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

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Disclaimer: Any opinions and conclusions expressed herein are those of the author(s) and do not necessarily represent the views of the U.S. Census Bureau. All results have been reviewed to ensure that no confidential information is disclosed.
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).

Source: Abraham, Karaca-Mandic, Boudreaux, 2013.
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
<table>
<thead>
<tr>
<th></th>
<th>Small</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Establishments</td>
<td>5,121,268</td>
<td>1,668,613</td>
</tr>
<tr>
<td>Number of Workers</td>
<td>30.6 million</td>
<td>80.5 million</td>
</tr>
<tr>
<td>% of Establishments that Offer</td>
<td>35.2%</td>
<td>95.9%</td>
</tr>
<tr>
<td>% of Part-Time Workers Eligible at Establishments Offering Coverage</td>
<td>23.4%</td>
<td>33.0%</td>
</tr>
</tbody>
</table>

Source: 2012 MEPS-IC
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.

<table>
<thead>
<tr>
<th>Annual Household Income</th>
<th>Expected Premium Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of FPL</td>
<td>Income for Single Person</td>
</tr>
<tr>
<td>138-150%</td>
<td>$15,856-$17,235</td>
</tr>
<tr>
<td>150-200%</td>
<td>$17,235-$22,980</td>
</tr>
<tr>
<td>200-250%</td>
<td>$22,980-$28,725</td>
</tr>
<tr>
<td>250-300%</td>
<td>$28,725-$34,470</td>
</tr>
<tr>
<td>300-400%</td>
<td>$34,470-$45,960</td>
</tr>
<tr>
<td>&gt; 400%</td>
<td>&gt;$45,960</td>
</tr>
</tbody>
</table>

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

ESI Tax Subsidy + Value of penalty avoided if employer offers ESI - Value of Exchange Subsidies

Pre-ACA → Post-ACA

Abraham, Feldman, Graven, 2012
Overall Distribution of Net Advantage ($2014)

Establishments that Offer ESI

Establishments that Do Not Offer ESI

10th 30th 50th 70th 90th

Pre-ACA Post-ACA

10th 30th 50th 70th 90th
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
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

100% FT = Maximum penalty

PENALTY ZONE

FTEs

50

30

50

50
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)

McDevitt et al., Health Affairs, 2010.
### ACA Effects on Benefit Design and Pricing for Non-Grandfathered Plans

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