Discussion of *Alternative Health Spending Scenarios: Implications for Employees and Working Households* by Paul Ginsburg

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Who pays for increased spending? Employers say they do

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U.S. NEWS

Deloitte: One in 10 U.S. Employers to Drop Health Coverage

By LOUISE RADNOFSKY

July 24, 2012 12:03 a.m. ET

The New York Times

December 11, 2013

Dropping Health Plans, to Pick Better Coverage

By STACY COWLEY

For nearly 20 years, Keith Perkins offered health insurance to employees of his small electrical contracting company in Greencastle, Pa., and footed most of the bill. This year, with the arrival of the Affordable Care Act's insurance marketplace, he decided to stop.

Columbus, Ohio • Apr 10, 2014 • 73° Partly Cloudy

The Columbus Dispatch

» Hot Links:

HEALTH-CARE LAW

Company drops health coverage, cites Obamacare

Who pays for increased spending? Economics says workers do

- Theoretical and empirical literature in economics says that workers, and not their employers, bear the burden of increased health care costs

Ginsburg summarizes and agrees with the literature, allowing for some nuanced exceptions, especially due to the structure of the ACA

Who pays for increased spending? Ongoing trends vs. policy changes

- Health care costs have been increasing over time, with implications for employers
- The ACA adds additional implications for health care costs and employers

Ginsburg discusses both. I'll focus on the ACA and what we can learn about the ACA from Massachusetts

Key Provisions of Massachusetts and National Health Reform

Massachusetts Reform, April 2006

- Individual mandate
  - Penalty is up to 50% of basic plan by months without coverage
- Employers mandated to offer coverage
  - >10 FTEs
  - Penalty is $295/worker
- Medicaid expansions
  - Up to 100% of FPL for adults
- Subsidized private plans through exchanges
  - Subsidies up to 300% of FPL

National Reform, March 2010

- Individual mandate
  - Penalty is higher of 2.5% of income or $2,085
- Employers mandated to offer coverage (delayed until 2018)
  - >50 FTs
  - Penalty is $2,000 per FT for not offering any insurance
  - Penalty is $3,000 per FT for not offering affordable coverage, for all employees receiving tax credit (not assessed on first 30 employees)
- Medicaid expansions
  - Up to 133% of FPL
- Subsidized private plans through exchanges
  - Subsidies up to 400% of FPL

Reference: Kaiser Family Foundation

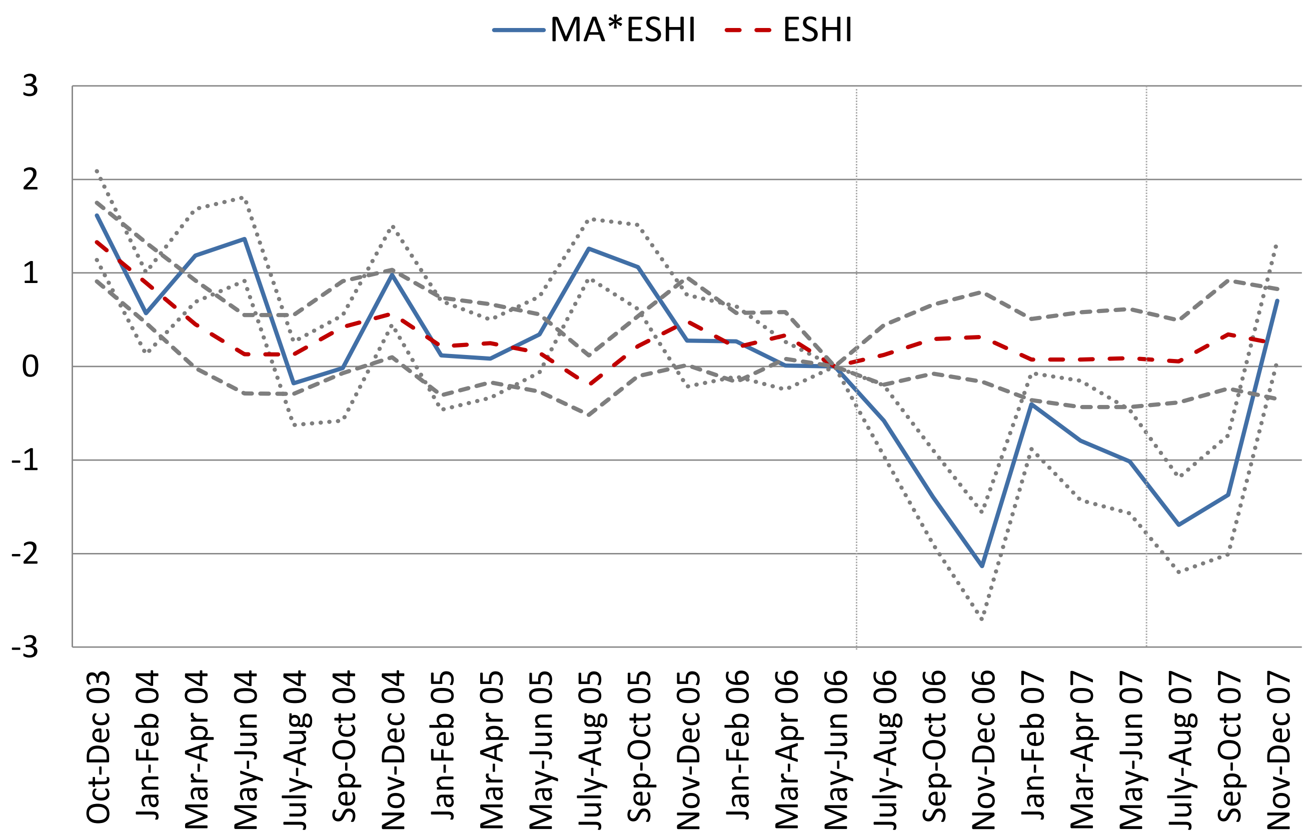
Who pays for increased spending? Evidence from Massachusetts: I

- Massachusetts saw an *increase* in employer-sponsored coverage after the reform relative to before the reform, relative to other states
- *Half* of all new coverage was obtained through employers

Who pays for increased spending? Evidence from Massachusetts: II

Kolstad & Kowalski NBER WP 17933, 2012

Workers who gain employer coverage see wages fall



Regression coefficients with w as dependent variable. See text for details.
Wages and ESHI are two-month indicators. May-June 2006 are normalized to zero.

Will the Massachusetts experience apply to the ACA?

I. Subtle policy differences could encourage even *more* employer-sponsored insurance
   - In ACA, only way to get tax advantage for employee portion of premiums is to get insurance through insurer
   - In MA, employers had to establish section 125 plans so that employees could pay premiums pre-tax, even on exchange

II. Theoretical and empirical result that workers pay for increased health care costs is alive and well – should apply post-ACA

What could the ACA have done differently based on MA?

- ACA could have allowed employers to purchase health insurance through exchanges
  - Seems to be enthusiasm, given popularity of new employer exchanges
  - As in MA, employees could potentially combine contributions from employers of both spouses, rewarding families with two workers
  - People with employer-sponsored coverage are generally healthier – participants in individual market and the government would save money by including them in the pool

Potential outcry from people who want to keep their existing employer plans, but perhaps this change could still be made!