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## **EMPLOYER-SPONSORED INSURANCE: IS IT ERODING UNDER THE ACA, AND SHOULD WE CARE?**

*By Gail R. Wilensky*

Concerns have been raised that the Affordable Care Act (ACA) could reduce the dominance of employer-sponsored insurance for those not on Medicare or Medicaid. There are 2 ironies associated with these concerns. First, this was one of the charges levelled by Democrats against Senator John McCain's (R-AZ) health reform proposal during the 2008 election campaign. Second, the model of employers as the primary sponsors of insurance for the under-65 population has been criticized for decades by analysts from both sides of the political spectrum.

Major criticisms of employer-sponsored insurance have been that (1) tying insurance to an employer forces a disruption in coverage whenever employees change jobs, (2) employer-sponsored insurance is more likely to reflect the employer's perception of the type of insurance that most employees want than what many employees might choose if they had a choice, and (3) the tax-exclusion provision currently associated with employer-sponsored insurance increases in value as the employee's income rises, and thus its income effects are regressive. The tax exclusion of employer-sponsored insurance (and other fringe benefits) for employees, which originated during World War II, is usually cited as the principal reason that employer-sponsored insurance has become the dominant source of insurance for the under-65 population.



The availability of subsidized insurance in the exchanges for people below 400% of the poverty line means that one of the rationales for some employers offering health insurance no longer exists. Employers with mostly low-wage employees will find the exchanges an attractive option, since the subsidies are highest for those employees. Employers with some or many employees earning at least 300% of the poverty line (\$35,310 for an individual; \$72,754 for a family of 4) will find their employees receiving only small subsidies and losing the value of excluding the employer's contribution from their income and social security taxes and so unlikely to find the ACA exchanges a relevant alternative.

To discourage existing employers from dropping their employer-sponsored insurance or new employers from not offering insurance, the law "requires" employers with more than 50 employees to provide insurance that meets certain standards or to face a penalty if any of their employees purchase subsidized insurance in the exchanges. The "employer mandate" (which is more of a "play or pay" strategy than a mandate per se) goes into effect in 2015 for employers with more than 100 employees and in 2016 for employers with 50 to 99 employees. Additional provisions will help employers with fewer than 50

employees, especially those with primarily low-wage employees. In any case, these employers were less likely to have provided insurance coverage before the ACA was passed.

Although the second-round enrolment (along with the special extension) ended on April 30, 2015, some data are currently available on changes in insurance coverage, especially employer-sponsored insurance. Unfortunately, almost all this information is based on opinion polls or web-based surveys rather than on the more traditional health care survey data that the government collects using census-based data collectors and survey instruments.

The data that are available indicate substantial variation in changes in coverage.<sup>1</sup> Estimates of the reduction in the uninsured vary widely, from 10 million to 16 million. Less information is available about changes in employer-sponsored insurance. Using data from the Health Reform Monitoring Survey, Blavin and colleagues reported that employer sponsored coverage remained about the same as it had been after 1 year of ACA enrollment.<sup>2</sup>

There is not much reason to believe that employer-sponsored insurance should have declined, since ACA-related coverage began only in 2014. Furthermore, none of the potentially onerous rules regarding the kind of coverage that employers must offer have yet taken effect. More important, the primary group that has been using the exchanges are those receiving substantial subsidies, most of whom are believed either to have been purchasing individual coverage before the ACA or to have been uninsured, rather than to have been insured by their employers.

When the ACA was passed in 2010, the Congressional Budget Office predicted that 9 million fewer people would have employer-sponsored insurance over the next decade as a result of the legislation. That prediction was revised down to 7 million.<sup>3</sup> Some of the reduction will come from small employers who no longer have to provide insurance to their employees in order to make sure they can get coverage. But other employers may choose to pay a penalty rather than to continue providing coverage, knowing that their employees have other options.

The predicted decline in employer-sponsored insurance would continue a decades' long secular trend. Partly reflecting the effects of the "Great Recession," the year 2010/2011 resulted in a striking decrease in individuals with employer-sponsored insurance, from 69.7% to 59.5%, reflecting a drop in both the number of employers that offered coverage and the number of employees who accepted employer-sponsored coverage.<sup>4</sup>

Employers who have traditionally provided insurance are not indicating that they plan to discontinue providing this benefit, and as long as employees can receive the tax exclusion only with employer-sponsored insurance, employers with mid- or high-wage employees are likely to continue to provide coverage. It is more likely that at least some employers will continue to limit their own financial liabilities, a move that began with defined-contribution pension plans.

The interest in the development of private exchanges in which employers contract directly with one or more insurance plans or with an intermediary to offer plans to their employees, who contribute a fixed amount from their pay checks, is a clear continuation of this defined-contribution strategy. It is also a way to give employees a greater choice of health plans. The move to private exchanges is relatively early in its development, rising from 3 million in 2014 to 6 million in 2015 and to a projected 40 million by 2018, according to Accenture.<sup>5</sup>

The movement to private exchanges for middle- or high-income employees or employees in firms with mixed-wage groups and to public exchanges for low- to middle-wage employees could result in a more rational coverage strategy that has existed previously. This will focus attention, however, on 2 key issues that need to be seriously discussed: (1) how do the subsidies available in the various public exchanges compare with the subsidies provided by the current tax exclusion of employer provided insurance, and (2)

are workers of similar incomes receiving very different amounts of subsidies depending on where and how they receive insurance?

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