

## **“If You Like the Health Plan You Have, Your Employer Might Drop It”**

### ***Former Democrat Governors, Studies, and Business Surveys Confirm Employers Will Drop Health Coverage Under PPACA***

President Obama promised that Americans who like their current coverage can keep it on more than 45 separate occasions. However, according to Department of Health and Human Services' (HHS) 2010 rule on grandfathered health plans under the Patient Protection and Affordable Care Act (PPACA), between 39 and 69 percent of businesses will lose their status as “grandfathered health plans.” The picture is even worse for small businesses – HHS estimates by 2013, up to 80 percent of small businesses will lose their grandfather status.

Unfortunately, an accumulating mountain of evidence paints an even more dire picture. Two former Democrat Governors have predicted employers will drop health coverage. Former Tennessee Governor Phil Bredesen wrote in the Wall Street Journal about the incentives for the state of Tennessee to drop state employee insurance. According to Governor Bredesen, Tennessee could pay the \$2,000 dollar fine on each employee not covered, give cash raises, and still come out \$146 million ahead. <sup>1</sup> In his book, *Fresh Medicine*, Governor Bredesen explains more about why he thinks employers will drop health coverage. <sup>2</sup>

- “For a great many employers, when they compare the total costs of dropping coverage with those of keeping it, dropping it will make good financial sense....dropping coverage will be a very attractive option.”
- “It represents a genuine design flaw in the Exchange system—setting up the economic incentives to favor exactly what you don’t want: employers dumping into the federal system. Perhaps it’s an oversight by the designers who aren’t really attached to the world where nickels and dimes count. Or it may be just what they’re counting on, as a back-door approach to a government-run system.”
- “[S]ubsidized Exchange health insurance is structured to be so much more attractive than other alternatives that I believe it’s likely to grow... far beyond the scope that was originally anticipated.”
- “For a great many employers, when they compare the total costs of dropping coverage with those of keeping it, dropping it will make good financial sense. Even today, there’s already significant erosion of group health insurance as firms face economic pressure. Once there’s a clear path that doesn’t hurt their employees; dropping coverage will be a very attractive option.”
- “If someone were starting a company in 2014, it would be a perfectly sensible business decision for them to decide right at the start to permanently stay out of the business of offering health insurance.....a fine of two or three thousand dollars will look very attractive as an alternative to a contribution of \$15,000 or more for an employer-sponsored family policy.”

Former Vermont Governor and presidential candidate Howard Dean largely agrees. When commenting on the now-famous McKinsey study concluding that a third of private-sector companies will drop health insurance coverage after full implementation of PPACA, Governor Dean said "Most small businesses are not going to be in the health insurance business anymore after this thing goes into effect." <sup>3</sup>

Former director of the Congressional Budget Office Doug Holtz-Eakin has studied the law and conclude PPACA provides “strong incentives for employers ... to drop employer-sponsored health insurance for as many as 35 million Americans, perhaps leading to widespread turmoil in labor compensation and employee insurance coverage....”<sup>4</sup> Unfortunately, the drag on the federal budget could be heavy, since the costs of such widespread loss of coverage may raise “the gross taxpayer cost of [health] subsidies to roughly \$1.4 trillion in the first 10 years.”

<sup>1</sup> “Obamacare’s Incentive to Drop Insurance”, October 21, 2010,

<http://online.wsj.com/article/SB10001424052702304510704575562643804015252.html?KEYWORDS=health+care>

<sup>2</sup> Excerpts from *Fresh Medicine*, page 31, on website of Sen. Tom Coburn, MD. <http://goo.gl/4FXaa>

<sup>3</sup> The Washington Examiner, “Dean: Employers with drop coverage under Obamacare,” September 20, 2011,

<http://campaign2012.washingtonexaminer.com/blogs/beltway-confidential/dean-employers-will-drop-coverage-under-obamacare>

<sup>4</sup> “Labor Markets and Health Care Reform: New Results”, May 2010,

[http://americanactionforum.org/files/AAF\\_Labor%20Markets%20and%20Health%20Care%20Reform\\_5-27-2010.pdf?phpMyAdmin=yVaoFlsOJaixGsCDQKevn.gw.Q9](http://americanactionforum.org/files/AAF_Labor%20Markets%20and%20Health%20Care%20Reform_5-27-2010.pdf?phpMyAdmin=yVaoFlsOJaixGsCDQKevn.gw.Q9)

## **Studies and Surveys Showing Why Employers Will Drop Health Coverage**

### **Mercer: 1 in 4 Employers Expect Costs to Increase Substantially in 2014.<sup>5</sup>**

- More than a quarter of employer respondents said their costs would rise by at least 3% in 2014 thanks to PPACA's new mandates and requirements, according to a Mercer study.
- Fifteen percent said the increase would be more than 5%, and a further 13% said their costs would rise by about 3-4%.
- Because one in three employers have not yet calculated how much the law will increase their firms' costs, these numbers will likely rise in future surveys.

### **National Federation of Independent Business: More than half of small businesses considering dropping coverage.<sup>6</sup>**

- An NFIB survey of 750 small businesses with under 50 employees found that more than one in ten (11.7%) small businesses have already lost their current coverage.
- The survey also found that "more than one-quarter of firms now offering coverage (25.9%) said they were very likely to drop coverage, and another 31.5% said they were somewhat likely – for a total of more than 57% of firms who would consider dropping coverage."
- In addition to these cuts, the survey found that firms believe PPACA not slow the rate of premium increases, but will actually bend the cost curve up; a majority strongly or somewhat believe the law "will lead to a government takeover of healthcare."

### **Employee Benefits Research Institute: PPACA includes incentives for employers to drop employee coverage.<sup>7</sup>**

- The brief on employer-sponsored health care coverage confirms employers have reasons to drop health coverage, due to PPACA's perverse incentives.
- Several sections of the report confirm many workers could come out ahead if their employers drop coverage and stick taxpayers with the bill for insurance subsidies. Employers would still have about \$2,000 left over per worker with employee-only coverage and about \$8,500 per worker with family coverage after paying the \$2,000 penalty for not offering coverage.

### **Towers Watson: PPACA forces 3 in 5 employers to change coverage for early retirees.**

- Towers Watson's annual survey of retiree health coverage discovered that nearly three in five employers will change their coverage for employees retiring before 65 due to PPACA.<sup>8</sup>
- An AP story notes government actuaries indicate that early retirees making up to \$64,000 dollars will be able to receive "basically free" healthcare under tax-payer funded Medicare programs "for the poor".<sup>9</sup>

### **Lockton: 1 in 5 employers consider dropping coverage completely due to PPACA; 4 in 5 concerned about new red tape.<sup>10</sup>**

- Benefits Consultants at Lockton report that 80 percent of employers are concerned or very concerned about new administrative burdens.
- More than half of employers (56%) believe the law will significantly increase their paperwork burdens.
- Nearly one in five (18.8%) firms is considering terminating coverage outright thanks to the law.

<sup>5</sup> "US Employer Health Plan Enrollment Up 2% Under PPACA Dependent Eligibility Rule", August 1st, 2011, <http://www.mercer.com/press-releases/1421820>

<sup>6</sup> "PPACA One Year Later: Small Business Owners Expect Costs to Rise", July 25th, 2011, <http://www.nfib.com/press-media/press-media-item?cmsid=57614>

<sup>7</sup> "Employment-Based Health Benefits and Taxation: Implications of Efforts to Reduce the Deficit and National Debt", July 2011,

[http://www.ebri.org/pdf/briefspdf/EBRI\\_IB\\_07-2011\\_No360\\_Taxes-HI.pdf](http://www.ebri.org/pdf/briefspdf/EBRI_IB_07-2011_No360_Taxes-HI.pdf)

<sup>8</sup> "Redefining Retiree Medical Strategy", 2011, <http://www.towerswatson.com/assets/pdf/4634/Towers-Watson-ICEBS-2011.pdf>

<sup>9</sup> "BC-US--Health Overhaul-Glitch, US", June 21, 2011, <http://www.whas11.com/news/business/124292523.html>

<sup>10</sup> "Employer Health Reform Survey Results", June, 2011,

[http://www.lockton.com/Resource\\_/PageResource/MKT/Employer%20Health%20Reform%20Survey%20Results%202011--FINAL.pdf](http://www.lockton.com/Resource_/PageResource/MKT/Employer%20Health%20Reform%20Survey%20Results%202011--FINAL.pdf)

**McKinsey and Company: Because of increased costs, nearly half of all surveyed employers say they will likely drop or change their employee coverage plans after 2014.**<sup>11</sup>

- 45 to 50 percent of employers say they “will definitely or probably pursue alternatives” to their existing plans after 2014.
- 30 percent of employers – and 28 percent of large employers – “will definitely or probably stop offering” coverage.
- Employers who are more aware of PPACA’s provisions are more likely to consider dropping coverage – “upward of 60 percent will pursue some alternative” to their existing plans.
- “At least 30 percent of employers would gain economically from dropping coverage even if they completely compensated employees for the change through other benefit offerings or higher salaries.”

**National Business Group on Health: Employers expect costs to increase 7.2%, with nearly two-thirds of employers expecting to increase employee shares of premiums.**<sup>12</sup>

- Nearly half (49%) of firms have already lost their pre-Obamacare coverage, having forfeited “grandfather status” this year. A further 19% will have at least one plan that loses its grandfather status next year.
- This report provides yet another instance of how the reality of Obamacare’s impact is far divorced from the promises made prior to the legislation’s enactment.

**Towers Watson’s survey of large employers: Higher premiums, higher overall costs, and incentives to drop coverage plague employers.**<sup>13</sup>

- Seven out of ten employers (70%) expect to lose grandfathered health status in 2012 – meaning employees will lose their current health plan, and employers will be subject to a blizzard of new regulations and mandates under PPACA.
- Nearly three in ten employers (29%) are unsure whether or not they will continue offering coverage to their current workers thanks to PPACA. More than half (54%) of employers currently offering coverage to retirees plan to drop that coverage.
- A majority of firms plan to raise the employee share of premium contributions in 2012 by at least one percentage point (66%) – with 20% planning to raise single-only coverage premiums by more than 5%, and 29% planning to raise family coverage premiums by more than 5%. Despite candidate Obama’s repeated promises to cut premiums for all Americans by an average \$2,500 per household, only 1% of firms plan to decrease the employee share of premium contributions.
- Thanks to PPACA, nearly half (47%) of employers plan to “substantially reduce the health care benefit value of active employees,” in 2014 and 2015, and an even greater percentage (57%) plan to “reduce employee contributions for lower-paid workers.” (That is, of course, if those employers are even offering coverage at all by that point.)

**Wisconsin Department of Health Services and Ohio Department of Insurance: Premiums expected to rise 55% to 85% before subsidies under PPACA, providing incentives for employers to drop coverage of employees.**<sup>14</sup>

- Ohio report concludes 688,000 will be without employer- sponsored coverage statewide.
- Both reports stress that PPACA provides incentives for employers to abandon sponsoring employees’ coverage, leading to employees to join taxpayer-funded programs.
- Insurance premiums are estimated to increase by 55% to 85% above current market average rates before subsidies.

<sup>11</sup> “How US health care reform will affect employee benefits”, June 2011, [http://www.mckinseyquarterly.com/How\\_US\\_health\\_care\\_reform\\_will\\_affect\\_employee\\_benefits\\_2813](http://www.mckinseyquarterly.com/How_US_health_care_reform_will_affect_employee_benefits_2813)

<sup>12</sup> “Majority of Large Employers Revamping Health Benefit Programs for 2012,” August 18, 2011, <http://www.businessgrouphealth.org/pressrelease.cfm?ID=179>

<sup>13</sup> “2011 Towers Watson Health Care Trend Survey,” August 24, 2011, <http://www.towerswatson.com/united-states/press/5328>

<sup>14</sup> Wisconsin Department of Health Services, “The Impact of the ACA on Wisconsin’s Health Insurance Market,” July 18, 2011 <http://www.freemarkethealthcare.wi.gov/docview.asp?docid=22035&locid=173> and Ohio Department of Insurance, “Assist with the first year of planning for design and implementation of a federally mandated American Health Benefit Exchange,” August 31, 2011, <http://www.ohioexchange.ohio.gov/Documents/MillimanReport.pdf>