Health Care Reform:
Implications of a Two Subsidy System

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The Urban Institute

AEI CONFERENCE ON
FAIRNESS IN HEALTH REFORM
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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)

<table>
<thead>
<tr>
<th></th>
<th>Exchange</th>
<th>Employer Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Compensation</td>
<td>$60,000</td>
<td>$47,599</td>
</tr>
<tr>
<td>Health Care</td>
<td></td>
<td>$14,100</td>
</tr>
<tr>
<td>Employer Mandate</td>
<td>$750</td>
<td></td>
</tr>
<tr>
<td>Employer Soc. Sec. Tax</td>
<td>$4,590</td>
<td>$3,641</td>
</tr>
<tr>
<td><strong>Employer Total</strong></td>
<td><strong>$65,340</strong></td>
<td><strong>$65,340</strong></td>
</tr>
</tbody>
</table>

Source: C. Eugene Steuerle and Stephanie Rennane, Urban Institute 2009. Authors calculations based on data from CBO, November, 2009
## Equal Employer Costs - House

<table>
<thead>
<tr>
<th></th>
<th>Exchange</th>
<th>Employer Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Compensation</td>
<td>$60,000</td>
<td>$50,525</td>
</tr>
<tr>
<td>Health Care</td>
<td>$-</td>
<td>$15,000</td>
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<tr>
<td>Employer Mandate (8%)</td>
<td>$4,800</td>
<td>$-</td>
</tr>
<tr>
<td>Employer Soc. Sec. Tax</td>
<td>$4,590</td>
<td>$3,865</td>
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<tr>
<td><strong>Employer Total</strong></td>
<td><strong>$69,390</strong></td>
<td><strong>$69,390</strong></td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th>Compensation in Cash &amp; Employer-provided Insurance (approximate)</th>
<th>$ 42,000</th>
<th>$ 60,000</th>
<th>$ 78,000</th>
<th>$ 96,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of Subsidy under Exchange</td>
<td>$ 12,750</td>
<td>$ 8,310</td>
<td>$ 5,450</td>
<td>$(750)</td>
</tr>
<tr>
<td>Value of Tax Subsidy under Current Plan</td>
<td>$ 5,749</td>
<td>$ 3,758</td>
<td>$ 3,758</td>
<td>$ 3,758</td>
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<tr>
<td><strong>Net Gain/Loss from Exchange</strong></td>
<td>$ 7,001</td>
<td>$ 4,552</td>
<td>$ 1,692</td>
<td>$(4,508)</td>
</tr>
</tbody>
</table>

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)

Family of Four, Cash Compensation $60,000

Comparing Subsidies under Two Plans (2016)

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

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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