Why Employers Should Share the Responsibility of Paying for Health Care

Many health reform proposals call for employers, individuals, and the government all to share responsibility for paying for health care. Generally, under these proposals, employers that do not provide coverage for their workers would be required to pay a fee toward the cost of coverage for their employees. Individuals who could afford to obtain coverage would be responsible for doing so, and the government would assist with premiums as needed.

Requiring employers to share the responsibility of paying for health care will create a level playing field among employers of all sizes, and it will help people who are satisfied with their job-based coverage keep that coverage. (About 61 percent of non-elderly Americans get their coverage through an employer.[1])

There are five reasons why it makes sense to require employers to contribute to the cost of coverage, which is known as an "employer responsibility requirement":

1. Employer assessments help to level the playing field so that all employers do their fair share to pay for coverage.
2. An employer responsibility requirement will discourage employers from dropping coverage and keep needed dollars in the health care system.
3. Employers that currently pay a share of their employees' health insurance cover a large portion of employees' health bills.
4. Employer assessments have been helpful in places that have implemented them.
5. Job-based health coverage is priced more equitably than individual coverage.

1. Employer assessments help to level the playing field so that all employers do their fair share to pay for coverage.

- Currently, most large employers provide coverage to their workers, but some do not. The most recent government survey showed that nearly 97 percent of employers with 50 or more workers provided coverage to their employees. About 61 percent of employers with fewer than 50 workers provided coverage to their employees.[2]
- Whether or not employers provide health coverage is entirely up to them. Even a business that is doing very well financially can decide not to provide health coverage, giving it an advantage over competitors who "do the right thing" by offering coverage to their workers. An assessment system could be designed to level the playing field among businesses of

different sizes and financial situations. For example, a system could be created that would exempt the smallest employers or those businesses that could not afford to contribute to employee insurance but that would require businesses to contribute to employee health coverage if they could afford to do so.

- Employers that provide coverage end up paying a "hidden health tax" for uncompensated care costs for the uninsured when other employers do not chip in to cover their workers. Premiums are higher because uninsured people who receive health care often cannot afford to pay the full amount themselves, and the costs of their care are shifted to those who have insurance.[3]

2. An employer responsibility requirement will discourage employers from dropping coverage and keep needed dollars in the health care system.

Because health reform is likely to make individual coverage more accessible, without an employer responsibility requirement, employers may be tempted to drop the coverage that they now provide to their employees. In addition, the money that employers pay for worker coverage represents a significant chunk of the overall funding of the health care system. In 2006, altogether, employers paid health insurance premiums totaling nearly $360 billion,[4] and that amount has continued to rise over the years. If employers drop employee coverage, the share of overall health care costs that they currently pay could not easily be replaced.

3. Employers that currently pay a share of their employees' health insurance cover a large portion of employees' health bills.

In 2008, employers paid an average of $9,325 for family coverage, and employees paid $3,354. For coverage of single individuals, employers paid an average of $3,983, and employees paid $721.[5] If employers were to stop contributing to the cost of coverage, most employees would not be able to fill the gap by themselves. Either the federal government would have to step in and subsidize that coverage, or employees would be left with unaffordable costs.

4. Employer assessments have been helpful in places that have implemented them.

- In Massachusetts, employers that do not contribute their "fair share" (as determined by state rules) to their workers' health care pay a $295 annual assessment. Even though the state now subsidizes individual coverage, there has been no evidence that making individual coverage more affordable has encouraged employers to drop coverage. In fact, between June 2006 and March 2008, 159,000 Massachusetts residents gained job-based coverage.[6]
- Under a San Francisco ordinance, employers with 20-99 workers must spend at least $1.23/hour on each worker's health care, and employers with 100 or more workers must spend at least $1.85/hour on each worker's health care. Employers can show that they are meeting this obligation by directly paying for health services, providing health insurance,

funding health savings accounts (HSAs) or medical reimbursement accounts that employees can use to cover out-of-pocket medical expenses, or paying into a new city-funded program called "Healthy San Francisco" to provide health care for their employees. By January 2009, 32,804 employees whose employers did not otherwise contribute to their health care received some help by virtue of the new obligation.[7]

5. **Job-based health coverage is priced more equitably than individual coverage.**

For example, all similar workers within a firm pay the same premiums, regardless of their age or health status. This is not the case in the individual health insurance market, where insurance companies can vary premiums based on age, health status, and a host of other factors. If employers dropped employee coverage and employees had to find coverage in the individual market, they could be forced to pay higher premiums based on their age or other characteristics.

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[1] Kaiser State Health Facts Online, "Health Insurance Coverage of the Nonelderly," available online at http://www.statehealthfacts.org/comparebar.jsp?ind=126&cat=3, accessed on June 18, 2009. Urban Institute and Kaiser Commission on Medicaid and the Uninsured estimates are based on the Census Bureau's March 2007 and 2008 Current Population Survey, Annual Social and Economic Supplements.

[2] John Sommers and Beth Crimmel, *Employer-Sponsored Health Insurance for Small Employers in the Private Sector, by Industry Classification, 2006*, and *Employer-Sponsored Health Insurance for Large Employers in the Private Sector, by Industry Classification, 2006* (Rockville, MD: Agency for Healthcare Research and Quality, 2008). These two issue briefs are analyses of data from the Medical Expenditure Panel Survey.

[3] Kathleen Stoll and Kim Bailey, *Hidden Health Tax: Americans Pay a Premium* (Washington: Families USA, May 2009).

[4] Agency for Healthcare Research and Quality, *Medical Expenditure Panel Survey*, Table IV.A.1 (2006), "National Totals for Enrollees and Cost of Hospitalization and Physician Service Health Plans for the Private Sector; United States, 2006," available online at http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_4/2006/tiva1.pdf.

[5] Gary Claxton, Megan McHugh, et al., *Health Benefits 2008 Annual Survey* (Menlo Park, CA: Kaiser Family Foundation and Health Research & Educational Trust, 2008).

[6] Leslie Kirwan, et al, *Massachusetts Health Care Reform 2007/2008 Progress Report* (Boston: Commonwealth Health Insurance Connector Authority, 2009).

[7] San Francisco Department of Public Health, Office of Labor Standards Enforcement, and City Controller, *Status Report on the Implementation of the San Francisco Health Care Security Ordinance* (San Francisco: Board of Supervisors, 2009), available online at http://www.healthysanfrancisco.org/files/PDF/January_2009_Bos_Report.pdf.

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