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HEALTH CARE DEBATE TALKING POINTS #1: COST TO BUSINESS OF THE GEPHARDT BILL

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The August 3, 1994, edition of this Talking Points has been updated using 1991 County Business Pattern figures and updated Census Bureau population projection figures. The cost calculations in this edition reflect the use of the updated model.

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INTRODUCTION

House Majority Leader Richard Gephardt's (D-MO) health care proposal would make sweeping changes in America's health care system. Using The Heritage Foundation's health care simulation model (see appendix for technical specifications), Heritage Senior Fellow David Winston has prepared an estimate of the financial impact of the legislation.

✓ **The estimate must be preliminary because the complete legislative language of the proposal still is unavailable.** Many provisions, however, are based on the bill reported by the House Ways and Means Committee. Where this is the case, the Committee bill is used as the basis for the estimate. In other cases, such as the provision to permit certain families to join a version of the Federal Employees Health Benefits Program (FEHBP), the provision was not in the Ways and Means bill. Certain assumptions thus must be made as to how the new option would work.

✓ **Assumptions must be made regarding such things as the choices employers and employees will make under the new system and such things as the future rate of cost increases in health care.** Small changes in these assumptions can mean large differences in projected costs, and yet equally reputable scholars and organizations can reach very different decisions about these assumptions. This makes seemingly precise estimates of the impact of the program (such as the deficit estimates released by the Majority Leader's office) very misleading unless the assumptions are clearly stated. Even then, lawmakers and the public must realize that a range of outcomes is possible. The assumptions used in this study are contained in the appendix.

WHAT THE GEPHARDT PROPOSAL WOULD DO

The Gephardt proposal would build on the House Ways and Means bill by requiring all Americans to obtain a comprehensive health insurance plan by 1999. Employers would be obliged to cover most of the cost for their employees and their dependents.

Large Employers

✓ Firms with more than 100 employees would have to offer at least two plans (one managed care and one with free choice of doctor), containing a package of benefits at least equal to a standard package specified by Congress.

✓ If they wished, employers could offer a "medisave account" variant of the standardized plan—a high-deductible standard policy and an amount contributed to the employee's tax-free medisave account. The health care component of existing tax-free flexible spending and cafeteria plans would no longer be excludable from an employee's taxable income.

✓ Firms would have to pay at least 80 percent of the premium.[1] Lower-income workers in these firms could elect to join the new Medicare Part C program (see below). If an employee did so, the employer would have to pay 80 percent of the Medicare Part C premium to the government.

✓ If an employee of company A chooses to be covered under his or her spouse's plan in company B, company B must pay at least 80 percent of a family plan. Moreover, even though the employee no longer is covered by company A, that company pays a special new tax (termed a "non-enrolling employer payment") to the federal government equal to 80 percent of the Medicare Part C premium. Company B receives a government subsidy equal to a small fraction of its additional cost.

Small Employers

✓ Firms with fewer than 100 employees could choose to enroll their employees in Medicare Part C. These firms alternatively could offer a choice of private insurance plans (at least a managed care and a fee-for-service plan, and if it wished, a medisave option). Small firms also could also choose to offer coverage under the FEHBP (either as the only option or in tandem with other private plans).

✓ Employees of firms with fewer than 100 employees also could opt to enroll in the FEHBP. Low-income employees of the firm (see below) also could opt into Medicare Part C.

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1 If the firm offered a medisave option, the firm would have to contribute to the account each year an amount equal to the difference between the cost to the employer of its standard fee-for-service plan and the cost of the high-deductible version. Employees would not be permitted to add their own money to their medisave account.

- ✓ Small firms generally would have to pay at least 80 percent of the premiums (with the same obligations for non-enrolling employees and in funding optional plans as large firms).
- ✓ Firms with fewer than 26 employees would receive a tax credit equal to 50 percent of the Medicare Part C premium for a low-paid worker (see below) to offset the cost of enrolling each employee in a health plan (Medicare Part C or a private insurance plan).
- ✓ Firms with 26 to 50 employees would receive a 37.5 percent credit against the cost of covering their employees. In the Ways and Means bill, these credits are phased out over five years, after which the small firm pays its full share of premiums.

Low-Paid Workers

- ✓ Low-income households would receive subsidies to offset their share of premiums, from 100 percent of their share at the poverty rate scaled down to zero at 240 percent of poverty.

Medicare Part C

- ✓ A new Medicare Part C program would be established, to include those currently on Medicaid (acute care), the unemployed, part-time and seasonal workers, and certain full-time employees (see above). This program could include as many as 103 million Americans, if all those eligible outside the public sector work force were to join. If many public employees and their families joined the program, the number would be much higher.
- ✓ Medicare Part C would operate much as Part A and Part B do today. Fees for physicians would be controlled by the federal government according to a schedule, as would reimbursements to hospitals for specified treatments.
- ✓ The premiums for Medicare Part C would be the same for all classes of enrollee (single, single with children, couple, and two-parent family), a practice known as pure community rating.

Insurance

- ✓ All insurers would be required to provide at least the standardized national set of benefits set out in the legislation. Insurers would have to charge the same premium to all enrollees of the same class for insurance sold to groups of 100 or less (pure community rating).
- ✓ Insurers could not impose pre-existing condition limitations or refuse coverage.
- ✓ All insurance companies would be subject to a 2 percent excise tax on premiums. Self-insured firms would face a similar 2 percent tax on their health costs.

THE COST TO BUSINESS

Using the methodology summarized in the appendix, Heritage Senior Fellow David Winston calculated the following impact of the Gephardt legislation on domestic firms for 1999, the first year of the new system. Projections beyond that year depend on many behavioral and other assumptions that are beyond the scope of this analysis.

Estimated additional cost to business in 1999, compared with anticipated costs under current law:

- ✓ Business as a whole would pay an additional $42.6 billion in 1999, compared with projected costs under today's health care system. Costs would range from an additional $8.0 billion for firms in Texas to a reduction of $2.7 billion for firms in Michigan.
- ✓ The average additional cost for each employee would be $430 in 1999, compared with projections under the current system. Costs range from an average of an additional $2,413 per employee in the District of Columbia to a reduction of $787 per employee in Michigan.
- ✓ Self-insured firms pay a 2 percent tax on their health care costs, and insurance companies are charged a 2 percent tax on their insurance premiums. Assuming the 2 percent tax on insurance premiums is passed onto firms buying private plans (but not Medicare Part C coverage) for their workers, and that employers pay 80 percent of the costs of health care plans, firms would pay in practice an insurance tax of $3.5 billion (employees would have shoulder $900 million as their share of the tax). The tax is included in the estimate of the total cost to business.
- ✓ If an employee decides to obtain coverage in a spouse's plan in another firm, the employer (called in this case a "non-enrolling employer") must pay a tax equal to 80 percent of the Medicare Part C premium for that employee enrolled elsewhere. Employers providing coverage for an employee's spouse who works for another firm receive a credit, but the legislation stipulates that government outlays for the credit must total only 25 percent of the revenue from the non-enrolling employer tax in 1999. The net total tax on business is estimated at $10.4 billion in 1999 (This is included in the estimated total cost to business).

Table 1

New Business Taxes in the Gephardt Bill

State	"Non-Enrolling Employer" Tax	2% Tax on Insurance Coverage	
		Employer Share of Tax	Employee Share of Tax
AL	$148,491,000	$48,678,000	$12,170,000
AK	$19,676,000	$6,128,000	$1,532,000
AZ	$148,823,000	$46,609,000	$11,652,000
AR	$82,558,000	$26,291,000	$6,573,000
CA	$1,329,797,000	$442,464,000	$110,616,000
CO	$152,522,000	$47,393,000	$11,848,000
CT	$148,595,000	$53,409,000	$13,352,000
DE	$35,445,000	$12,303,000	$3,076,000
DC	$38,204,000	$14,988,000	$3,747,000
FL	$547,320,000	$162,680,000	$40,670,000
GA	$295,122,000	$97,093,000	$24,273,000
HI	$51,463,000	$16,681,000	$4,170,000
ID	$37,672,000	$10,722,000	$2,680,000
IL	$499,479,000	$175,896,000	$43,974,000
IN	$235,495,000	$79,714,000	$19,929,000
IA	$106,333,000	$34,303,000	$8,576,000
KS	$97,136,000	$31,412,000	$7,853,000
KY	$128,375,000	$40,682,000	$10,171,000
LA	$136,578,000	$41,512,000	$10,378,000
ME	$42,522,000	$13,276,000	$3,319,000
MD	$201,704,000	$64,182,000	$16,045,000
MA	$277,564,000	$99,865,000	$24,966,000
MI	$358,822,000	$128,771,000	$32,193,000
MN	$203,304,000	$68,706,000	$17,177,000
MS	$77,872,000	$24,307,000	$6,077,000
MO	$214,083,000	$71,828,000	$17,957,000
MT	N/A	N/A	N/A
NE	$62,714,000	$19,354,000	$4,839,000
NV	$75,264,000	$26,676,000	$6,669,000
NH	$46,363,000	$15,087,000	$3,772,000
NJ	$342,680,000	$117,691,000	$29,423,000
NM	$48,952,000	$13,800,000	$3,450,000
NY	$719,903,000	$254,370,000	$63,593,000
NC	$311,508,000	$103,063,000	$25,766,000
ND	$19,515,000	$5,341,000	$1,335,000
OH	$452,138,000	$156,914,000	$39,229,000
OK	$100,543,000	$29,828,000	$7,457,000
OR	$120,145,000	$36,704,000	$9,176,000
PA	$480,300,000	$163,087,000	$40,772,000
RI	$38,974,000	$12,827,000	$3,207,000
SC	$143,330,000	$47,349,000	$11,837,000
SD	$23,381,000	$6,501,000	$1,625,000
TN	$213,566,000	$70,446,000	$17,612,000
TX	$689,620,000	$222,329,000	$55,582,000
UT	$70,812,000	$23,077,000	$5,769,000
VT	$22,444,000	$6,708,000	$1,677,000
VA	$265,718,000	$84,317,000	$21,079,000
WA	$216,728,000	$71,718,000	$17,930,000
WV	$48,821,000	$14,780,000	$3,695,000
WI	$216,025,000	$72,974,000	$18,244,000
WY	N/A	N/A	N/A
U.S.	$10,410,252,000	$3,452,794,000	$863,199,000

Note: Specific data for Montana and Wyoming are not available due to Census Bureau data suppression techniques designed to maintain confidentiality. However, the aggregate national figures include data from these two states.

Source: Heritage calculations, based on federal government data (see notes).

Table 2

Health Cost of Business in 1999

State	Present Policy	Gephardt Plan	Additional Cost to Business of Gephardt Plan	Cost Per Employee
AL	$3,552,747,000	$4,473,556,000	$920,809,000	$647
AK	$541,496,000	$607,398,000	$65,903,000	$344
AZ	$2,896,572,000	$4,434,597,000	$1,538,025,000	$1,076
AR	$1,574,207,000	$2,438,042,000	$863,835,000	$1,099
CA	$35,279,221,000	$40,876,725,000	$5,597,504,000	$442
CO	$3,376,123,000	$4,553,530,000	$1,177,407,000	$802
CT	$5,276,179,000	$4,679,594,000	($596,585,000)	($424)
DE	$839,014,000	$1,087,081,000	$248,067,000	$733
DC	$376,461,000	$1,247,008,000	$870,547,000	$2,413
FL	$9,874,231,000	$15,942,171,000	$6,067,940,000	$1,165
GA	$5,441,247,000	$8,894,513,000	$3,453,266,000	$1,227
HI	$1,435,606,000	$1,580,055,000	$144,449,000	$292
ID	$896,886,000	$1,107,213,000	$210,327,000	$573
IL	$16,535,310,000	$15,525,547,000	($1,009,763,000)	($214)
IN	$7,598,505,000	$7,210,684,000	($387,820,000)	($173)
IA	$3,067,808,000	$3,230,465,000	$162,657,000	$160
KS	$2,963,340,000	$2,982,971,000	$19,631,000	$21
KY	$3,082,608,000	$3,826,848,000	$744,240,000	$607
LA	$2,604,525,000	$3,986,540,000	$1,382,015,000	$1,073
ME	$1,420,321,000	$1,272,388,000	($147,933,000)	($362)
MD	$4,310,732,000	$6,025,816,000	$1,715,084,000	$891
MA	$8,950,720,000	$8,667,868,000	($282,852,000)	($108)
MI	$14,166,386,000	$11,472,570,000	($2,693,816,000)	($787)
MN	$5,334,889,000	$6,208,358,000	$873,469,000	$453
MS	$1,652,096,000	$2,281,847,000	$629,752,000	$853
MO	$6,048,745,000	$6,517,736,000	$468,990,000	$230
MT	N/A	N/A	N/A	N/A
NE	$1,532,482,000	$1,860,081,000	$327,599,000	$541
NV	$1,368,113,000	$2,321,364,000	$953,250,000	$1,322
NH	$1,746,092,000	$1,413,772,000	($332,320,000)	($753)
NJ	$10,838,578,000	$10,541,601,000	($296,977,000)	($92)
NM	$1,031,207,000	$1,437,550,000	$406,343,000	$846
NY	$19,127,044,000	$22,318,817,000	$3,191,774,000	$466
NC	$6,093,207,000	$9,276,303,000	$3,183,096,000	$1,083
ND	$484,910,000	$567,189,000	$82,279,000	$435
OH	$15,590,894,000	$14,014,479,000	($1,576,415,000)	($368)
OK	$2,119,195,000	$2,952,718,000	$833,523,000	$863
OR	$3,769,597,000	$3,637,406,000	($132,191,000)	($114)
PA	$16,072,263,000	$14,594,636,000	($1,477,627,000)	($325)
RI	$1,471,126,000	$1,191,590,000	($279,536,000)	($748)
SC	$2,754,053,000	$4,279,149,000	$1,525,096,000	$1,118
SD	$562,066,000	$685,818,000	$123,752,000	$545
TN	$4,217,861,000	$6,377,319,000	$2,159,457,000	$1,065
TX	$12,646,466,000	$20,631,043,000	$7,984,576,000	$1,209
UT	$1,471,408,000	$2,130,183,000	$658,774,000	$969
VT	$803,085,000	$672,167,000	($130,917,000)	($606)
VA	$5,755,146,000	$7,860,231,000	$2,105,086,000	$834
WA	$6,490,737,000	$6,775,660,000	$284,923,000	$136
WV	$1,249,810,000	$1,450,838,000	$201,029,000	$425
WI	$6,545,884,000	$6,628,242,000	$82,358,000	$40
WY	N/A	N/A	N/A	N/A
U.S.	$273,800,000,000	$316,399,576,000	$42,599,576,000	$430

Note: *Specific data for Montana and Wyoming are not available due to Census Bureau data suppression techniques designed to maintain confidentiality. However, the aggregate national figures include data from these two states.*

Source: Heritage calculations, based on federal government data (see notes).

Table 3

Wage Effects in the Gephardt Bill

State	Additional Cost to Business of Gephardt Plan	Net Change in Wages for Employees	Net Change in Wages Per Employee
AL	$920,809,000	($810,312,000)	($569)
AK	$65,903,000	($57,995,000)	($303)
AZ	$1,538,025,000	($1,353,462,000)	($947)
AR	$863,835,000	($760,175,000)	($967)
CA	$5,597,504,000	($4,925,804,000)	($389)
CO	$1,177,407,000	($1,036,118,000)	($705)
CT	($596,585,000)	$524,995,000	$373
DE	$248,067,000	($218,299,000)	($645)
DC	$870,547,000	($766,081,000)	($2,124)
FL	$6,067,940,000	($5,339,787,000)	($1,025)
GA	$3,453,266,000	($3,038,874,000)	($1,080)
HI	$144,449,000	($127,115,000)	($257)
ID	$210,327,000	($185,088,000)	($504)
IL	($1,009,763,000)	$888,591,000	$188
IN	($387,820,000)	$341,282,000	$152
IA	$162,657,000	($143,138,000)	($141)
KS	$19,631,000	($17,275,000)	($18)
KY	$744,240,000	($654,931,000)	($534)
LA	$1,382,015,000	($1,216,173,000)	($944)
ME	($147,933,000)	$130,181,000	$318
MD	$1,715,084,000	($1,509,274,000)	($784)
MA	($282,852,000)	$248,910,000	$95
MI	($2,693,816,000)	$2,370,558,000	$693
MN	$873,469,000	($768,653,000)	($398)
MS	$629,752,000	($554,182,000)	($751)
MO	$468,990,000	($412,711,000)	($202)
MT	N/A	N/A	N/A
NE	$327,599,000	($288,287,000)	($476)
NV	$953,250,000	($838,860,000)	($1,164)
NH	($332,320,000)	$292,442,000	$663
NJ	($296,977,000)	$261,340,000	$81
NM	$406,343,000	($357,582,000)	($744)
NY	$3,191,774,000	($2,808,761,000)	($410)
NC	$3,183,096,000	($2,801,124,000)	($953)
ND	$82,279,000	($72,406,000)	($383)
OH	($1,576,415,000)	$1,387,245,000	$324
OK	$833,523,000	($733,500,000)	($759)
OR	($132,191,000)	$116,328,000	$100
PA	($1,477,627,000)	$1,300,312,000	$286
RI	($279,536,000)	$245,992,000	$658
SC	$1,525,096,000	($1,342,084,000)	($984)
SD	$123,752,000	($108,902,000)	($479)
TN	$2,159,457,000	($1,900,322,000)	($937)
TX	$7,984,576,000	($7,026,427,000)	($1,063)
UT	$658,774,000	($579,721,000)	($853)
VT	($130,917,000)	$115,207,000	$533
VA	$2,105,086,000	($1,852,476,000)	($733)
WA	$284,923,000	($250,732,000)	($119)
WV	$201,029,000	($176,906,000)	($374)
WI	$82,358,000	($72,475,000)	($35)
WY	N/A	N/A	N/A
U.S.	$42,599,576,000	($37,487,627,000)	($378)

Note: Specific data for Montana and Wyoming are not available due to Census Bureau data suppression techniques designed to maintain confidentiality. However, the aggregate national figures include data from these two states.

Source: Heritage calculations, based on federal government data (see notes).

Gephardt Plan Cost Calculation Assumptions

1. The estimates of premiums paid by private employers for private health insurance, as well as for Medicare Part C, are based on CBO's estimate of the cost of premiums under the Clinton plan. We assumed premiums would rise at a 5% annual rate through 1999 (see note 10).

2. The estimate of the cost to business of the Gephardt plan is based on the Census Bureau's 1991 County Business Patterns database. The cost calculation uses two components. The first is cost of the premium. The second component involves the distribution of the type of plan (individual, single-parent family, two-parent family) and is based on the distribution of those worker types as defined in the March 1993 CPS survey.

3. Because of the file structure in the County Business Patterns database, we broke down the size of firms by 0 - 20 and 20 - 50 employees, rather than 0 - 25.

4. We assume employers already providing a benefits package at an equal or greater value than that mandated by the Gephardt plan would not decrease the level of coverage. We therefore employed a ratio derived from the March 1993 Current Population Survey of those who would provide coverage at the mandated level and those who would maintain a higher level of coverage.

5. Based on the bill's directive to HHS to assume that 75% of those eligible for Medicare Part C would enroll, we determined that the percentage 50 - 99, 25 - 49 and under 25 employees businesses, who would qualify to give their employees the option to be covered under Medicare Part C is 60%, 75%, and 75%, respectively.

6. In calculating the amount of the 2% excise tax on private insurance premiums, we assumed that businesses would pay 1.6% (80% of tax) and that individuals would pay 0.4% (20% of tax).

7. We assumed that employers paying family premiums would be subsidized by 25% of the non-enrolling employer payments in 1999, as specified in the Ways and Means bill.

8. In calculating the percentage of employees whose employer would qualify for a premium subsidy, we performed an income distribution analysis for firms with 0-25 and 25-99 employees based on the March 1993 CPS. CPS does not contain a breakdown of firms sizes 25-50, so we used firms with 25-99 employees in our computation.

9. To project the work force at a national level and by state in 1999, we determined a ratio representing the rate of population increase from 1990-2000, based on U.S. Census Bureau Projections.

10. Based on the 1994 Health Care Cost Survey by Towers Perrin, we assumed that insurance premiums would increase at an annual compounding rate of 5% in order to project 1999 costs.

11. In order to project costs under current law to 1999 and compare them with the House legislation, we used Lewin-VHI cost growth calculations. Using the March 1993 CPS, we derived a state-by-state distribution of the present value of private employer contributions to employee health insurance, which we then applied to the Lewin projections of current spending in 1999 and The Heritage Foundation's calculation of the cost of the Gephardt bill in 1999.

12. Specific data for Montana and Wyoming are not available due to Census Bureau data suppression techniques designed to maintain confidentiality. However, the aggregate national figures include data from these two states.