



SBMA'S HR Newsletter

An Employer Health Benefits Balance Sheet

There seems to be growing interest in the question of how many employers will keep offering coverage to their full-time employees once the Affordable Care Act (ACA) is fully implemented in 2014, or instead will choose to stop offering coverage and pay a penalty.

While there is some good analysis and plenty of conjecture, it is impossible to predict with any certainty how employers will react at this moment because some of the key rules that will inform their decisions have yet to be issued, including:

- What benefits larger employers would need to offer to meet the employer requirement;
- How “nondiscrimination” rules will work, which dictate whether and how employers can structure different benefit plans and different contribution levels for different types of workers within the firm; and
- What the structure and scope of benefits will be for coverage offered through new insurance exchanges, which is where employees and their families would seek coverage if their employer stopped offering it.

It's useful to remember that employers offer health benefits to attract and retain workers, so how employers will react will depend at least in part on what their workers want them to do, which in turn will depend on how workers will weigh the cost and quality of the different options. And these options are not entirely clear at this point. In addition, there are lots of other changes employers may make short of not offering insurance, such as increasing or decreasing benefits or cost sharing, changing how much they contribute, changing who is eligible for coverage, changing some jobs to part-time status, etc.

Given all of these uncertainties, precisely estimating how many employers will respond one way or another is difficult. But it's helpful to look at some of the key factors that an offering employer might consider in deciding whether to continue to offer health benefits, almost as a sort of balance sheet from the perspective of employers and their workers:

Factor	Continue Offering Benefits	Drop Benefits
Employer and Employee Costs	Today, employers that offer coverage generally contribute most of the cost for employees but less for their families. Employees pay the rest.	Employees would still have to buy insurance, but without the employer contribution. Employers would save money as a result of no longer contributing towards the cost of insurance. What would happen to those savings is an open question. Economic theory suggests that the savings would largely get returned over time to employees as higher salaries (though maybe not equally to higher and lower wage workers). This could vary from employer to employer depending on how competitive the market is for skilled workers.

Factor	Continue Offering Benefits	Drop Benefits
Tax Subsidies and Credits	The employer contribution to health benefits is tax-free to workers. Employees can also pay their shares on a pre-tax basis through a so-called "section 125" account. The tax-preferred status of employer-provided health coverage is a particular benefit for higher-income employees in high tax brackets, with the government in effect paying for a substantial portion of the cost.	There would be no way for workers to buy health insurance on a tax-free basis, but low- and moderate-income workers would be eligible for tax credits if they bought insurance in an exchange. Workers and family member would face a financial penalty if they did not buy coverage (if it's affordable to them).
Penalties	Larger companies with at least 50 employees offering coverage face a penalty of \$3,000 per work in cases where coverage is unaffordable and the worker buys insurance in an exchange with the benefit of a tax credit. Employers can avoid the penalty by offering coverage meeting certain requirements.	Larger companies not offering coverage would face a penalty equal to \$2,000 per year times the number of full-time employees minus 30. This flowchart illustrates how it works.
Medicaid	Employees and their families eligible for Medicaid – which is expanded under the health reform law – can choose to enroll in Medicaid whether the employer offers health benefits or not.	
Predictability of Costs	Employer costs for health insurance are highly unpredictable.	Costs for non-offering employers would be more predictable. But companies in markets where they are competing for skilled workers may be cautious about dropping benefits until they see how the exchanges are working.
Benefits Package	Smaller employers providing coverage must offer the essential benefit package (regulations not yet issued); minimum benefit requirements for larger employers and all employers that self-fund are not clear in the law and may be addressed by regulation.	Workers receive the essential benefit package (regulations not yet issued) if they buy coverage themselves; may be eligible for cost-sharing subsidies if family income is below 250% of the poverty level and they buy coverage in an exchange.

The dollars and cents part of a decision like this is fairly easy to quantify, particularly after some of the regulatory issues described above are resolved. For larger employers with reasonably-paid employees, it's likely that it will still make financial sense for them to offer coverage. The existing tax subsidy their workers get for employer-provided health insurance will likely outweigh the combination of the tax credits that would be available for workers in the exchanges and the penalty the employer would have to pay for not offering coverage. These types of companies tend to offer good benefits already, so the outstanding regulatory decisions will probably not have a big impact on their choices. On the other hand, for employers with many lower-wage employees -- including such places as restaurants and retail stores -- the picture is cloudier. Some of these companies provide pretty limited coverage to their lower-skilled employees, while in some cases providing better benefits to managers and other office employees. It's unclear whether they will be able to continue this in the future. Even if firms are permitted to maintain limited coverage for their employees, some will find that the balance sheet tilts towards not offering coverage because the new sliding scale tax credits available to their predominantly lower-wage employees in exchanges will far exceed the current tax subsidy for employer-based insurance.

The idea of an employer dropping health benefits sounds like a bad outcome. And under the status quo, it is – workers lose the ability to get health insurance on a tax-free basis and they can be denied coverage in the individual market if they have pre-existing health conditions. After 2014, though, things change quite a bit. The coverage in the individual market will offer the same protections as in the group market, and tax credits will be available in exchanges for people with incomes up to four times the poverty level (now about \$89,000 a year for a family of four). Really what happens is that the employees move from being covered by a private employer-based plan subsidized through a federal (and often state) [tax subsidy](#) to a private plan subsidized through a federal tax credit. The company and its

workers are making a decision about which form of tax subsidy provides the best value, something that employers and others do every day. The penalty for non-offering large employers tilts the playing field somewhat towards employer-based coverage.

Beyond the dollars and cents, the intangibles around employer decisions to keep offering health benefits are tougher to assess. We don't yet know exactly what exchange coverage will look like and whether employees with employer-based insurance will view it as a reasonable or even desirable alternative. Will employees be willing to give up something they know for something new? Or, will a good job mean one that still comes with health benefits? For the answers to these questions, we'll likely have to wait until 2014 and beyond, as employers consider their options – probably very cautiously – while looking behind their backs at competitors doing the same thing.

–Gary Claxton and Larry Levitt