

# How Obamacare Is Affecting Wisconsin's Workers and Employers

Issue Brief No. 150

by Devon M. Herrick

October 2014

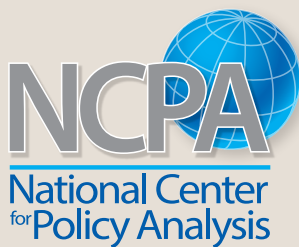
*The Patient Protection and Affordable Care Act (ACA) is having a profound effect on the labor market and raising the cost of health benefits for both employers and individuals. The impact on small businesses is especially acute.*



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Whereas large corporations typically self-insure — paying their employees' medical bills and hiring insurers to administer health benefits — small businesses purchase group health coverage from insurers and face cost-increasing regulations as they go through the annual ritual of renewing their coverage. As Obamacare is fully implemented over the next few years, it will affect other aspects of business operations — including hiring, employee compensation and business growth.

Wisconsin businesses will not escape these effects.

## The Role of Employer Health Plans

Nearly two-thirds of Americans with health coverage have employer-sponsored health insurance — approximately 171 million people according to the U.S. Census Bureau.<sup>1</sup>

Compared to other states, employees of Wisconsin businesses are more likely to receive health benefits at work or through the employer of a household member.<sup>2</sup> However, employee health benefits in Wisconsin are eroding as costs begin to exceed what many companies and their employees are willing to bear. The average cost of a family employer plan in Wisconsin was \$16,248 in 2012, more than in 42 other states.<sup>3</sup>

The number of people in Wisconsin who get coverage on the job fell by 400,000 in the decade since 2000, when 79 percent of nonseniors had employee health benefits. The drop was most acute among moderate-income workers, who lost coverage at a much higher rate than their better-paid colleagues.<sup>4</sup> The reasons for the decline included not only employers dropping health plans, but also employees declining to enroll in them:

- About half of Wisconsin employers offered an employee health plan in 2011, compared to about 60 percent in 2000.
- In 2000, nearly three-fourths (72 percent) of workers in small firms were offered coverage by their employer; a decade later, that had fallen to 51 percent.
- The percentage of Wisconsin workers who enroll in employee health coverage when offered has also fallen slightly, from 80 percent in 2000 to 75 percent in 2011.<sup>5</sup>

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Most of the decline in employer coverage was among firms employing fewer than 50 workers, and health reform will likely further that decline. From 2000 to 2011, the average premium for employee-only coverage doubled, while family premiums increased 121 percent.

Health benefits are a significant expense for U.S. employers and a significant portion of workers' total compensation. For instance:

- The cost of employee health benefits averages \$2.70 per hour, according to the Bureau of Labor Statistics, representing 8.5 percent of private industry workers' total compensation.
- Nationally, the average cost of an employee family plan was \$15,473 in 2012, according to the Kaiser Family Foundation.<sup>6</sup>

The ACA's employer mandate is designed to force firms to provide full-time employees with comprehensive health insurance. The mandate takes effect January 1, 2015, for employers with more than 99 full-time employees, while firms employing from 50 to 99 full-time workers have until 2016 to comply. The Congressional Budget Office (CBO) estimates the required coverage for an individual will cost \$5,800 a year or more in 2016 — the equivalent of an additional \$3 per hour “minimum health wage.” The required family coverage could cost more than twice that amount.

*“The average cost of a family employer plan in Wisconsin was \$16,248 in 2012, more than in 42 other states.”*

**Health Insurance Mandate on Firms with 50 or More Employees.** The ACA requires employers to offer health coverage to workers or face a fine. Employers with fewer than 50 full-time workers are exempt from penalties — for now at least. The fiftieth worker, however, could be a very expensive hire. Firms that employ 50 or more workers and don't provide health insurance will be subject to a tax penalty of \$2,000 for each uninsured employee beyond the first 30. Thus, growing from 49 to 50 uninsured workers would subject employers to a

fine of \$40,000 for adding the last worker  $[(50 - 30) \times \$2,000]$ .

Employers have three ways to reduce the burden of the employer mandate: 1) limit their workforce to fewer than 50 workers; 2) limit the hours worked per week by some employees to fewer than 30 hours; or 3) fail to offer or subsidize family coverage and, thus, pay a \$2,000 per (full-time) worker fine. Firms with 50 or more workers will be required to contribute at least 60 percent of the cost for individual minimum essential coverage. These perverse financial incentives will cause many firms to avoid growing beyond 49 employees and will harm many of Wisconsin's workers.

**“Grandfathered” Health Insurance Plans.** Many small firms were able to delay the costly mandated benefits and new regulations by renewing less-expensive (non-conforming) coverage prior to January 2014. When these plans expire in 2014, these firms will be forced to purchase more highly regulated plans.

In theory, firms could retain their current health plan by claiming “grandfathered” status, insulating employers from cost-increasing regulatory burdens. However, only a few small businesses will have grandfathered plans. The status is lost if a firm makes any substantial plan change, such as switching to a new insurance carrier — even though changing insurers is the primary way small firms keep premiums down. According to the U.S. Department of Health and Human Services, two-thirds to four-fifths of employer plans will likely lose their grandfathered status.<sup>7</sup>

**Limits on Employee Premiums.** Employers are also required to limit the amount of premiums some employees pay as a percentage of their wage income or else pay a fine if premiums are unaffordable. For example, health plans are considered “unaffordable” if workers earning less than 400 percent of the federal poverty level (about \$46,680 for an individual) must pay a premium that is more than 9.5 percent of their income. Yet, a Wisconsin worker earning \$46,680 will likely find it unaffordable to pay \$4,435 for employee-only coverage and an additional premium of \$10,000 to cover a family. But this would comply with the ACA's employer mandate. Under these conditions, a worker electing not to enroll in employer coverage would be subject to a fine and would not qualify for subsidies in the health insurance exchange. The Affordable Care Act also removes much

of the discretion employers once had to tailor health benefits to workers' unique health needs. For instance, the federal government has essentially prohibited defined contribution health plans for individual coverage. (These plans allowed workers to apply the employer's subsidy to insurance they chose.)

*“Firms that employ 50 or more workers will be subject to a tax penalty of \$2,000 for each uninsured employee.”*

**Effects on Premiums.** The consequences of the Affordable Care Act for employers (and individual workers) who must purchase coverage is already becoming manifest. A 2014 survey of 148 insurance brokers by the investment firm Morgan Stanley found that rates in the small group market have risen substantially as a result of new regulations. For instance:<sup>8</sup>

- Premiums for firms renewing in 2014 jumped 11 percent in the small group market.

- For firms with coverage through BlueCross, the year-over-year renewing contract premium hike was nearly 16 percent.
- For individuals, the increase was similar — about 12 percent.

And premium increases were even higher in some states. The Morgan Stanley survey found that since December 2012, rates for small employers grew an astounding 588 percent in Washington State, though this is likely due to the small sample size and implementation of new state regulations. Premiums also increased 66 percent in Pennsylvania, 37 percent in California, 34 percent in Indiana, 30 percent in Kentucky and 29 percent in Colorado. Although not as bad as in many other states, renewal premium hikes in small group coverage in Wisconsin were 10 percent in 2013 and 9 percent in 2014.<sup>9</sup>

Individual rates, especially for young people, have increased even more. When individuals who work at small firms are not offered coverage, they must purchase it in the individual market or the exchange. Premiums for young adults in Brown County, Wisconsin, doubled from 2013 to 2014. So have premiums for families.<sup>10</sup> [See the table.]

## Average Premium Rate Increase in Wisconsin on the Obamacare Exchange

|                          | Brown County | Dane County | Eau Claire County* | Milwaukee County |
|--------------------------|--------------|-------------|--------------------|------------------|
| Individual - 27 Year Old | 102.0%       | 93.6%       | 72.6%              | 91.2%            |
| Individual - 50 Year Old | 54.4%        | 48.4%       | 36.5%              | 50.0%            |
| Family of Four           | 97.2%        | 88.3%       | 69.8%              | 87.0%            |

## Lands' End Limits Hours

Benefits brokers expect more Wisconsin firms to limit some employees' hours and expand their part-time workforce as a result of the employer mandate requiring firms to provide health benefits or pay a fine.<sup>22</sup> The ACA requires mid-to-large-sized employers to provide health benefits to all full-time workers, or face a penalty of \$2,000 to \$3,000 per uncovered worker.

Workers at the apparel company Lands' End learned that many of them would have their weekly hours cut to no more than 29 hours. The memo said: "For some of you, working less hours may be what you wanted. For others, these new governmental guidelines may be very difficult. These guidelines applies [sic] to all companies in the US (unless they have less than 50 employees or are non-profit)."<sup>23</sup> This is understandable; the cost of the penalty is expensive — as is health coverage.

## Employer Responses to the Affordable Care Act

A 2011 report by consultants McKinsey & Company found nearly one-third of employers (30 percent) would likely stop offering health insurance as an employee benefit. Among employers who said they understand the Affordable Care Act, this figure rose to half or more.<sup>11</sup> Moreover, a 2014 report from the Obama Administration admitted that perhaps two-thirds of

*"Two-thirds to four-fifths of employer plans will likely lose their grandfathered status."*

small employers will see a jump in premiums due to provisions in the health care law.<sup>12</sup> And more employers will face insurance cancellations (and possible premium hikes) in fall 2014, when they must replace lower-cost health benefits with more comprehensive plans that comply with the Affordable Care Act.<sup>13</sup> More than half (54 percent) of small Wisconsin employers surveyed recently by HC Trends renewed their employee health plans early in order to delay complying with the ACA mandates. About 12 percent of small employers surveyed reported plans to move workers to the exchange.<sup>14</sup>

The media tends to focus on individual insurance (nongroup coverage), but the cost of phasing out caps

on benefits and the new coverage requirements is leading employers to look for ways to reduce their costs. One way is for employers to pass on as much of the cost to workers as they can. For instance, some employers are raising copayments for workers; others are boosting costs for dependent coverage, according to benefits consultant Mercer. Still others are reducing workers and the hours workers are permitted to work.<sup>15</sup>

**Reducing the Number of Workers and Delaying Hiring.** A survey of more than 600 small business owners by the Society for Human Resource Management (SHRM) found that more than 4-in-10 small business owners have postponed hiring due to uncertainty about the effects of the Affordable Care Act, while about 20 percent have cut the number of workers they employ.<sup>16</sup>

**Reducing Employee Hours.** An online survey of Milwaukee-area firms employing 125,000 workers found six percent of medium and large employers have reduced the hours of some workers to part time. Nearly one-quarter (22 percent) are considering a similar move.<sup>17</sup> An informal survey of small business owners across the country by NBC News found that almost all have cut the hours of some employees due to the law.<sup>18</sup> According to an SHRM survey, about one-in-five small businesses are reducing workers' hours to part time because they are not required to offer coverage for employees who work less than 30 hours per week. The human resources consultant Mercer reported that 12 percent of employers nationwide plan to reduce workers' hours as a result of the Affordable Care Act.<sup>19</sup> *Investor's Business Daily* recently documented 401 employers who have similar plans — including not just

businesses, but also public sector employers.<sup>20</sup> Indeed, the list included 320 public sector employers that were reducing part-time workers' hours to avoid the costs of the mandate.<sup>21</sup> Those employees will be eligible for subsidized coverage in a new health insurance exchange, but may have less income to pay for other living expenses due to restricted hours. [See the sidebar, "Lands' End Limits Hours."]

*“Overall, by 2016, about 10,000 Wisconsin workers will lose (or leave) small group employer plans.”*

### Conclusion

The Affordable Care Act contains sweeping changes to the employer-sponsored health insurance market. Though it was promoted as a way to lessen the problems small businesses experience in providing health coverage, many Wisconsin business owners report that the law is increasing their burden. Indeed, the Obama Administration itself says that perhaps two-thirds of small employers will see a jump in premiums due to provisions in the health care law. This trend is likely to continue.

### About the Author

**Devon M. Herrick** is a senior fellow with the National Center for Policy Analysis. He concentrates on such health care issues as Internet-based medicine, health insurance and the uninsured, and pharmaceutical drug issues. His research interests also include managed care, patient empowerment, medical privacy and technology-related issues. Herrick is past Chair of the Health Economics Roundtable of the National Association for Business Economics.

Herrick received a Doctor of Philosophy in Political Economy degree and a Master of Public Affairs degree from the University of Texas at Dallas with a concentration in economic development. He also holds a Master of Business Administration degree with a concentration in finance from Oklahoma City University and an M.B.A. from Amber University, as well as a Bachelor of Science degree in accounting from the University of Central Oklahoma.

# How Obamacare Is Affecting Wisconsin's Workers and Employers

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