Massachusetts Taxpayers Foundation

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MTF Analysis: Employers to Spend an Additional $175 Million a Year Under Health Reform

Massachusetts employers will spend an estimated $175 million a year for additional employee coverage under the state's health care reform law, according to a report released today by the Massachusetts Taxpayers Foundation. The report analyzes the broad scope of employer participation that is critical to the success of Massachusetts health care reform.

The MTF report, *An Analysis of the Essential Role of Employers in Massachusetts Health Care Reform*, finds that employers will contribute to the state's goal of nearly universal coverage by:

- increasing their health care spending by $150 million a year as more employees accept coverage;
- spending an additional $24 million a year to offer employees new prescription drug benefits;
- greatly expanding the availability of pre-tax premium payments for employees; and
- broadening their support for the funding of uncompensated care.

More employees will accept employer coverage

The MTF report estimates that the number of employees and dependents with employer-sponsored coverage will increase by 42,000 to 51,000, at an additional cost to their employers of $145 million to $157 million a year, as a result of health reform.

MTF President Michael J. Widmer, who was a participant in the final stakeholder discussions prior to the health reform law's passage in 2006, pointed out that increasing the number of residents enrolled in their employers' health insurance plans is a key element of the law's "shared participation" for achieving nearly universal coverage.

"The beauty of the Massachusetts law is that it uses a combination of individual and employer incentives and responsibilities to build on the state's historically high level of employer-sponsored coverage by encouraging people who had previously turned down coverage to become insured," Widmer said.

Prior to the passage of health reform, more than 90 percent of the Massachusetts employers that are subject to the law offered coverage to their employees, which is a far higher rate of employer-sponsored coverage than the nation as a whole. However, according to the MTF report, almost 70,000 employees of companies that offer coverage had chosen to remain uninsured prior to health reform.

Using conservative estimates of the number of uninsured employees who will accept employer coverage as a result of the law's “individual mandate,” the report calculates the added cost to employers based on the likely mix of individual and family coverage and the average employer contributions to employee coverage in Massachusetts. The MTF report estimates that, overall, Massachusetts employers will spend more than $11 billion on employee health benefits this year, even without the added employee coverage that will result from reform.

Many employers will offer new prescription drug benefits

The MTF report estimates that employers will spend $24 million a year for prescription drug coverage to help their employees meet the individual mandate's “minimum creditable coverage” (MCC) standards, which take effect in 2009.

Although they are not required by the law to do so, most of the employers that currently offer health benefit plans that do not meet MCC requirements are expected to switch employees to MCC-compliant coverage. The MTF estimates that, as a result, 100,000 more employees will have coverage that includes prescription drug benefits.

Employers will expand the availability of pre-tax premium payments

Tens of thousands of Massachusetts employers will offer their employees pre-tax payment of health insurance premiums for the first time because of health reform. The Massachusetts law requires employers with 11 or more employees to set up Section 125 plans, which allow employees to receive certain benefits, including health insurance, on a pre-tax basis. The right to participate in the plans must be extended to employees regardless of whether or not they are eligible for the employer's health plan, including many part-time employees. An employer that fails to comply with the Section 125 requirement may have to pay a “free-rider surcharge” if its employees or their dependents make “excessive” use of uncompensated care.

About half of the state's 200,000 employers offered their employees Section 125 plans prior to passage of health reform – 45 percent of employers with 2-50 employees and 80 percent of employers with 51 or more employees. Based on employment data collected by the state, several hundred thousand employees of companies that are covered by the law will be able to make pre-tax payment of health care premiums for the first time. Participating employees can save from 28 percent to 48 percent of their premium contributions, depending on their federal tax bracket, and employers can save an additional 7.65% on their share of payroll taxes.

Employers will broaden their support for funding uncompensated care for the uninsured

Massachusetts employers that contribute to their employees' health insurance coverage have provided some $320 million annually to the state's uncompensated care pool through insurance premiums and provider payments. The health reform law's “fair share” provisions are designed to broaden and equalize the funding of uncompensated care by requiring all employers with more than 10 employees either to make a “fair and reasonable” contribution to their employees' coverage or to pay an assessment of up to $295 per employee per year. The assessment is calculated as the average free care cost of employees working for employers that do not offer health coverage.

Because of the relatively small base of companies not offering health coverage, the state's FY2008 budget anticipates that only $24 million will be collected from fair share assessments. An initial report on employer compliance with the law's “fair and reasonable contribution” standard indicates that the actual total may prove to be lower.

“Contrary to some perceptions, the law's 'fair share' assessment was not designed either to increase the number of insured residents or to finance health reform in any significant way,” said Widmer. “Instead, as our analysis shows, health reform will increase both the number of insured and the amount employers spend on health care by creating a strong incentive for previously uninsured employees to sign up for employer health coverage.”

The MTF report concludes with a warning that failure to manage rising health care costs will jeopardize reform: “The delicate balance of shared responsibility among government, employers and individuals – and the broad consensus of support for health care reform in Massachusetts – assumes that health coverage will not become unaffordable for any of the parties, an assumption that will be constantly tested as more and more residents become insured through their employers, through government funded plans, and on their own.”

The Foundation's analysis draws on data developed by the Massachusetts Division of Health Care Policy and Finance, the Urban Institute, the Kaiser Family Foundation, and M.I.T economists Jonathan Gruber and Clara Lewis.

The Foundation thanks Microsoft for its sponsorship of the report.

The Massachusetts Taxpayers Foundation is an independent, nonprofit organization that conducts research on state and local taxes, government spending, and the economy. Founded in 1932, the Foundation has won numerous prestigious national awards over the last decade for its work on business costs, capital spending, state finances, MBTA restructuring, state government reform, and health care.

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