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The Patient Protection and Affordable Care Act's Effects on Employers' Decisions to Offer Health Insurance

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Objectives

- Describe CBO's model for analyzing the coverage and cost implications of legislative proposals
- Explain CBO's methodology for modeling employers' decisions to offer health insurance
- Show how specific provisions of the Patient Protection and Affordable Care Act (PPACA) contributed to CBO's estimates of the extent to which employers would offer health insurance in 2014 and beyond

CBO's Mission

- CBO is a nonpartisan federal agency that provides the U.S. Congress with economic and budgetary analysis to inform legislative decisionmaking
- Estimates with implications for tax code are produced by, or in in conjunction with, the staff of the Joint Committee on Taxation

Health Insurance Simulation Model (HISim)

- Designed to estimate changes to insurance coverage and assess federal cost implications
- Constructed from SIPP data with imputations from other surveys
- Creates within-firm distributions of workers by earnings imputed from BLS data
- Uses behavioral elasticities derived from the economics literature
- CBO background paper (October 2007) explains these and other key parts of the model, which has subsequently undergone significant revisions. See http://www.cbo.gov/ftpdocs/87xx/doc8712/10-31-HealthInsurModel.pdf

Why Do Employers Offer Health Benefits?

- Many workers prefer some of their compensation in the form of health benefits
  - Health insurance benefits are not subject to income or payroll taxes
  - Several characteristics of the individual market for health insurance (particularly before 2014) make employer offering attractive:
    - Price:
      - Can be expensive for unhealthy or older consumers or in certain areas
      - Annual changes in premiums can be volatile
      - Insurance administrative costs exhibit economies of scale
    - Availability: Coverage is not always guaranteed for the sick/expensive
    - Marketplace:
      - Wide range of plans and benefit designs that can be difficult to compare
      - (Although some may find employer's choice of plans restrictive)
- Employers may also decide to offer coverage for reasons other than workers' preferences; for example, they may view offering as an expectation in their industry or see it as their responsibility

How Will PPACA Decrease Employers' Incentives to Offer Coverage?

- Better alternatives to employer coverage through two avenues:
  - Medicaid expansion to individuals at <138% of the poverty line (FPL)
    - No cost sharing and little/no premium contributions
    - But limited provider access and potential stigma
  - Exchanges, including subsidies for individuals between 138-400% FPL
    - Enrollees required to pay certain percentage of income to enroll in reference plan; subsidies cover remainder of exchange premium for reference plan
    - Guaranteed issue; no exclusions for preexisting conditions; maximum variation in premiums of 3 to 1, by age
    - Premiums expected to be more stable and comparison shopping easier
- Cost increases
  - Premium increases for firms with younger/healthier workers because of premium compression and pooling in small employer market
  - Additional mandated benefits (preventive care; no annual/lifetime benefit caps) (mostly affecting small firms)
  - Excise tax (2018 and beyond)
  - Possible small increases in cost of complying with new regulations

How Will PPACA Increase Employers' Incentives to Offer Coverage?

- Penalties for firms not offering coverage
- Individual mandate penalties
- Small business tax credit
- Cost reductions
  - Premium decreases for firms with older/sicker workers because of premium compression and pooling in small employer market
  - Lower and more stable premiums for some small employers purchasing through exchanges
  - Some search costs lower when purchasing through exchanges

Continuing Incentives to Offer Health Benefits

- Cost for health benefits will still be excludable from income or payroll taxes
- Larger employers will have lower administrative costs than will individual coverage in the exchanges
- Firms that choose not to offer health benefits will generally have to raise cash compensation to compete for labor
  - Calculation of employer's cost of offering or not offering should include necessary adjustments to wages
- Many firms have a mix of workers in terms of their eligibility for subsidies

A Simplified Representation of CBO's Approach in Estimating Employers' Responses

- $\Delta pr(offer_{fi}) = \varepsilon_f * \%\Delta p_{fi}$ where f is the size of firm i
- ε_f is the elasticity of the change in probability of a firm offering, Δpr, with respect to a percent change in price, $\%\Delta p$
- Elasticities, over a range of smaller price changes, based on literature
  - Further configured to achieve larger responses to policies that would generously subsidize many workers
  - Captures how some firms do not respond immediately to new price incentives

Equation #1: Employer Price Response

- $$\%\Delta p_{esi} = \frac{p_2 - \delta r - \left(\frac{1}{\alpha}\right) m - p_1}{p_1}$$

- $\%\Delta p_{esi}$ captures the change in the price of employer coverage where:
  - p_1/p_2 are after-tax employer premiums for coverage before and after the policy
  - r is the statutory employer penalty for not offering coverage, which is reduced by the perceived degree of enforcement, $0 < \delta < 1$
  - m captures how individual penalties for not having coverage exert pressure on firms to offer that coverage
    - Inversely proportional to the degree of substitutability between employer coverage and other coverage sources, α

Equation #2: Exchange Response

$$\%\Delta p_{exch} = \beta * l_e * \frac{p_2 - oop_{exch}}{p_2}$$

- $\%\Delta p_{exch}$ captures the change in the relative cost of offering employer benefits compared with exchange coverage
  - β is the degree of substitutability between employer and exchange coverage, which depends on the attractiveness of exchanges
  - l_e is the proportion of a firm's workforce (including dependents) that is eligible for exchange coverage
  - oop_{exch} is the average after-subsidy cost to a firm's employees to enroll in exchange coverage

Equation #3: Medicaid Response

- $$\%\Delta p_{mcaid} = s * l_m$$
- $\%\Delta p_{mcaid}$ captures the change in the relative cost of offering employer benefits compared with Medicaid
  - s captures the degree of substitutability between employer and Medicaid coverage and $s < \beta$ partly because of Medicaid's more limited access to providers and its stigma as perceived by workers and employers
  - l_m is the proportion of a firm's workforce (including dependents) that would be newly eligible for Medicaid or CHIP

Effects on Employment-Based Insurance

- CBO projects that about 1 million fewer people will obtain coverage through an employer in 2019
  - About 6 million to 7 million will not have an employer offer of coverage under current law that would have had one under prior law
  - About 1 million to 2 million will have an employer offer of coverage under current law but will be covered in the exchanges instead
  - About 7 million to 8 million will be covered by an employer who would not have been under prior law
    - Some of these individuals are newly offered coverage by an employer
    - Some of these individuals newly take up an offer of coverage that existed under prior law
- The following slide discusses the net change in employer coverage due to changes in employer-based offers of coverage
  - That net change in employer offers is partly a result of the 6 million to 7 million gross reduction in offers for those who previously had employer coverage and partly a result of some gains in offers
  - Gains in employer offers are a component of the 7 million to 8 million figure for gross increases in employer coverage

PPACA's Effects on Employer Coverage Through Employers' Offer Decisions

- HISim allows for separable estimates of provisions but results depend on order of adding/removing policy
- Lower end of range determined by stacking policy first; higher end last

Estimated Number of Individuals Losing/Gaining Coverage Because of Various Provisions' Effects on Changes in Employer Offering, 2019

Estimated contribution to number receiving an employer offer (in millions)	Exchange and subsidies*	Medicaid expansion*	Employer penalty*	Individual mandate*	Small business credit*	All policies fully interacted**
	-5 to -10	-1 to -2	0.5 to 1	2 to 5	0.5 to 1	-5

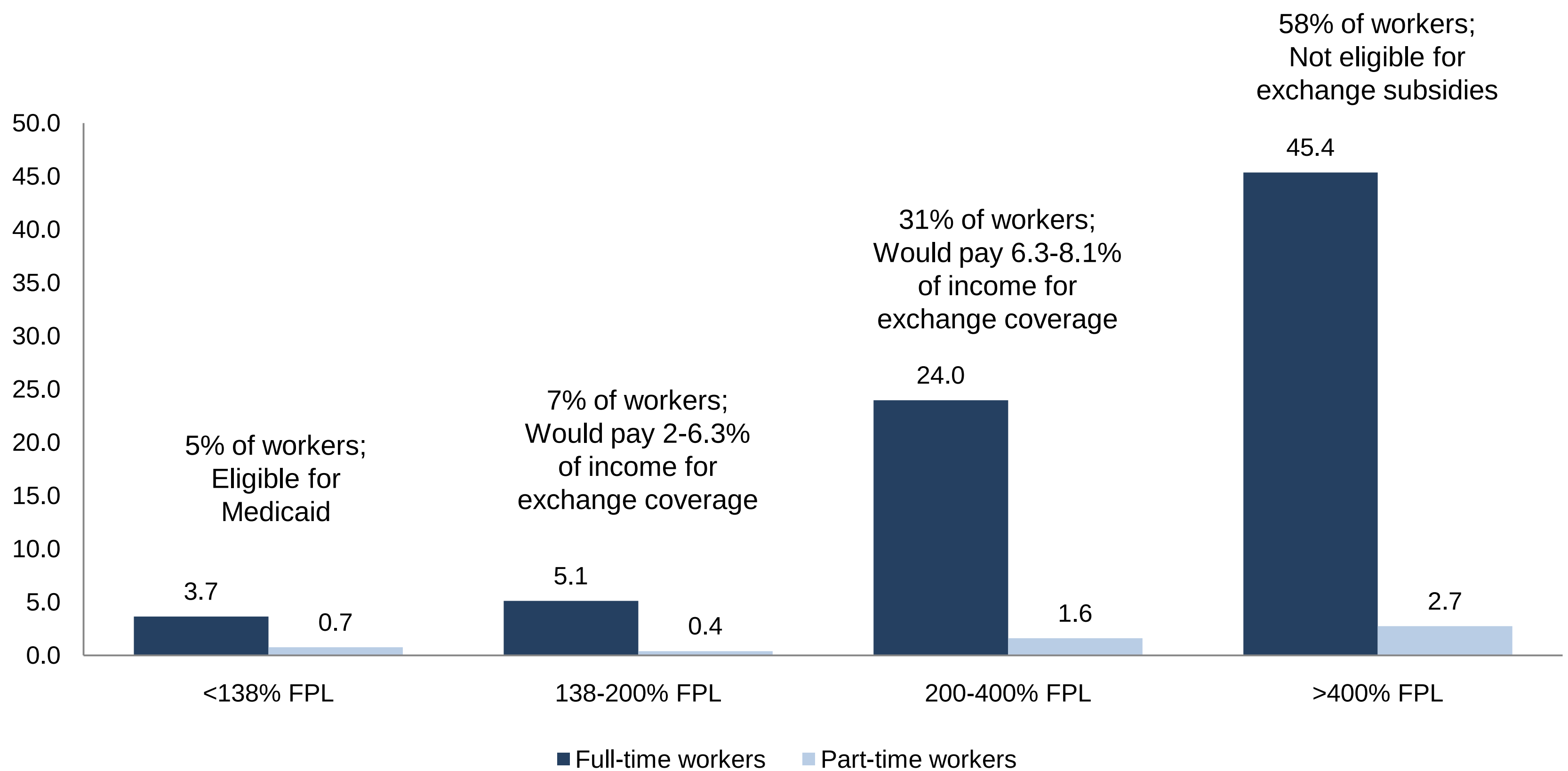
* Estimates are not official CBO estimates of these policies. Figures are marginal effects that do not include all interactions between the policies and therefore are not additive.

** This number does not have a range because it includes the effects of all policies, and, therefore, there is no alternative analogous method for calculating the collective effect of the policies on offering. As explained on the previous slide, this number is a *net* change in coverage associated with changes in employer offers due to the provisions of PPACA and is therefore not equivalent to the CBO estimate of the *gross* loss in employer offers of 6 million to 7 million for those who previously had employer coverage, nor does it represent the overall change in the number of people who obtain coverage through employers.

Employers’ Offer Decisions Will Depend on Proportion of Employees Who Will Be Eligible For Federal Subsidies

Number of Nonelderly Workers Projected to Have Coverage From Their Own Employer in the Absence of PPACA in 2016, by AGI of Their Tax Unit Compared with the FPL

(in millions)



Discussion

- High level of uncertainty about what employers might do. Depends on many factors, including:
  - How much employees will demand employer coverage (because of mandate but also more generally) versus willingness to accept exchanges as alternative
  - Income growth over time will affect number of employees eligible for subsidies
  - How regulators interpret PPACA's provisions
- Premiums in exchanges will matter:
  - Employers can be induced to offer coverage through the exchanges
  - But employers may decide not to offer coverage and allow employees to get subsidies, particularly if exchanges are successful in lowering costs
- In particular, premiums in exchanges will depend on:
  - Whether the mandate encourages many low-risk individuals to enroll
  - The degree of insurer competition in exchanges
  - Whether exchange enrollees exhibit a preference for managed care

Conclusions

- CBO projects that the number of people obtaining health insurance through an employer will be about 1 million lower as a result of the legislation
  - Net change in coverage due to changes in employer offers is a reduction of about 5 million
  - That loss is partially offset by gain in coverage from net take-up of several million among those whose offer status will not change
- Offsetting factors affect employers' decisions to offer coverage
  - Exchanges and subsidies are the primary reasons employers may not offer coverage
  - Individual mandate appears to be the largest offset to incentives not to offer coverage
  - The declining generosity of exchange subsidies for higher-income individuals will inhibit many employers from not offering benefits
    - Although a number of employees with ESI coverage are projected to be eligible for moderate subsidies, the majority of employees with ESI coverage will be ineligible for exchange subsidies