

Health Care Reform: Implications of a Two Subsidy System

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Health Reform: Many Pluses & Minuses

Inadequate Cost Control

- Total health spending goes up
- Potential removal of moneys needed for budget reform
- Locking in “interest group” accommodations

Potential Aid in Cost Control (if adopted)

- Moving Medicare closer to a budget
- Caps (economic & psychological) on subsidies for health insurance
- Sticks, not just carrots (individual mandates)
- Better information systems

Coverage Expansions

- Less exclusion because of prior conditions
- Extending subsidies beyond employer market

Regulatory

- Locking in cross-subsidies (e.g. from young to old)

Today's Topic:

A Two Subsidy System: Can It Work?

Fairness—Equal Treatment of Equals

Adjustments in Labor Market

Other Behavioral Adjustments

Administration & Enforcement

At Equal Employer Cost, How Much Does Employee Gain or Lose?

Exchange

- Higher cash wages
- No health insurance costs
- More employer Social Security tax
- Employer penalty

Employer Plan

- Lower cash wages
- Health insurance costs
- Less employer Social Security tax
- No employer penalty

Interactions

- More or less EITC
- More or less Food Stamps and other benefits (not modeled)
- Penalty not subject to tax

Equal Employer Costs – Senate

(2016)

	<u>Exchange</u>	<u>Employer Plan</u>
Cash Compensation	\$ 60,000	\$ 47,599
Health Care		\$ 14,100
Employer Mandate	\$ 750	
Employer Soc. Sec. Tax	\$ 4,590	\$ 3,641
Employer Total	\$ 65,340	\$ 65,340

Source: C. Eugene Steuerle and Stephanie Rennane, Urban Institute 2009. Authors calculations based on data from CBO, November, 2009

Equal Employer Costs - House

	<u>Exchange</u>	<u>Employer Plan</u>
Cash Compensation	\$ <i>60,000</i>	\$ 50,525
Health Care	\$ -	\$ 15,000
Employer Mandate (8%)	\$ 4,800	\$ -
Employer Soc. Sec. Tax	\$ 4,590	\$ 3,865
Employer Total	\$ 69,390	\$ 69,390

Source: C. Eugene Steuerle and Stephanie Rennane, Urban Institute 2009. Authors calculations based on data from CBO, November, 2009

Net Gain/Loss under Senate Leadership

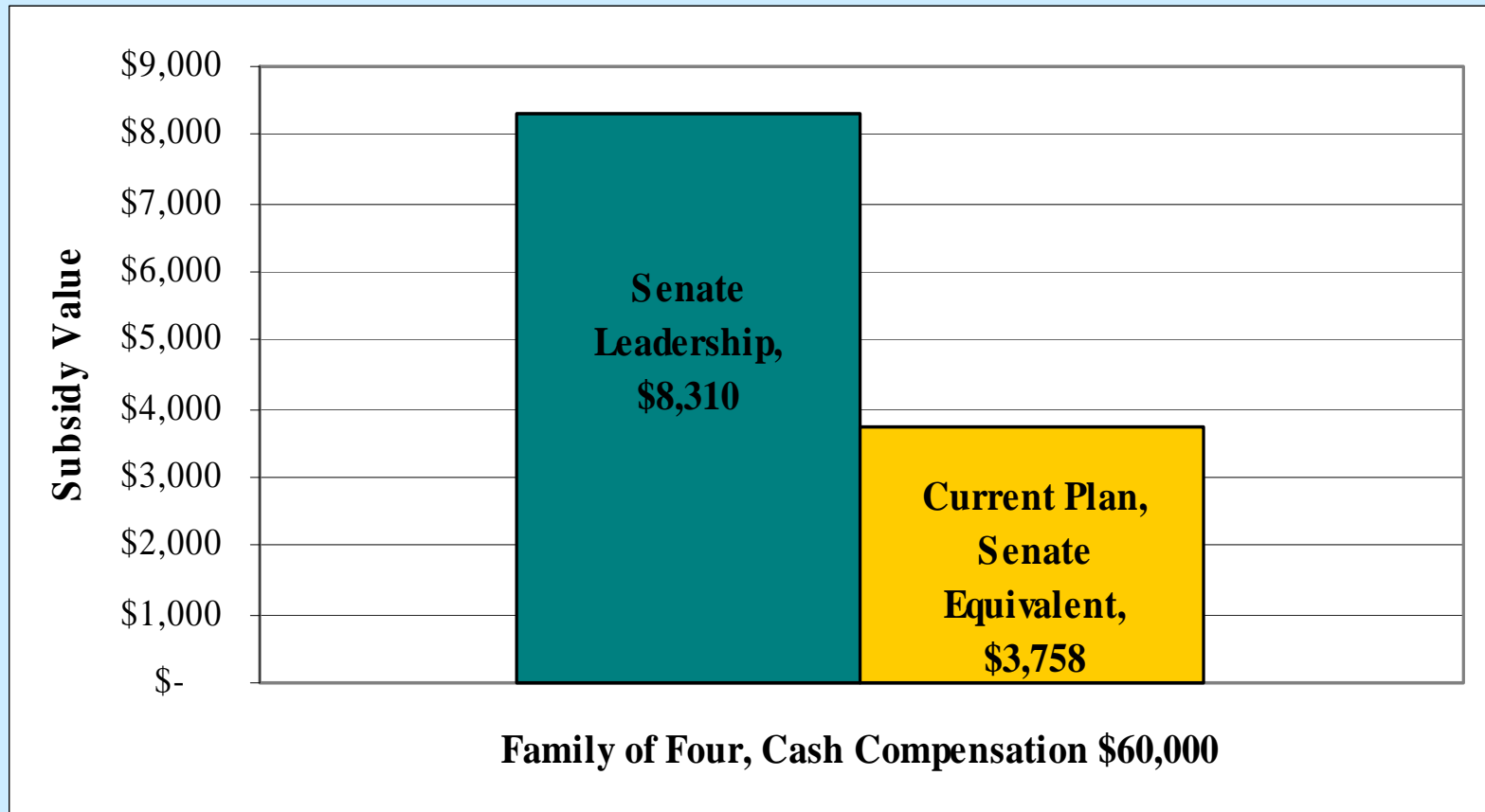
(Family of Four—2016)

Compensation in Cash & Employer-provided Insurance (approximate)	\$ 42,000	\$ 60,000	\$ 78,000	\$ 96,000
Value of Subsidy under Exchange	\$ 12,750	\$ 8,310	\$ 5,450	\$ (750)
Value of Tax Subsidy under Current Plan	\$ 5,749	\$ 3,758	\$ 3,758	\$ 3,758
Net Gain/Loss from Exchange	\$ 7,001	\$ 4,552	\$ 1,692	\$(4,508)

Source: C. Eugene Steuerle and Stephanie Rennane, Urban Institute 2009. Authors calculations based on data from CBO, November, 2009

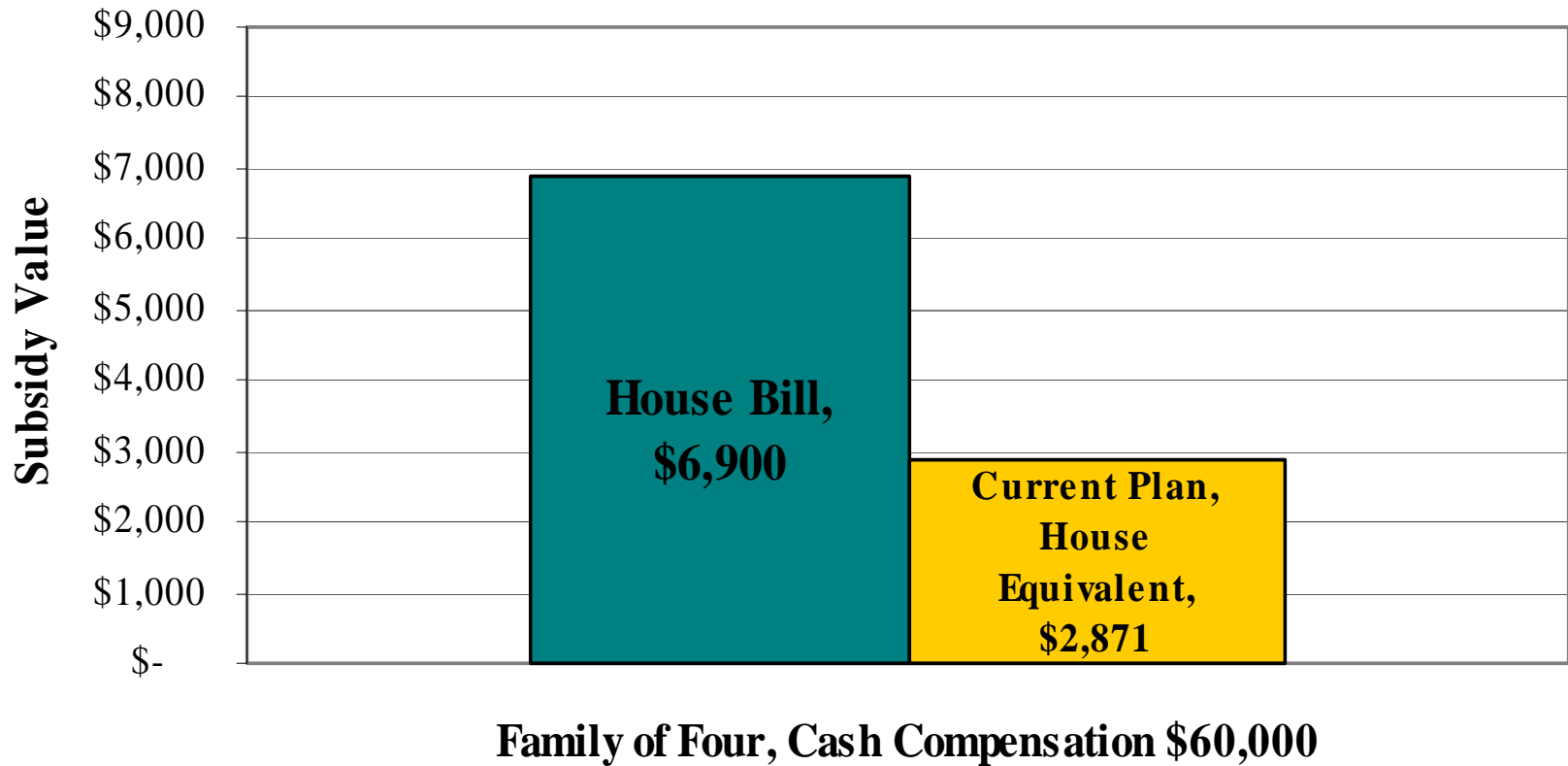
Comparing Subsidies under Two Plans

(2016)



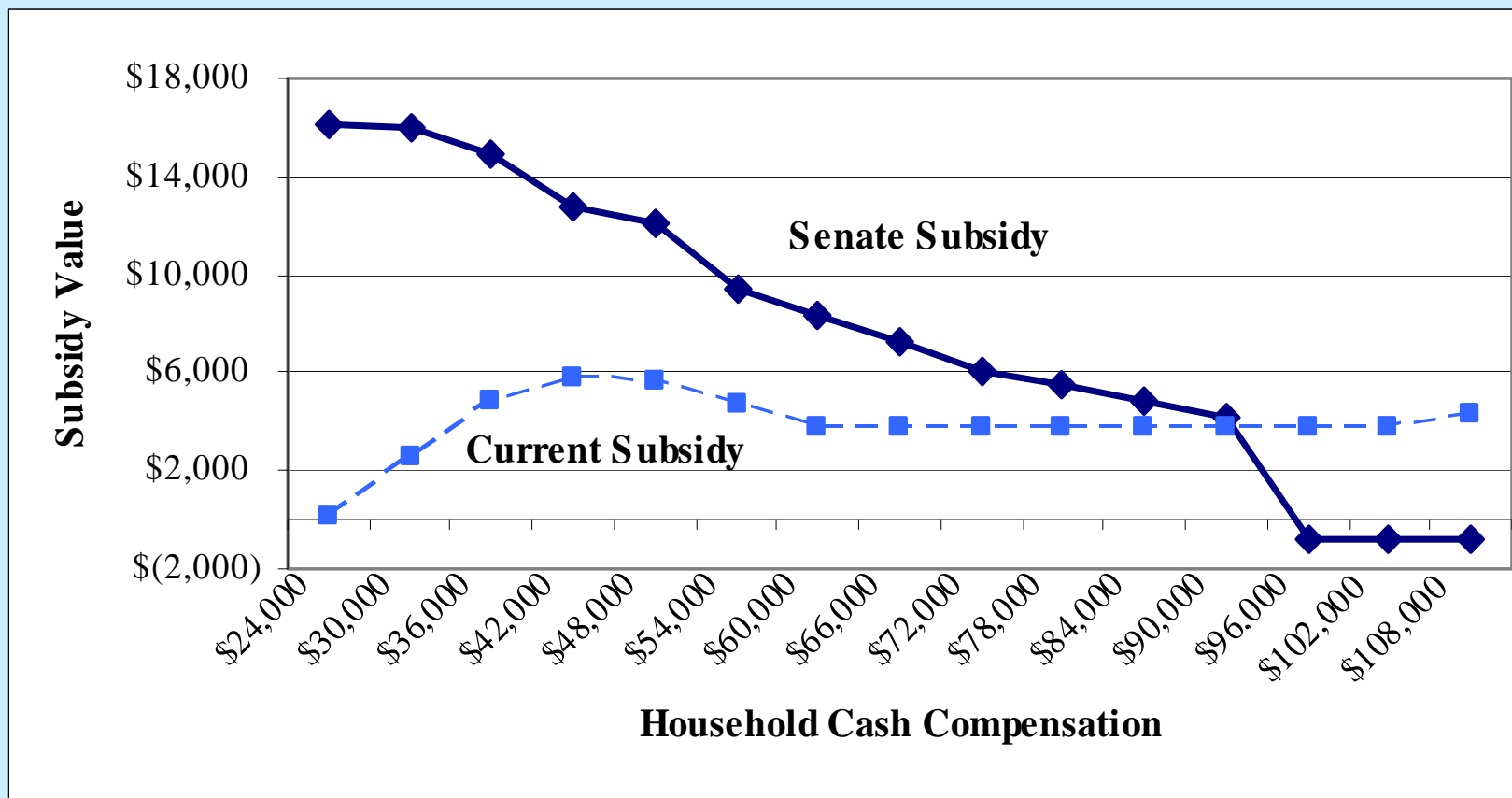
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Comparing Subsidies under Two Plans (2016)



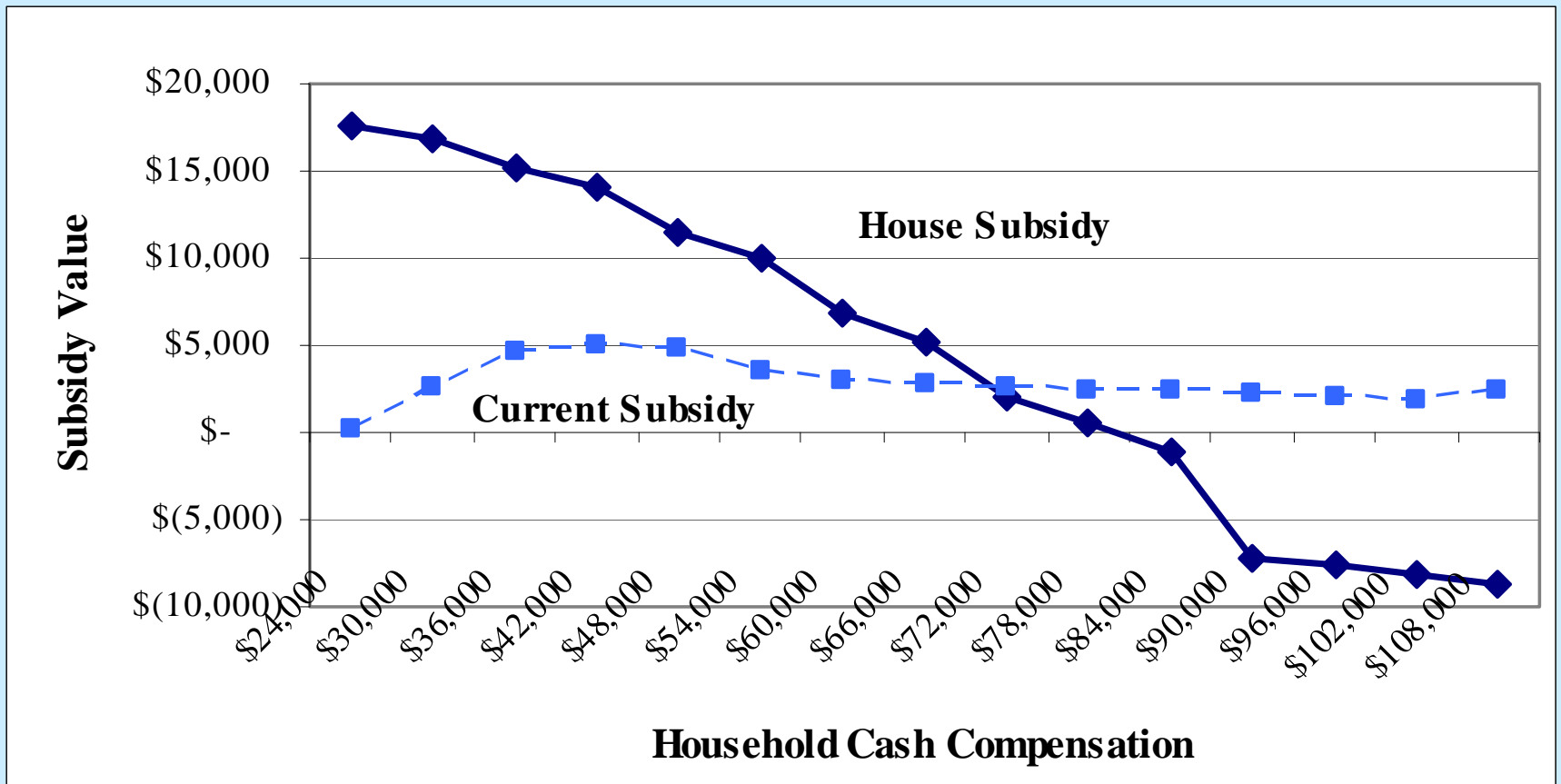
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Who wins and who loses?



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The Equal Justice Issue: Moderate & Middle Income Workers with Employer- Provided Insurance

- Favored under old system
- Disfavored under new system

Are they worse off? Depends upon base of comparison

- Largely keep their current subsidies
- May not face significant additional health insurance costs
 - BUT
- Lose out relative to a simplified single system

Did unions fight the right fight?

Labor Market Adjustments

- Low wage employers—drop insurance
- High wage employers—provide insurance
- Mergers, acquisitions, spin-offs
- Further contracting out
- Small employer re-alignment
 - No penalties, additional subsidies for some
- Further segregation of labor market
 - High compensation firms and low compensation firms
- The “Actuarial Full Employment Act of 2009

Other Behavioral Adjustments?

- **Medicaid:** expand or contract?
 - For instance, could hospitals make more by putting Medicaid recipients at 200% of poverty in exchange & forgiving copayments?
- **Individual Mandates:** potentially powerful
 - Desire of many to avoid any penalty

Administration & Enforcement

- Giving choice of subsidies=bad tax policy
- Many employers and employees must make alternative calculations
 - True under existing law
 - But comparison now very complicated

Administration & Enforcement (continued)

- Not just a new health system
- A new welfare and tax system
- 2014 income determines 2016 subsidy
- Adjustments supposedly allowed
 - How checked?
 - How are excess payments re-collected?
 - How will information flow back and forth among and to employers, IRS, and exchanges?
 - What information document system checks claims?

Some Suggestions

Modest

- IRS should report on problems of administration & enforcement for alternative subsidies
- Congress should ask some firms to report on gains from keeping/dropping insurance

Major

- Adhere to principle of equal justice