Chapter 4: The Employer Rold in U.S. Health Care

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Chapter 1

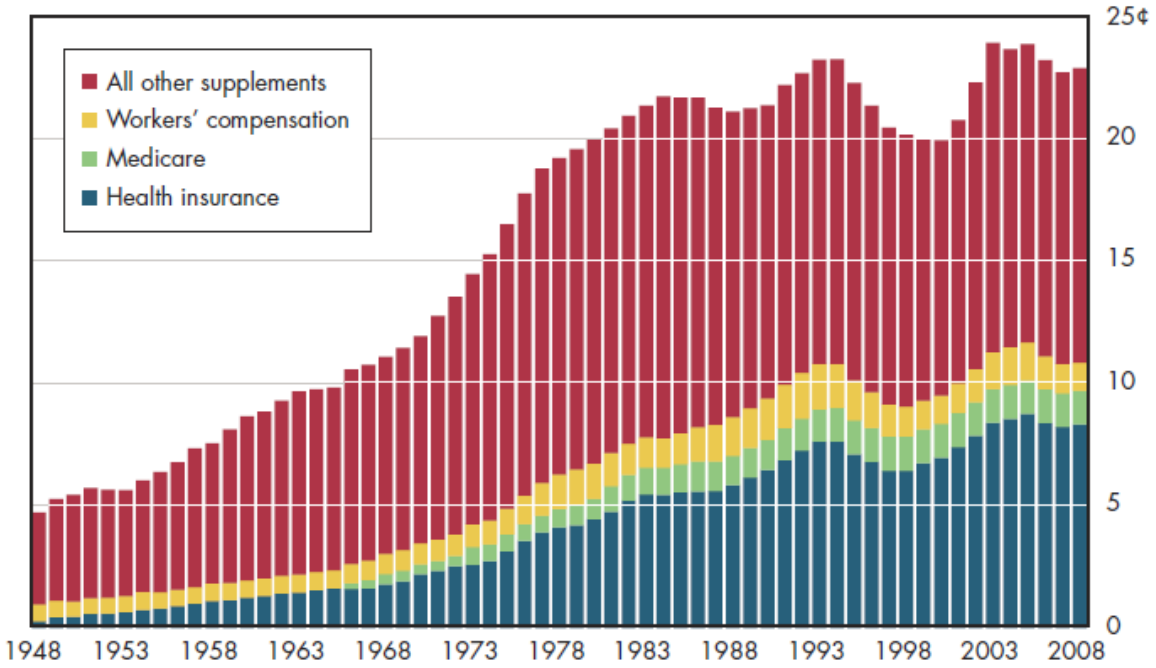
4.1: Health-Related Employer Contributions Accounted for a Growing Share of Worker Compensation[1]

Over the past 60 years, the amount of employee compensation for wage and salary supplements has more than quadrupled (figure 4.1a). The average worker now receives approximately 23 cents in such employer-paid supplements for every dollar of wages and salaries. This growth has been variable, including brief periods in which wages and salaries grew faster than supplements. A relatively small amount of this increase relates to government-required health-related supplements—including payroll taxes for Medicare and workers' compensation (which pays for job-related injuries or illness).

[1]This content is available online at <https://hub.mili.csom.umn.edu/content/m10024/1.1/>.

4.1a Over 60 years, both health and non-health supplements to wages and salaries have grown dramatically relative to worker pay

Employer contributions per dollar of wages and salaries (cents)



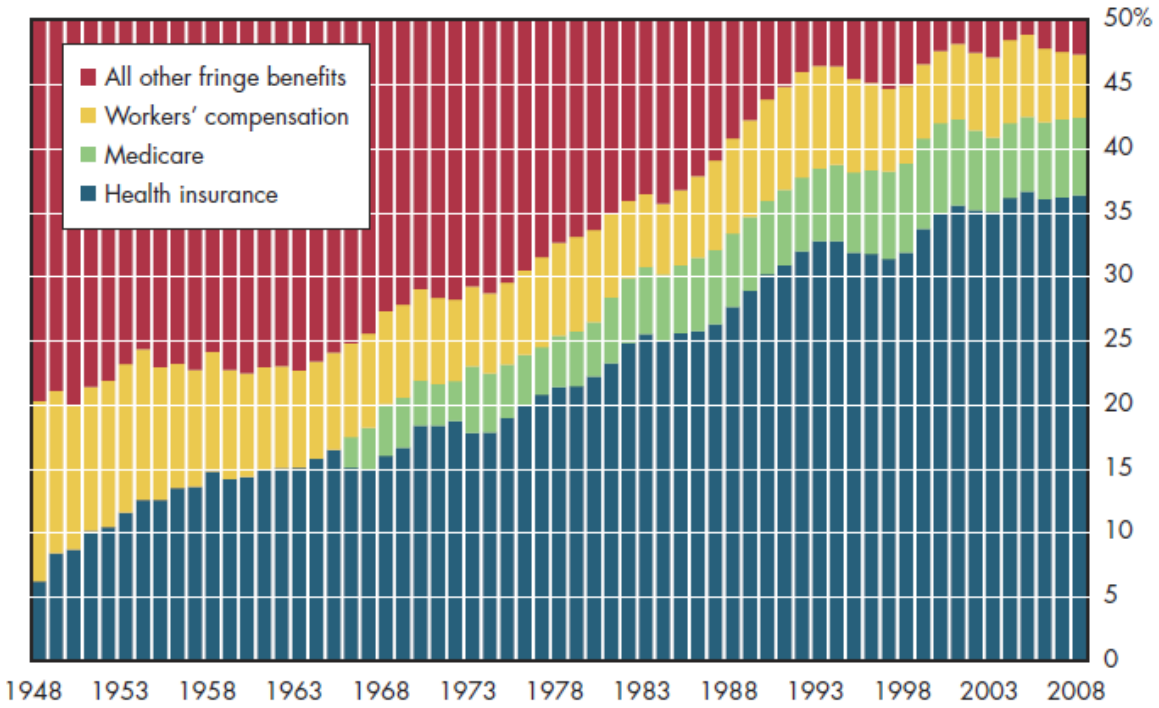
The employer share of employer-sponsored insurance (ESI) has been an important factor in driving growth in supplement payments. Even so, increases in non- health fringe benefits such as retirement contributions also have had an important role in this upward trend. In both cases, tax policy has encouraged such growth because fringe benefits are excludable from federal, state, and local income taxes and payroll taxes. For the highest income workers who in some states face marginal tax rates of 50 percent, the tax exclusion permits employers to provide two dollars in pre-tax fringe benefits for every dollar that otherwise would be paid as wages or salaries.

ESI includes all types of plans, including fee-for-service indemnity plans, and managed care plans such as preferred provider organizations (PPOs) and health maintenance organizations (HMOs). Managed care plans use various cost control mechanisms (for example, pre-authorization of care and financial incentives for patients to use preferred provider networks). However, indemnity plans also have begun to use some of the same tools.

In general, over these 60 years, health-related supplements have grown as a fraction of all employer-provided supplements (figure 4.1b). This implies that health-related supplements have generally grown faster than other fringe benefits. For a typical worker, employer premium payments now constitute 36 percent of all fringe benefits, with Medicare and workers' compensation absorbing another 5 and 6 percent, respectively. All other fringe benefits have declined from almost 80 percent of the total just after World War II to slightly more than half today.

4.1b Health-related employer contributions have absorbed a growing share of supplements, currently accounting for almost half the total

Percentage of all employer-paid supplements to wages and salaries



1.1 Downloads

Download Excel tables used to create both figures: Figures 4.1a/4.1b Tables[2] . Figures 4.1a and 4.1b both were created from the following table (the workbook includes all supporting tables used to create this table):

- Table 4.1. Employer Wages & Salaries, Contributions for Private Health Insurance, Medicare, Workers Compensation and Other Supplements to Wages and Salaries: 1948 to 2012

Download PowerPoint versions of both figures.

- Figure 4.1a Image Slide (as it appears above)[3]
- Figure 4.1a Editable Slide (can be formatted as desired)[4]
- Figure 4.1b Image Slide (as it appears above)[5]
- Figure 4.1b Editable Slide (can be formatted as desired)[6]

1.2 References

A. Department of Commerce. Bureau of Economic Analysis.

[2]https://hub.mili.csom.umn.edu/content/m10024/latest/4.1TAB.xls
[3]https://hub.mili.csom.umn.edu/content/m10024/latest/4.1aIMG.ppt
[4]https://hub.mili.csom.umn.edu/content/m10024/latest/4.1aDATA.ppt
[5]https://hub.mili.csom.umn.edu/content/m10024/latest/4.1bIMG.ppt
[6]https://hub.mili.csom.umn.edu/content/m10024/latest/4.1bDATA.ppt

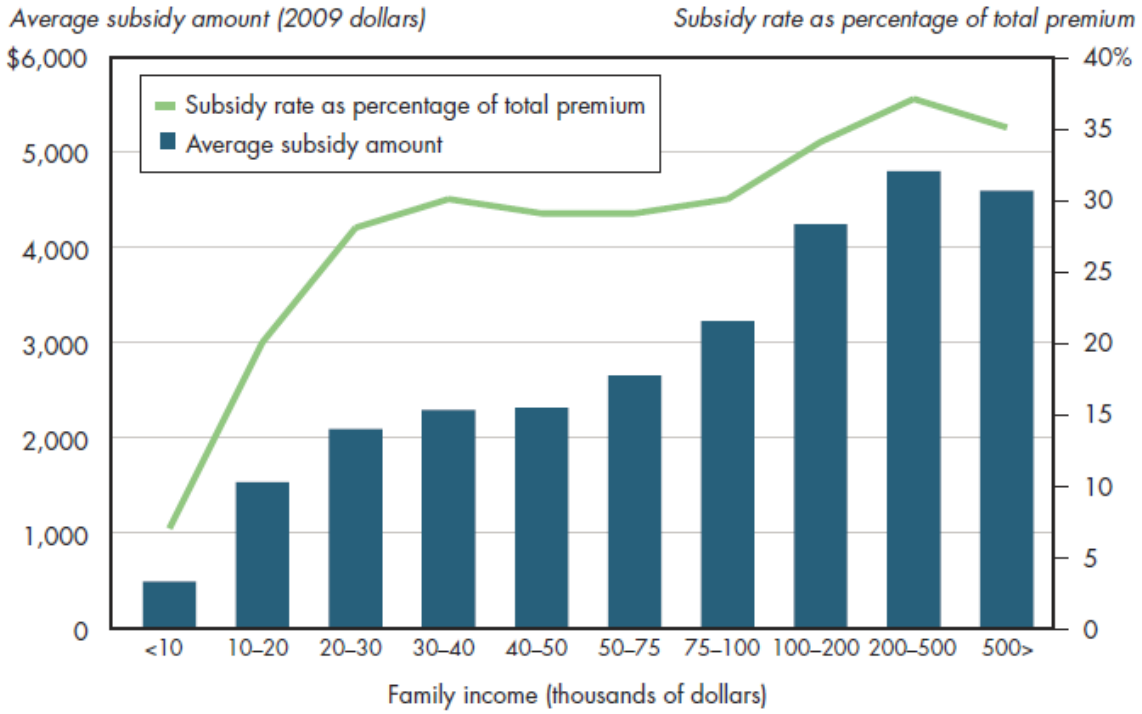
Chapter 2

4.2: High-Paid Workers Receive Larger Tax Subsidy for Employer-Provided Health Insurance[1]

The employer tax exclusion for health benefits has been characterized as an upside-down subsidy. Our generally progressive tax system results in higher marginal tax rates for high-income workers compared with rates for low-income workers. Consequently, both the dollar value of the tax subsidy and the percentage of the premium that is implicitly subsidized by the federal government are larger for higher-paid workers compared with that for lower-paid workers (figure 4.2a).

[1]This content is available online at <https://hub.mili.csom.umn.edu/content/m10025/1.1/>.

4.2a Higher-income families get a substantially higher subsidy from the employer tax exclusion compared with the subsidy for low-income families

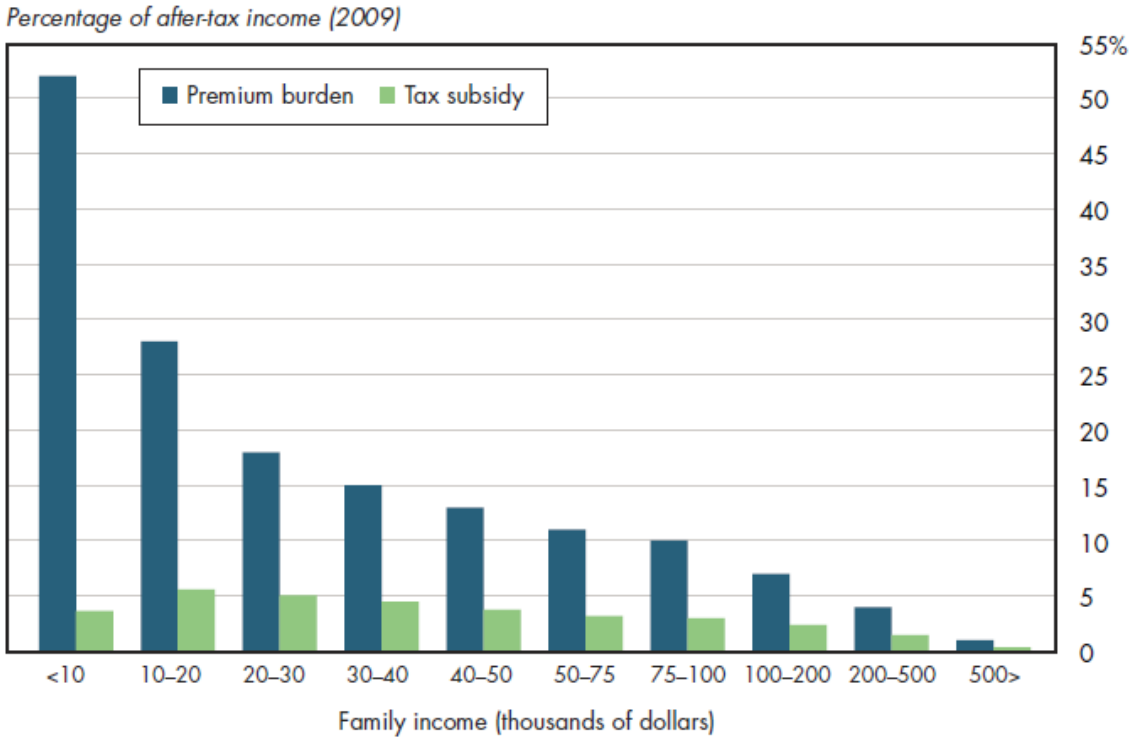


For example, a company CEO earning $300,000 would receive a subsidy of approximately $4,800, which amounts to a discount of 37 percent on the premiums required for health insurance. A janitor earning the minimum wage in that same company would get a subsidy equal to less than $500—enough to cover only 7 percent of health plan premiums.

Even though the employer appears to be paying most or all of the premiums for employer-provided health benefits, empirical studies have demonstrated that the cost of such benefits actually is paid by workers in the form of lower wages or salaries. Thus, another way to view the subsidy is to consider it relative to the overall share of family income required to pay for health insurance coverage (inclusive of the employer share).

When calculated as a share of family income, the subsidy generally declines with income (figure 4.2b). This makes it appear less regressive. However, the share of family income required for health insurance rises sharply for workers at the lowest end of the income distribution. The tax subsidy does not grow nearly as fast. Thus, even with the tax subsidy, the net share of income (that is, after deducting the subsidy) required for health insurance declines with income.

4.2b The share of income needed for health insurance rises sharply as income declines; the tax exclusion mitigates this only slightly



Under the newly enacted health reform plan, the share of family income required to pay the family's share of premiums will be capped at 2 to 9.5 percent of income. However, these caps apply only to the family share of premiums, not to the employer- paid portion. Thus, for the most part, the hidden inequities just noted will persist for those who continue to rely on employer-based coverage.

2.1 Downloads

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- Table 4.2. Tax Subsidy for Employer-Sponsored Insurance (ESI), by Income Decile

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[5]https://hub.mili.csom.umn.edu/content/m10025/latest/4.2bIMG.ppt
[6]https://hub.mili.csom.umn.edu/content/m10025/latest/4.2bDATA.ppt

2.2 References

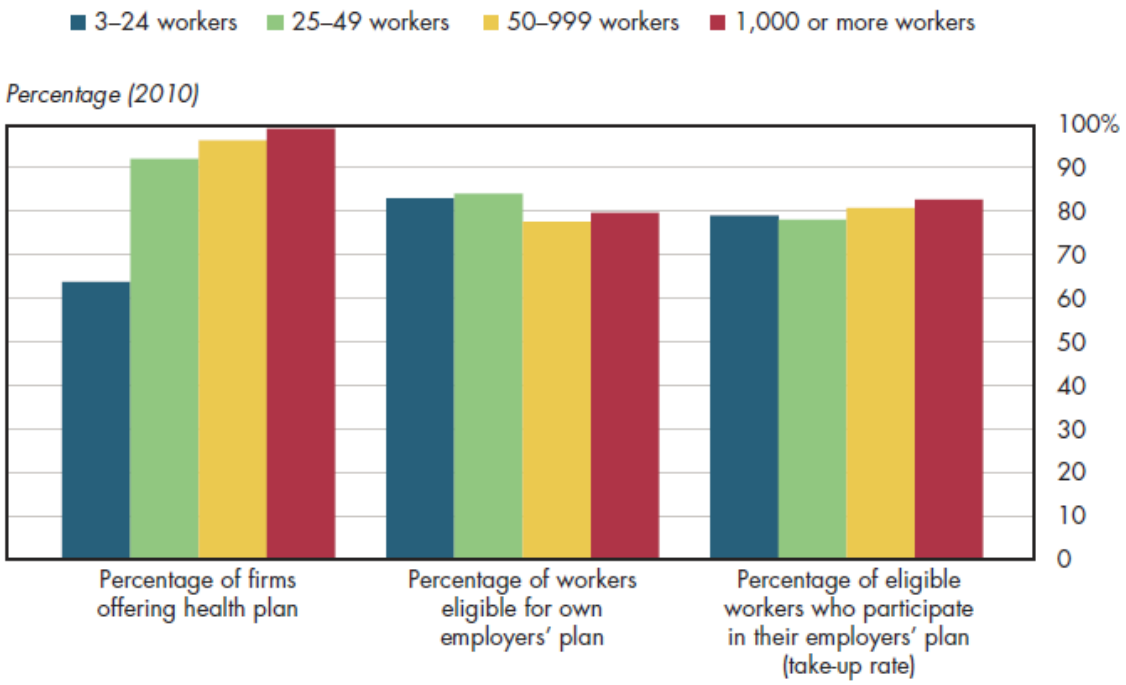
A. Burman L, S Khitatrakun and S Goodell. Tax Subsidies for Private Health Insurance: Who Benefits and at What Cost? Robert Wood Johnson Foundation. 2009 Update. Princeton. July 2009.

Chapter 3

4.3 Small Firms Least Likely Offer Health Coverage to Employee[1]

Fewer than half of firms that have 25 or fewer employees even offer health insurance coverage. In contrast, virtually all firms that have 1,000 or more workers offer such benefits (figure 4.3a). Thus, if a worker gets employer-sponsored health benefits depends heavily on the number of workers at a given firm.

4.3a Fewer than 65 percent of small firms offer health plans, but the share of workers eligible and participating in such plans is similar to that in large firms



In general, employer-provided health benefits are not as attractive to small-firm workers compared with those who work in large firms. Premiums generally are higher for the same amount of coverage because the administrative load is higher. Some costs, such as general administration, do not vary much by firm size, resulting in economies of scale in health insurance for firms that have more workers to share the administrative cost. With fewer workers among whom such costs can be spread, the per-person cost is higher in small firms.

[1]This content is available online at <https://hub.mili.csom.umn.edu/content/m10026/1.1/>.
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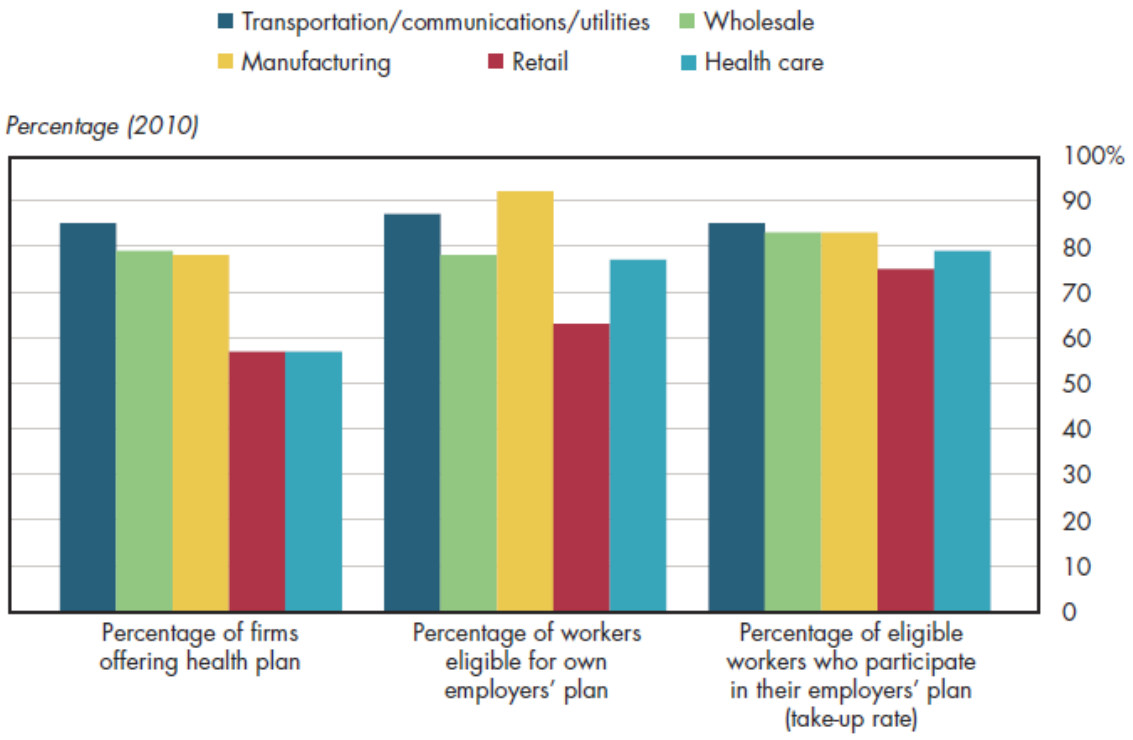
To reflect greater volatility in expected claims for small firms relative to large firms, insurers also must include a higher risk premium.

In a voluntary market, insurers know from experience that the small firms have sicker employees than do large firms. That is, small firms will know the individual health needs of their employees much better than large firms do. Moreover, they have far fewer plan members among whom to spread the cost of someone who has a high-cost medical condition. In a market where premiums are higher for the smallest firms, the companies that have the greatest individual employee health needs will be the most motivated to search for coverage. This amplifies the tendency for insurers to charge small firms higher premiums to reflect the generally poorer health among workers in small firms seeking coverage.

However, when an employer has made the decision to offer health coverage, firm-size differences are attenuated considerably. In fact, the percentage of workers eligible for the health plan actually is slightly higher among small firms relative to larger firms, although the percentage of workers who accept whatever health coverage offered is only slightly less.

The variation in the percentage of firms offering health insurance by industry is somewhat smaller than by firm size, with health care and retail trade having the low- est offer rates, while transportation, communications, utilities, wholesale trade, and manufacturing have the highest (figure 4.3b). The higher concentration of small firms in health care and retail trade contributes to these differences.

4.3b Among all industries, health care and retail trade have the lowest rates of offering health plans, reflecting their large number of small firms



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- Fig. 4.3a: Table 4.3.1. Health Insurance Benefits Offer Rates, Worker Eligibility Rates, and Take-up Rates, by Size of Firm, 2010 and 2013
- Fig. 4.3b: Table 4.3.2. Health Insurance Benefits Offer Rates, Worker Eligibility Rates, and Take-up Rates, by Industry, 2010 and 2013

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3.2 References

A. Kaiser Family Foundation, The. Health Research & Educational Trust. Employer Health Benefits 2010 Annual Survey. September 2, 2010. http://ehbs.kff.org/?page=abstract&id=1 (accessed November 21, 2010).

[3]https://hub.mili.csom.umn.edu/content/m10026/latest/4.3aIMG.ppt
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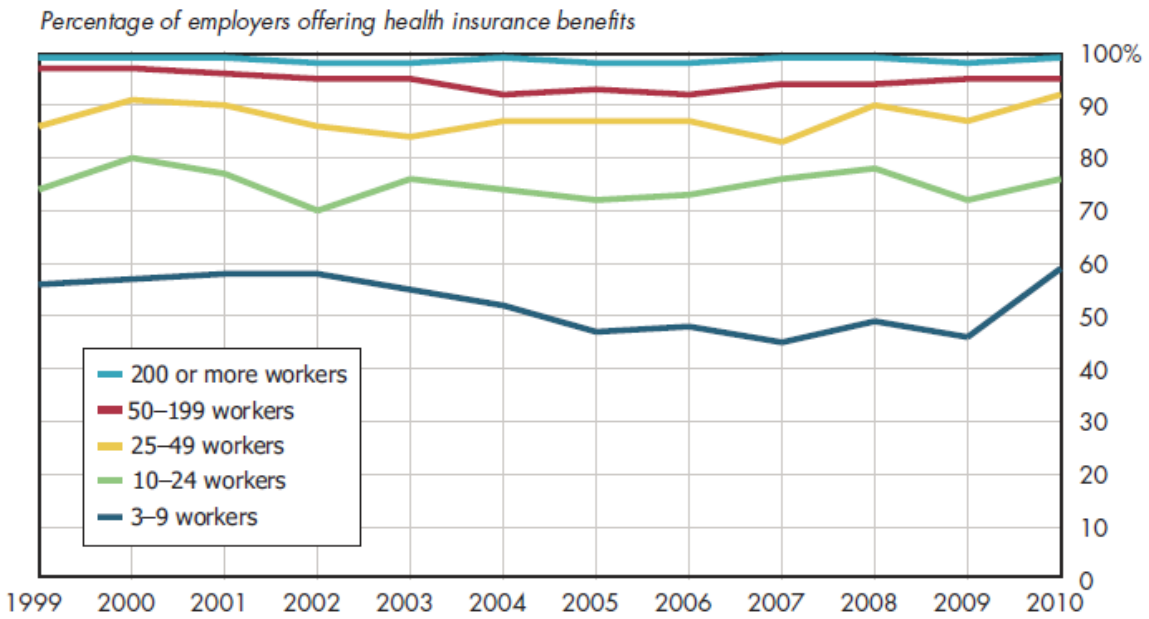
[6]https://hub.mili.csom.umn.edu/content/m10026/latest/4.3bDATA.ppt

Chapter 4

4.4 A Secular Decline In Employer-Based Health Coverage[1]

Health insurance offer rates have been remarkably stable over the past decade (figure 4.4a). Ignoring year-to-year variation, the offer rate for firms with fewer than 10 employees has consistently been less than 60 percent. It is not clear whether the recent uptick in offer rates for the smallest firms is an anomaly or a reversal of recent trends.

4.4a The percentage of the smallest firms offering health benefits has been less than 60 percent for more than a decade



Even though offer rates have been relatively stable over the past decade, the percentage of workers who have employer-based coverage has been eroding rather steadily over the past two decades. Figure 4.4b provides a consistently measured picture of this decline since 1999, and other data confirm similar trends occurring throughout the 1990s. This decline reflects in part trends displayed in figure 4.1a. With health benefit costs rising much faster than wages and salaries, more employees declined offered coverage. Because employers generally contribute a higher share of the premium for an employee's own coverage than for

[1]This content is available online at <https://hub.mili.csom.umn.edu/content/m10027/1.1/>.
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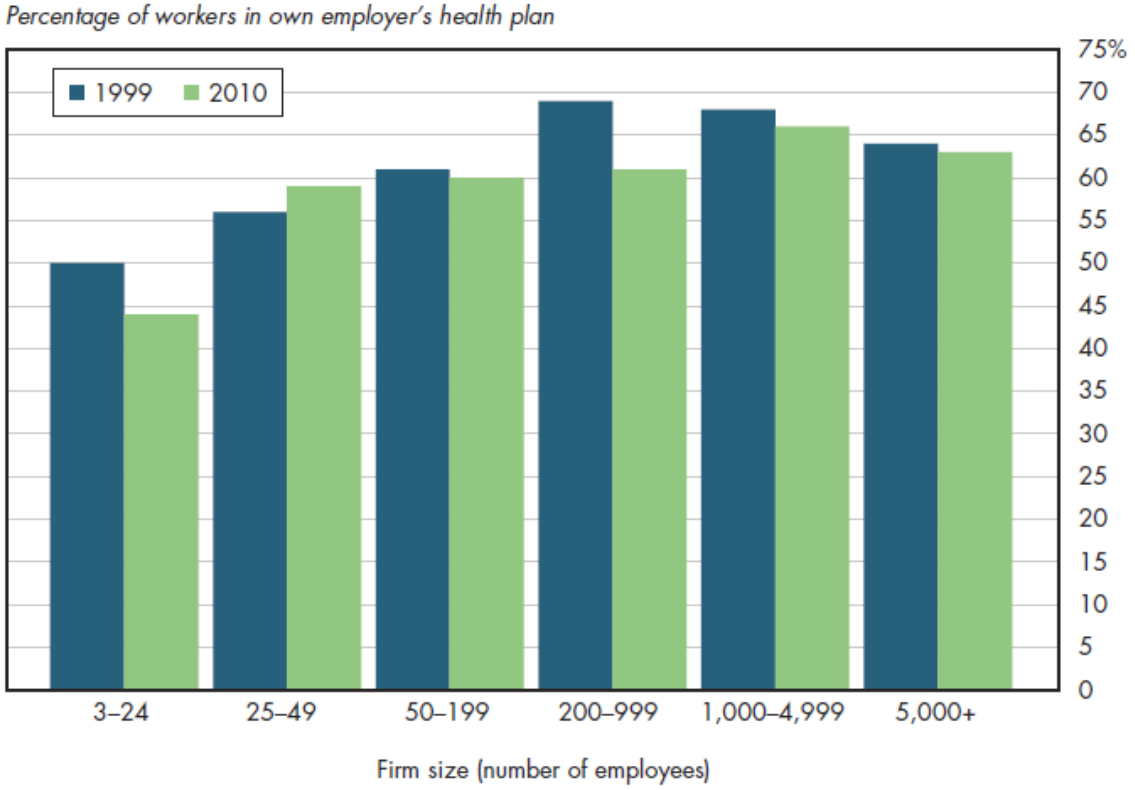
dependent/spouse coverage, this refusal rate tends to be higher for dependent coverage. However, it also can be attributed to a rather steady expansion of public coverage since the mid-1980s — notably Medicaid and the State Children's Health Insurance Plan (SCHIP).

4.4b Over the past decade, the percentage of employees in health benefit plans has declined in almost all firm-size categories



In recent years, this erosion in coverage has been largest among the smallest and mid-sized firms. Because small firms face higher premiums for the equivalent level of coverage, any given percentage increase in medical costs will produce a higher absolute dollar impact relative to larger firms. As well, large firms enjoy the stability that comes with sizable health plan memberships. That is, if medical trends are increasing by 10 percent, the largest firms will tend to experience rate increases in a comparable range. In contrast, small employers may face annual rate increases that are several multiples of the general trend.

In the small-group market, there also is considerably more "churning" as such employers seek a better deal on health insurance coverage. This means that firms that switch face additional costs for broker commissions and underwriting that are avoided by firms opting not to switch. The vast majority of large employers are self- insured, so generally the principal savings that can be attained by switching carriers to administer such plans relate to administrative costs that are not terribly large in the first place. Consequently, the incentive to change carriers is much lower.

4.1 Downloads

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4.2 References

A. Kaiser Family Foundation, The. Health Research & Educational Trust. Employer Health Benefits 2010 Annual Survey. September 2, 2010. http://ehbs.kff.org/?page=abstract&id=1 (accessed November 21, 2010).

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[4]https://hub.mili.csom.umn.edu/content/m10027/latest/4.4bIMG.ppt
[5]https://hub.mili.csom.umn.edu/content/m10027/latest/4.4bDATA.ppt

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