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Chairman Brady, Ranking Member McDermott, and Members of the Subcommittee on Health, I would like to provide a written statement regarding the delayed implementation of the employer reporting and shared responsibility requirements included in the Patient Protection and Affordable Care Act. Specifically, my remarks focus on the importance of the economic incentive created by the shared responsibility requirement for influencing employer decisions to offer insurance.

As background, I am a health economist and Associate Professor in the Division of Health Policy and Management at the University of Minnesota. In 2008-2009, I took leave from the university to serve as the senior economist on health issues for the President's Council of Economic Advisers under both the Bush and Obama Administrations. In collaboration with Dr. Roger Feldman (Blue Cross Professor of Insurance at the University of Minnesota) and Mr. Peter Graven (Research Economist at Oregon Health & Science University), I have been leading a study to investigate how the economic incentives created by the Affordable Care Act (ACA) will affect the probability that private-sector U.S. employers will offer employer-sponsored insurance (ESI).

In 2012, 35.2% of small firms in the United States (defined as those with less than 50 employees) offered health insurance, while 95.9% of large firms did so.¹ Currently, the preferential tax treatment of employer and employee premium contributions provides a strong economic incentive for employers to offer coverage. The Affordable Care Act introduces new factors expected to influence employers' incentives to offer coverage.

The three most important factors are:

¹ Medical Expenditure Panel Survey Insurance Component.

http://meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/national/series_1/2012/tia2.pdf

(1) Employer shared responsibility requirement. Employers with at least 50 full-time equivalent workers that do not offer coverage will pay an annualized penalty of \$2,000 per full-time employee (exempting the first 30 employees) if *any* full-time employee buys subsidized insurance in a new health insurance exchange.

(2) Availability of premium tax credits to purchase Exchange-based coverage for lower-income individuals without access to affordable ESI. Beginning in 2014, individuals with family incomes between 133% and 400% of the federal poverty level (FPL) who do not have access to an offer of affordable ESI will be able to obtain premium assistance credits to reduce the cost of health insurance to 3 percent of income for those at 133% FPL², phasing out to 9.5 percent of income at 300-400% FPL.

(3) Individual mandate. At full implementation in 2016, the penalty for a single person who does not hold coverage will be the greater of \$695 (up to three times that amount for a family) or 2.5% of household income.

Using the nationally representative Medical Expenditure Panel Survey (MEPS) for 2008, 2009, and 2010, we have developed a model to predict an employer's decision to offer insurance in both the pre-2014 period and at full ACA implementation. In both periods, we account for the importance of the ESI tax subsidy for an employer's workforce. In modeling employers' offer decisions at full-ACA implementation, we also account for the economic incentives created by the employer shared responsibility requirement, the individual mandate, and Exchange-based premium tax credits for each employer and its workforce. With this information, we then estimate how these incentives change employers' decisions to offer coverage, given the introduction of a new choice – individual Exchange-based coverage.

Consistent with the original intent of the employer shared responsibility requirement, we find that this provision plays an *economically meaningful* role in encouraging employers to offer insurance. For example, among medium-sized employers that offer insurance, the employer “penalty” expressed on a per worker basis is estimated to be \$1,156, which is almost 23% of the average single coverage premium.³

Our model predicts that the average probability of a private-sector establishment offering ESI (weighted by the number of employees in private-sector U.S. establishments) will decline from .83 to .66 with full ACA implementation. However, much of this decline is offset by workers who opt for individual Exchange-based coverage, which has an average

² The 2013 federal poverty level (FPL) is \$11,490 for one person, increasing to \$39,630 for a family of eight. Modified Adjusted Gross Income (MAGI) will be used to determine premium subsidies, resulting in an effective rate of 138% FPL after a 5% offset.

³ Based on the 2010 MEPS-Insurance Component single coverage premium estimate for large employers.

predicted probability of .26. The probability of remaining uninsured or obtaining coverage from other sources falls from .17 at baseline to .08 with full ACA implementation.

On July 2, 2013, the Obama Administration delayed the implementation of the employer reporting and shared responsibility requirements for one year, citing their desire to simplify reporting requirements and to provide additional time for employers to adapt coverage and reporting systems to comply.⁴

We emphasize that this provision in the ACA is economically significant in terms of its potential impact on an employer's likelihood of offering insurance and individuals' access to health insurance through their workplace. To gauge the importance of the employer shared responsibility requirement for encouraging employer provision of coverage, we re-estimated the employer offer model described above removing the employer shared responsibility requirement incentive. Our key finding is that the average probability of an employer offering ESI would decrease further to .58 should this provision not be implemented.

In conclusion, based on our economic analysis, the ACA's employer shared responsibility requirement is expected to be an influential factor affecting employers' decisions to offer insurance. If this provision is not enforced in the future, fewer employers will offer insurance and more workers will use the individual Exchanges to access health insurance.⁵

⁴ Written Testimony of J. Mark Iwry, Senior Advisor to the Secretary and Deputy Assistant Secretary for Retirement and Health Policy, U.S. Department of the Treasury, Before the House Committee on Ways and Means Subcommittee on Health, July 17, 2013.

⁵ Any opinions and conclusions expressed herein are those of the author and do not necessarily represent the views of the U.S. Census Bureau. All results have been reviewed to ensure no confidential information is disclosed.