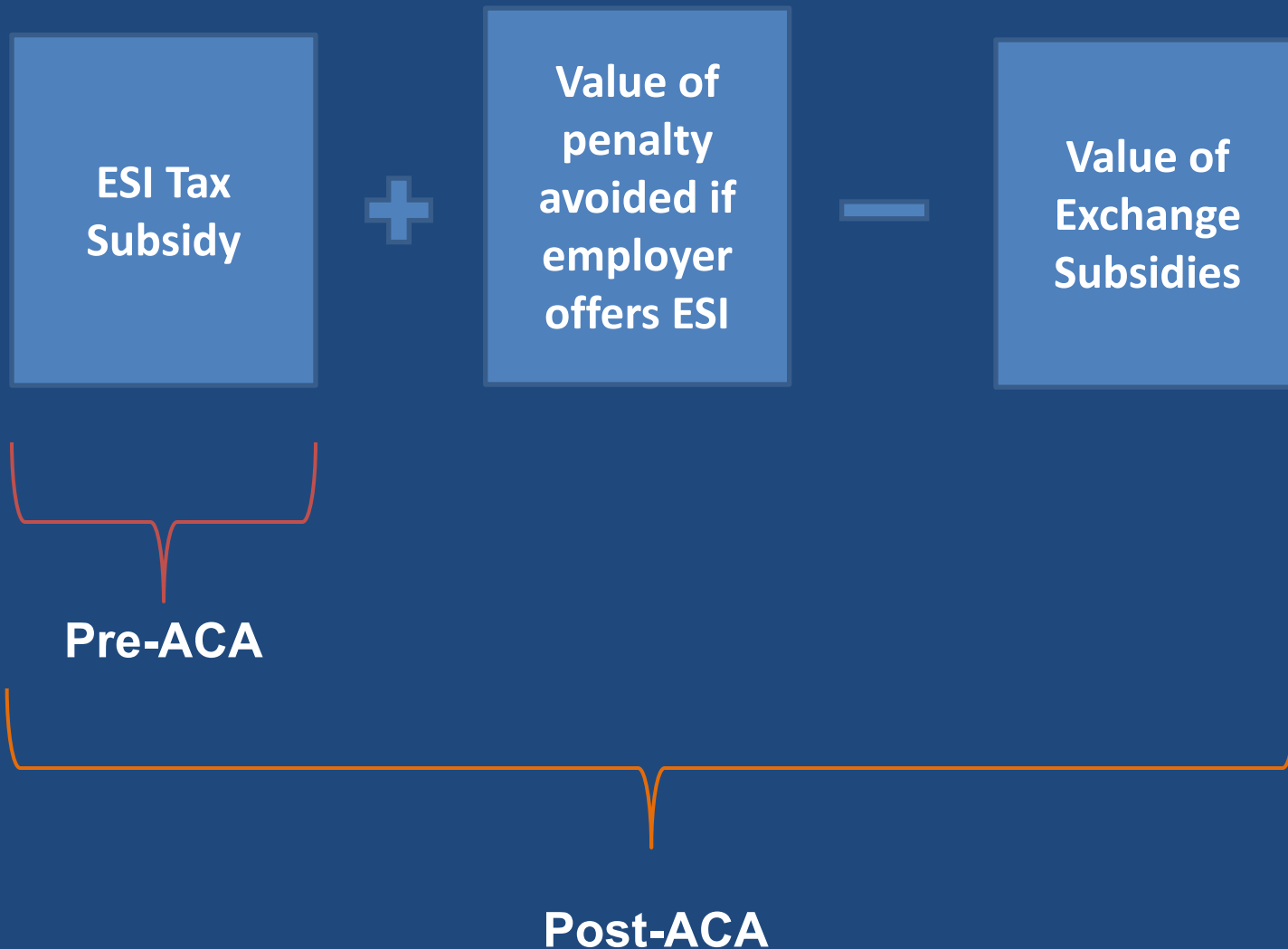
Subsidized Exchange-based Private Insurance

U.S. citizens or lawfully-present individuals with family incomes of 100-400% FPL without an offer of affordable ESI can qualify for premium tax credits.

Annual Household Income		Expected Premium Contribution	
% of FPL	Income for Single Person	% of Income	Approximate Dollar Amount
138-150%	\$15,856-\$17,235	2-4	\$317-\$689
150-200%	\$17,235-\$22,980	4-6.3	\$689-\$919
200-250%	\$22,980-\$28,725	6.3-8.05	\$919-\$2312
250-300%	\$28,725-\$34,470	8.05-9.5	\$2,312-\$3,275
300-400%	\$34,470-\$45,960	9.5	\$3,275-\$4,366
> 400%	>\$45,960	n/a	n/a

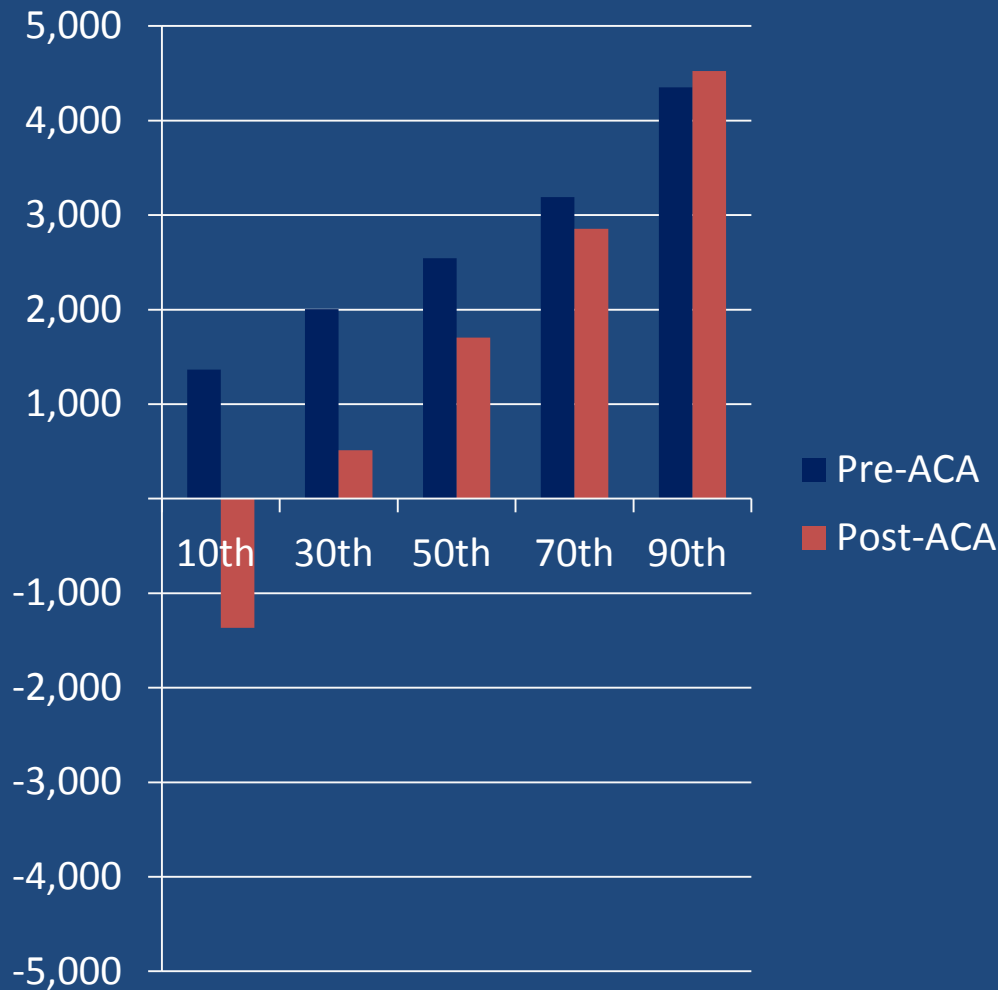
Notes: 1. Based on 2013 FPL thresholds; 2. Based on second lowest cost average silver plan premium estimated by ASPE in July 2013 (\$4,704).

Net Advantage of Offering ESI

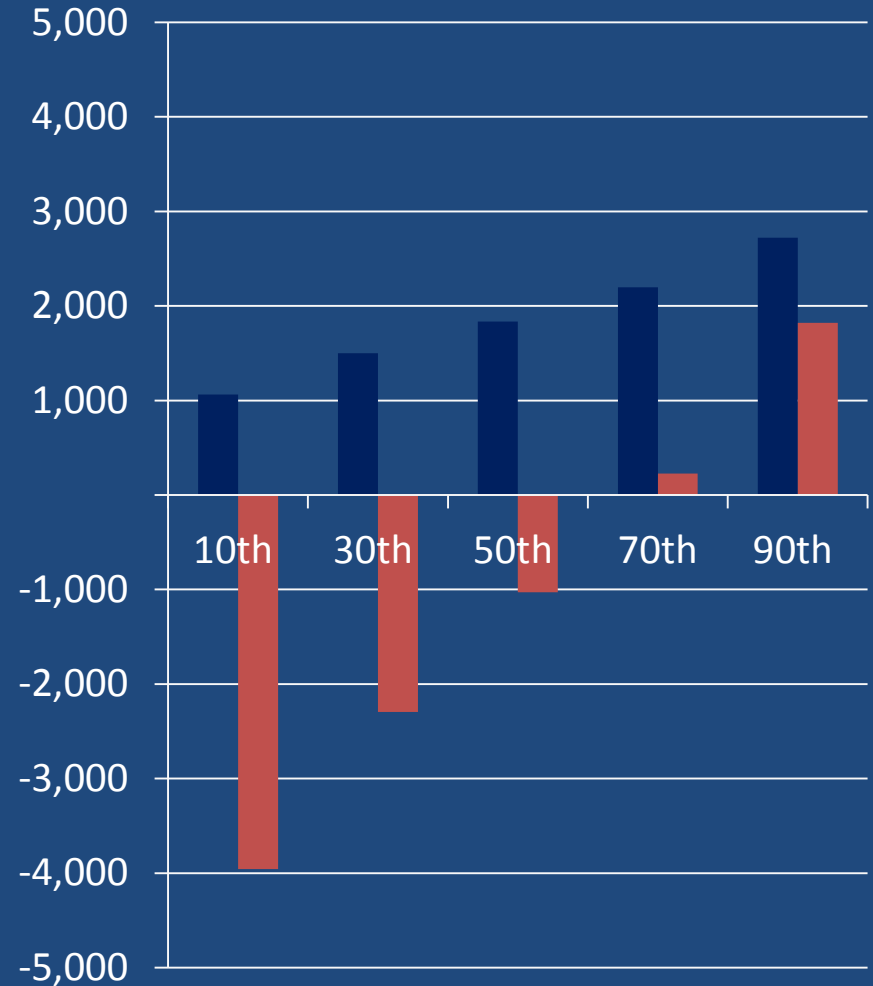


Overall Distribution of Net Advantage (\$2014)

Establishments that Offer ESI



Establishments that Do Not Offer ESI

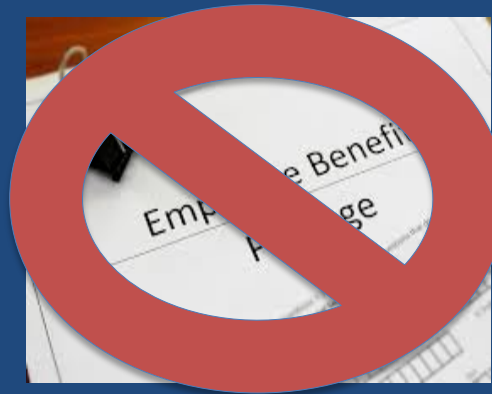


Changing Set of Options

Now



Employer
Sponsored
Insurance
Offer



No
Employer
Sponsored
Insurance
Offer

New in 2014



Individual
Exchange
option

Employer Offer Analysis

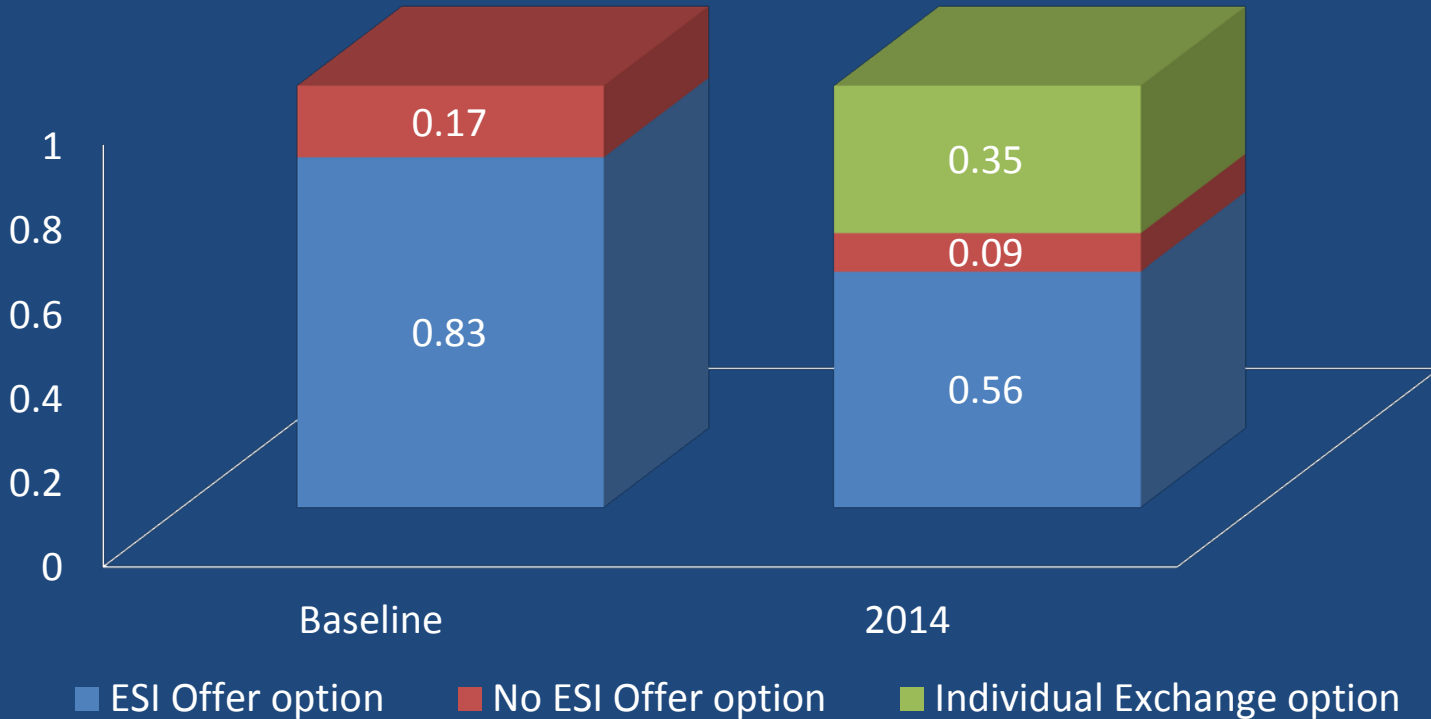
(Abraham, Feldman, and Graven, 2013)

- Estimate multivariate model of an establishment's decision to offer insurance using the MEPS-IC augmented with workforce attributes from the MEPS-HC
 - Key explanatory variable: Tax-Price
- Modify tax-price to incorporate changing economic incentives/disincentives
- Simulate changes in ESI offer probability given changing set of options

Economic Incentives & Disincentives of Offering Insurance Post-ACA

- Value of the ESI tax subsidy
- Employer shared responsibility requirement
- Value of Exchange subsidies to lower-income workers if the employer doesn't offer coverage
- Value of avoiding the individual mandate tax penalty
 - Tax penalty is the greater of \$695 per year up to 3 times that amount for a family or 2.5% of household income
 - Can be achieved through other sources
- Loading fee differences between employer and individual markets
- Wage pass-back if stop offering insurance

Preliminary Simulation Results



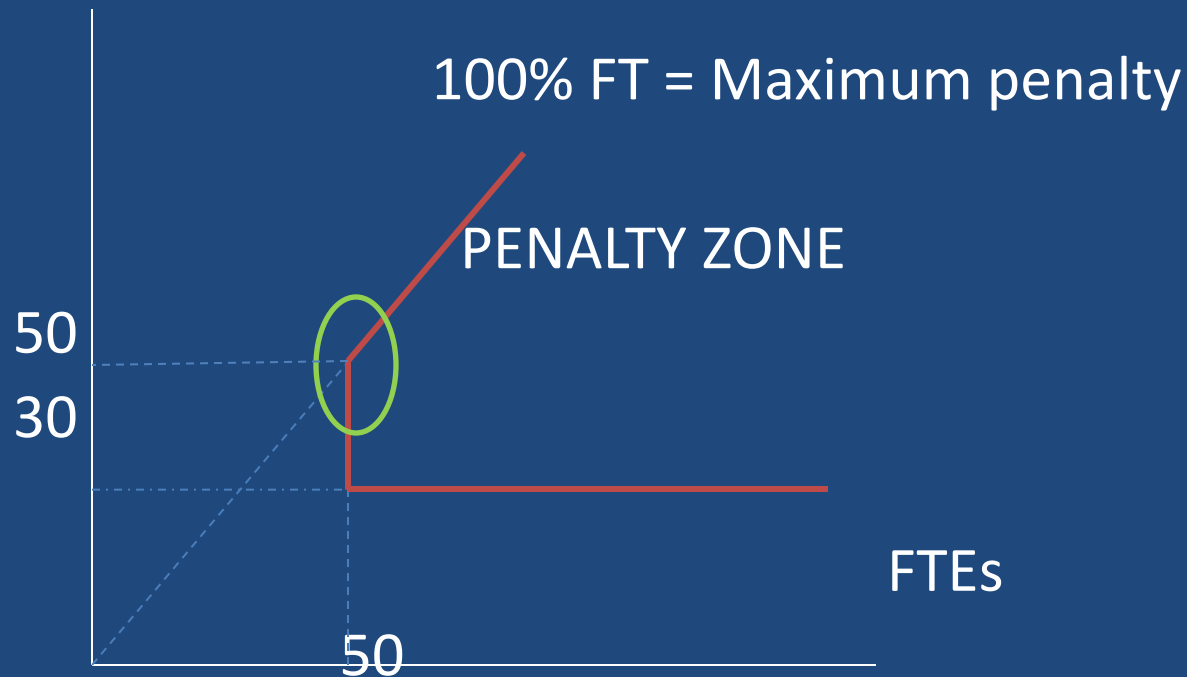
In 2010, 108 million private-sector workers. About 29 million fewer workers in establishments with ESI offers and 37 million workers in exchanges as individuals.

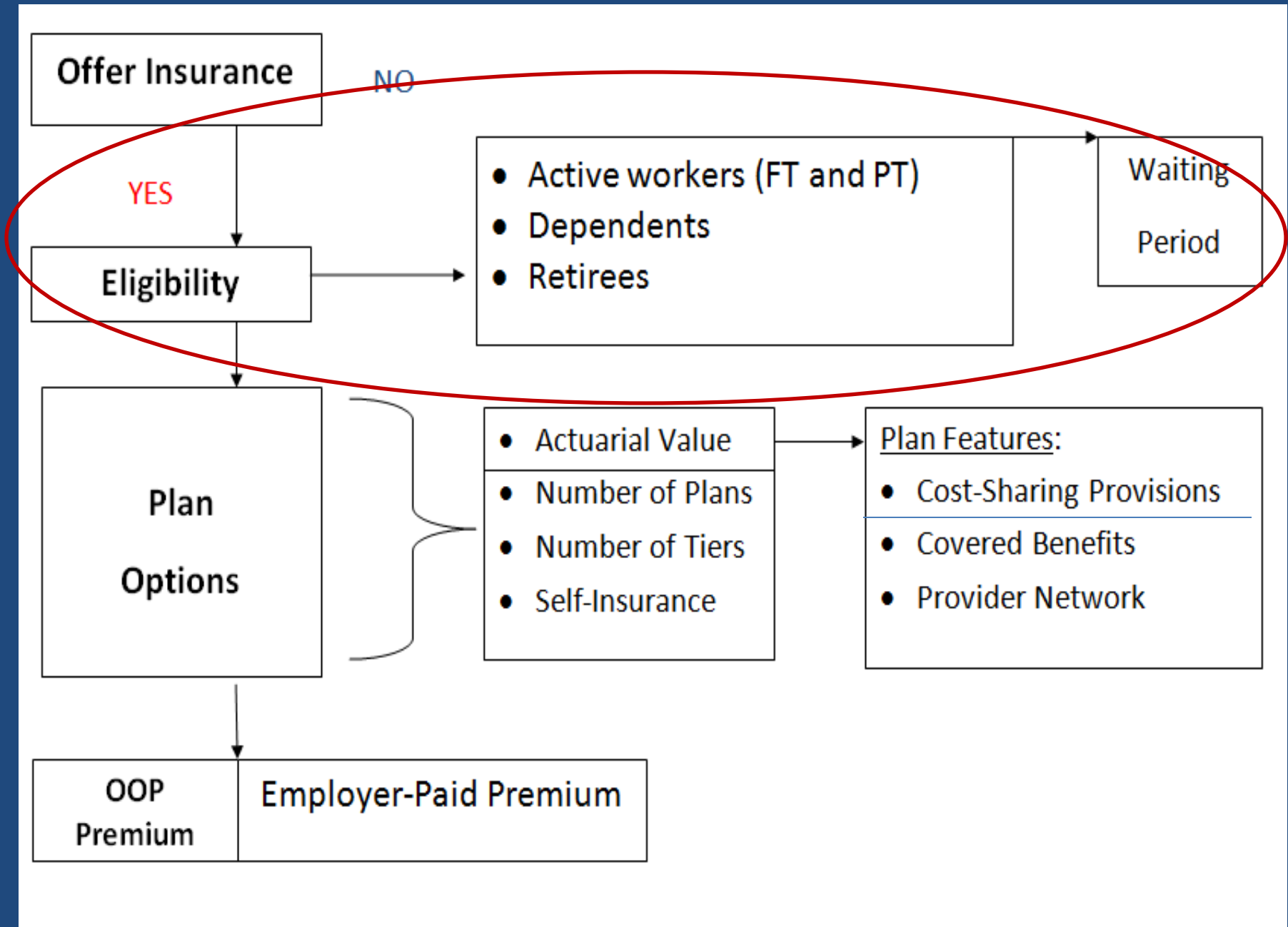
Labor Market and Firm Outcomes

- How will job structures change?
 - Hire part-time workers
 - Employer penalty only applies to full-time workers
 - Hire contract workers
 - Contract workers are not considered to be employees.
 - The IRS may audit the company to ensure that its use of contract workers is proper.
- Will the firm size distribution change?
 - Hitting 50 FTE workers “triggers” the employer shared responsibility requirement

How Might Firms Restructure?

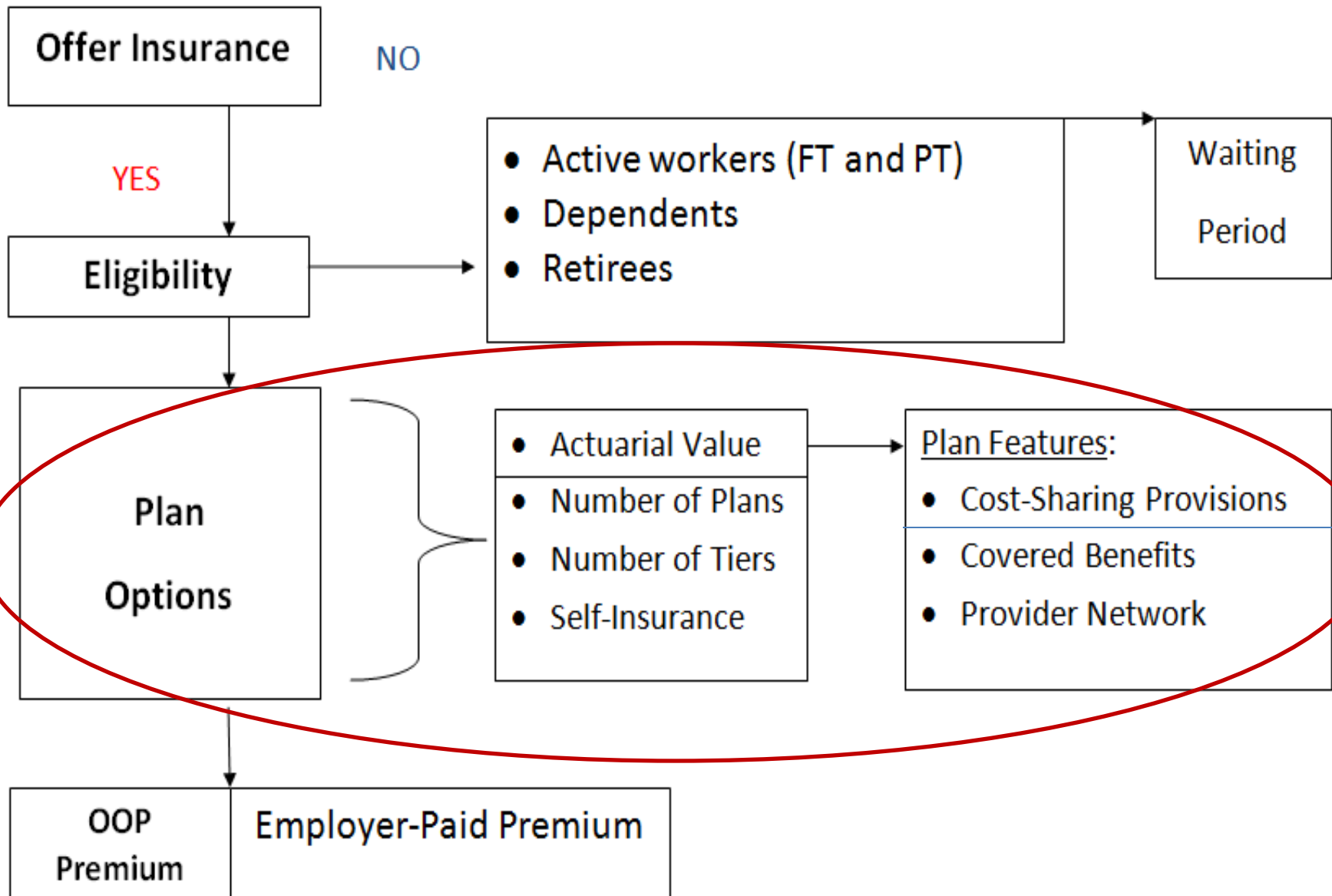
Full-Time Workers





Eligibility & Enrollment

- Active Workers
 - Full-time
 - Part-time
 - 34% of part-time employees are eligible at establishments that offer insurance in 2011
- Dependents of active workers
 - Adult dependents up to age 26 (2010)
 - Spouses can be excluded as “dependents” for family coverage (2014)
- Retirees
 - <65 years of age
 - 65 and older



Plan Options

- Minimum Essential Coverage (2014)
 - Actuarial Value (AV)
 - Percentage of expected health care costs a health plan will cover for a standard population
 - Establishes a 60% minimum AV (2014)

EXHIBIT 2

Actuarial Value By Source Of Coverage, Plan Type, And Level Of Total Spending Among Nonelderly Adults, 2007

	Individual	Size of employer		
		Under 50	50 or more	Total group
All plans	0.66	0.80**	0.80**	0.80**
PPO/POS	0.64	0.79**	0.79**	0.79**
HMO	0.78	0.88**	0.88**	0.88**
CDHP	0.61	0.68**	0.67**	0.67**
Level of total spending				
Top 10% (\$7,912 or more)	0.76	0.86**	0.85**	0.86**
Top 25% (\$2,938 or more)	0.70	0.83**	0.83**	0.83**
Top 50% (\$810 or more)	0.67	0.81**	0.81**	0.81**
Bottom 50% (below \$810)	0.46	0.64**	0.62**	0.62**

SOURCES Actuarial values estimated by Watson-Wyatt Worldwide using plan provisions reported in 2007 KFF/HRET Health Benefits Survey and authors' ten-state survey of individual insurance plans. **NOTES** Employers make account contributions in 77 percent of the group consumer-directed health plans (CDHPs), and these contributions average \$879. Counting these contributions as an offset to enrollee out-of-pocket expense would raise the average actuarial value from 67 percent to 91 percent for those employees receiving an employer contribution. Statistical significance denotes difference from individual insurance estimate. PPO is preferred provider organization. POS is point-of-service plan. HMO is health maintenance organization. **p < 0.05

ACA Effects on Benefit Design and Pricing for Non-Grandfathered Plans

Provision	Small Group	Large Group	Self-Insured
No lifetime or annual limits	★	★	★
Out-of-pocket maximums (\$6400 singles; \$12,800 for family coverage)	★	★	★
MLR regulation	★	★	
Premium rate review	★		
Essential benefits package	★		
Modified community rating	★		

Premium Rating Reforms

- Modified community rating
 - Age
 - No more than 3:1 variation
 - Each member in family rated separately
 - Family composition
 - Total premium for family is sum of premiums for each family member
 - Tobacco status (1.5:1)
 - Geography

 BlueCross BlueShield of Illinois An Independent Licensee of the Blue Cross and Blue Shield Association		 Blue Advantage HMO	
Subscriber		www.bcbsil.com	
Participant's Name		Group No.	
Identification No.	Office Visit	\$10	
Medical Group Number & Name	Specialist Copay	\$10	
375 HEALTH PLUS INC	Emergency	\$50	
(309)689-8617 01-01-03	Benefit Plan: BLADY		
WPHCP	Plan Codes: 621/121		
375 HEALTH PLUS INC			
(309)689-8617 01-01-03			
APCS - before 01/01/05 BIR: 004336 PCN: ILDR			
PRIME - 01/01/05 and after BIR: 011552 PCN: ILDR			
UNITEDhealthcare®		United HealthCare	
C D. SAPP		Select Plus POS	
Member # 267-78-4976		with RX D - UHC	
RAYTHEON COMPANY		PCP: E.MULLINS	
Group # 201057		317-738-8768	
COPAY: Office Visit \$15 ER \$50		Raytheon	
Urgent Care Center \$15			
Electronic Claims Payer ID 57624		MTH	
Call toll-free 800-497-0051 for Member Services			
Call 877-254-7694 for Employee Assistance Program			
 BlueCross BlueShield of Kansas City An Independent Licensee of the Blue Cross Blue Shield Association		 Preferred-Care Blue www.bcbskc.com	
HOSPITAL ADMISSIONS REQUIRE PRIOR APPROVAL			
JOHN A DOE			
YBC999999999 99			
GROUP: 27255000001		75.00 EMER ROOM	
		20.00 OFFICE VISIT	
BCBSKC RX	1-800-228-1436	Preferred-Care	
BC PLAN: 240 BS PLAN: 740			
CUST SERV: 816-232-8396/800-822-2583			

The Cadillac Tax in 2018

- In 2018, the ACA will levy a 40% tax on premiums above \$10,200 for a single-coverage policy and \$27,500 for a family-coverage policy.
 - Incorporates premiums, employer contributions to HSAs/HRAs/MSAs and Flexible Spending Arrangements
 - Thresholds increase at rate of Consumer Price Index.
- CBO and JCT assumed employers will continue to offer coverage but will cut back to the caps
 - Raise revenue by making more of workers' compensation taxable assuming wage pass-back
 - \$80 billion over 10 years

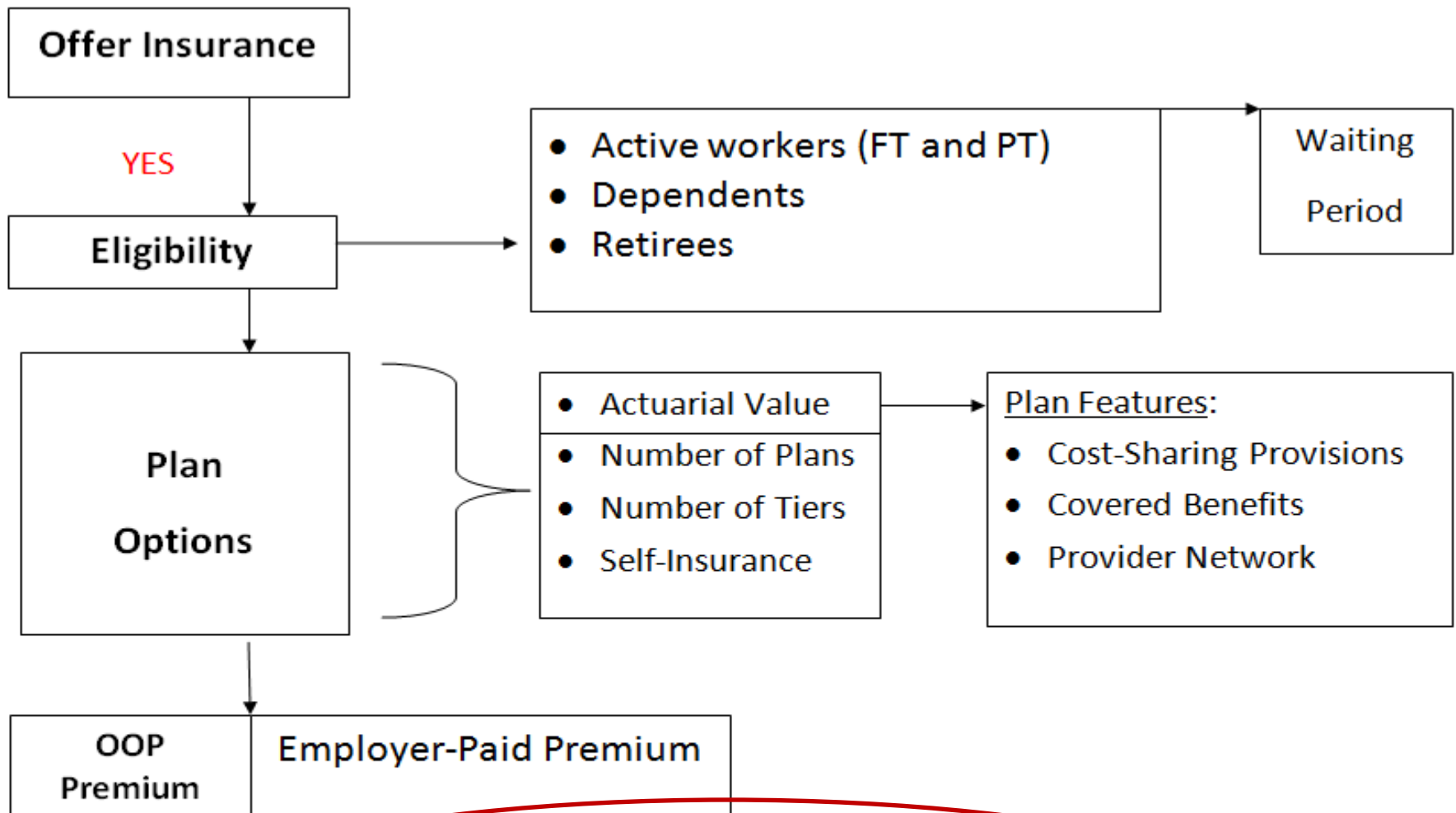
Cadillac Tax Responses

What Employers Can Do

- Eliminate or reduce FSAs
- Reduce the number of family tiers
- Drop pre-Medicare retirees
- Reduce plan costs
 - Increase copays and deductibles – subject to constraints
 - Narrow networks/ACOs

What Employers Can't Do

- Shift premiums
- Drop coverage of 'essential' benefits
- Impose higher cost-sharing for mental health or any cost-sharing for preventive care



SHOP Exchanges

- SHOP Exchanges

- Open in 2014 but delayed for federally-facilitated exchanges and some states
- Small employers (<50 FTE workers) may purchase coverage in an Exchange
 - Size threshold increases to 100 in 2016
- Preferential tax treatment of contributions
- Open enrollment and special enrollment periods
- “Group participation” rules expected to apply in most states
- Market rules apply both inside SHOP exchanges and outside
- Risk pool combined with Exchange for insurers operating in both
- 4 million expected enrollment (CBO, May 2013)

To SHOP or to Stay Outside

- Outside
 - Self-insured
 - Grandfathered plans
 - May be able to purchase benefit designs distinct from what is offered in the Exchange
- SHOP Exchange
 - Potentially greater choice for employees
 - At full implementation, workers will have plan choice
 - Facilitates shift toward ‘defined contribution’ health benefits
 - Small firm tax credit for low-wage employers

Private insurance exchanges: innovation that addresses one of the major drawbacks of small employer coverage -- limited choice.

Concluding Remarks

- ACA provisions fundamentally change incentives of small and large employers
 - Whether or not they offer insurance
 - To whom they offer insurance
 - The plans they offer and generosity of coverage
 - If a small employer, the market in which to shop
- Observing incremental changes, but anticipate potentially bigger effects
 - Exchanges are fully operational
 - Employers fully understand the “new rules of the game” in coming years

Supplemental

Context

- These results are larger than most employer surveys (McKinsey, Deloitte, Mercer)
 - 9-30% of employers will “stop offering” coverage
- Larger than micro-simulation models
 - CBO (March 2012): 5 million fewer individuals with ESI in 2019
 - Gruber: 3 million fewer individuals by 2019
 - Lewin: Net reduction of 3-17 million if implemented in 2011
 - Urban: ESI coverage would fall very slightly (500K)
 - RAND: ESI coverage increases 2016

Grandfathered Status

(March 2010)

- Can't eliminate or substantially eliminate benefits for a condition
- Increase cost-sharing percentages
- Increase co-pays by $> \$5$ or % equal to medical inflation (9.5%) plus 15%, whichever is greater
- Raise fixed amount cost-sharing by more than medical inflation + 15% (deductibles)
- Lower employer contribution by more than 5% for any group of covered persons

Essential Health Benefits

- Ambulatory patient services
- Emergency services
- Hospitalization
- Maternity and newborn care
- Mental health and substance use disorder services,
- Prescription drugs
- Rehabilitative and habilitative services and devices
- Laboratory services
- Preventive and wellness services and chronic disease management
- Pediatric services including oral and vision care

Premiums

- Small firm business tax credit (2014)
 - 25 or fewer workers & average annual wages <\$50,000
 - Tax credit of up to 50% of employer contribution
 - Two year time limit
 - Available only in Exchanges