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THE HEALTH CARE DEBATE TALKING POINTS #3: WINDFALLS FOR RUSTBELT STATES UNDER GEPHARDT BILL, BUT SUNBELT LOSES BIG

By Stuart M. Butler
Vice President and Director of Domestic Policy Studies

Cost Calculation by

David H. Winston
Senior Fellow

Christine L. Olson
Research Analyst

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As Congress begins its momentous debate over the majority leadership's health care reform bills, an econometric simulation of House Majority Leader Richard Gephardt's bill reveals that some states would be big winners under the reform, while others would lose heavily. While the benefits and costs for each state likely would not be as great under the bill introduced by Senate Majority Leader George Mitchell (which is still to be analyzed), the winning and losing states generally would be the same.

The simulation conducted by The Heritage Foundation calculated the net additional costs to firms of the Gephardt bill in 1999 compared with projected health expenditures under the current health care system. The detailed assumptions used are contained in the appendix (the figures are updated from preliminary estimates using more recent Census Bureau data and other refinements of the model).

The possible new costs and individual benefits to individual firms include a requirement on employers to contribute to a standard plan, taxes on insurance plans, taxes for employees enrolled on another firm's plan, and subsidies for certain smaller firms and lower-income workers.[1]

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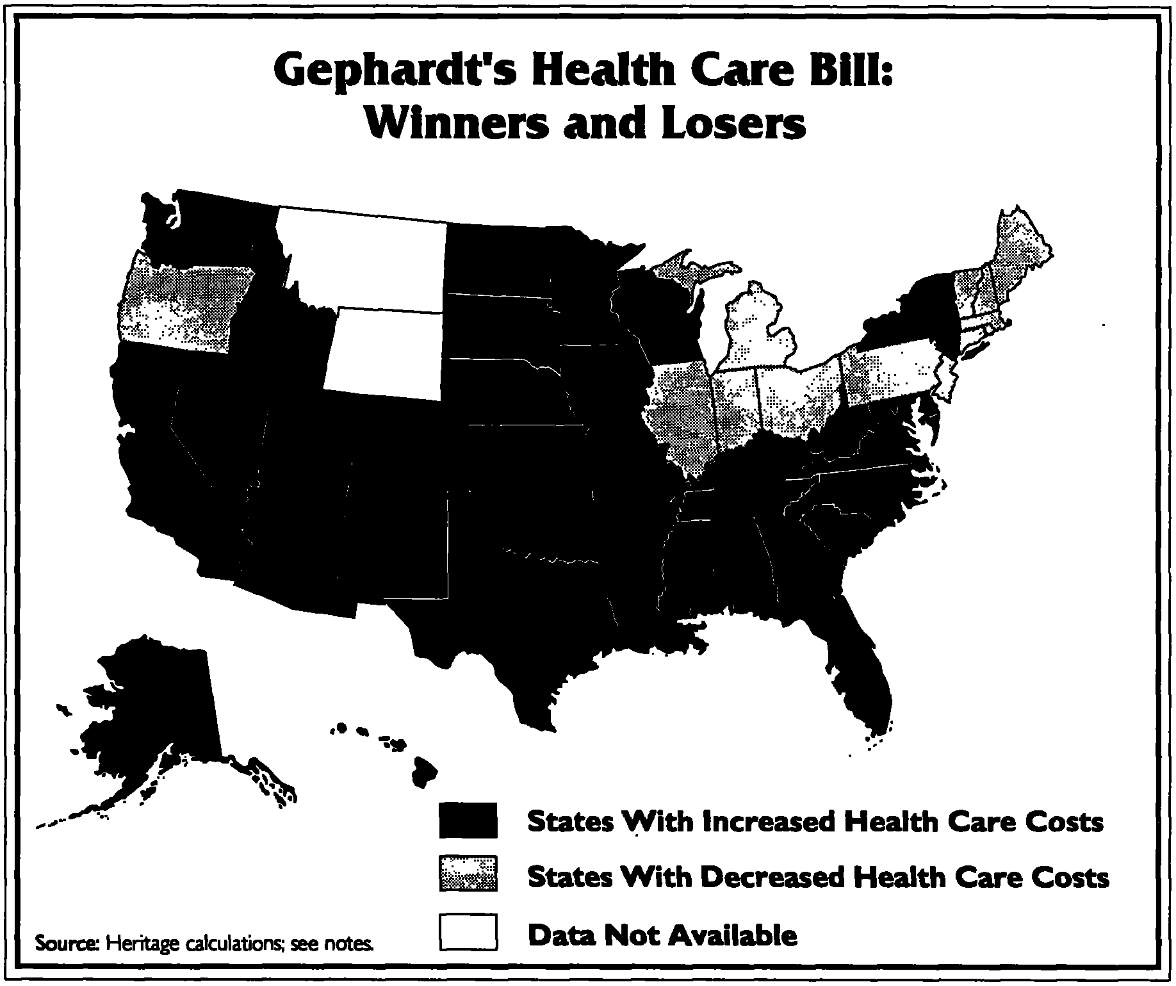
1 For a more detailed description of the financial effects on each category, see Stuart M. Butler with David H.

Computing the net combined effect on businesses in each state indicates sharply different impacts in different regions of the United States. Table 1 shows the states in which businesses as a whole would experience a net reduction in their health care costs as a result of the Gephardt bill and the average reduction per employee (this represents a total; the effect on any particular firm would depend on a number of factors, and the costs in some firms would rise). Table 2 shows the states in which businesses would, as a whole, experience increases in their costs.



To summarize the tables:

Sunbelt and western states are big losers. 35 states and the District of Columbia would experience increases in business costs under the Gephardt bill. The losers under the Gephardt bill are concentrated almost entirely in the South and West. The biggest losers among states would be Texas (-$8.0 billion), Florida (-$6.1 billion), and Georgia (-$3.5 billion) in the South, and California (-$5.6 billion) in the West.

Business in 13 states would experience windfalls under the Gephardt bill.[2]

Rustbelt states and New England enjoy a big windfall. The main winners are businesses in the unionized heavy industrial states and New England. The biggest cumulative gainers are the employers of Michigan (+$2.7 billion), Ohio (+$1.6 billion), Pennsylvania (+$1.5 billion), and Illinois (+$1.0 billion).

Winston and Christine L. Olson, "The Health Care Debate Talking Points #1: Cost to Business of the Gephardt Bill," Heritage Foundation *FYI* No. 21, Updated August 9, 1994.

2 The Census Bureau data for Montana and Wyoming do not allow accurate estimates to be made.

Table 1

Gephardt's "Windfall Gain" States

State	Windfall Gain to Business of Gephardt Plan	Windfall Per Employee
MI	$2,693,816,000	$787
OH	$1,576,415,000	$368
PA	$1,477,627,000	$325
IL	$1,009,763,000	$214
CT	$596,585,000	$424
IN	$387,820,000	$173
NH	$332,320,000	$753
NJ	$296,977,000	$92
MA	$282,852,000	$108
RI	$279,536,000	$748
ME	$147,933,000	$362
OR	$132,191,000	$114
VT	$130,917,000	$606

Table 2

States Facing Increased Costs

State	Additional Cost to Business of Gephardt Plan	Cost Per Employee
TX	$7,984,576,000	$1,209
FL	$6,067,940,000	$1,165
CA	$5,597,504,000	$442
GA	$3,453,266,000	$1,227
NY	$3,191,774,000	$466
NC	$3,183,096,000	$1,083
TN	$2,159,457,000	$1,065
VA	$2,105,086,000	$834
MD	$1,715,084,000	$891
AZ	$1,538,025,000	$1,076
SC	$1,525,096,000	$1,118
LA	$1,382,015,000	$1,073
CO	$1,177,407,000	$802
NV	$953,250,000	$1,322
AL	$920,809,000	$647
MN	$873,469,000	$453
DC	$870,547,000	$2,413
AR	$863,835,000	$1,099
OK	$833,523,000	$863
KY	$744,240,000	$607
UT	$658,774,000	$969
MS	$629,752,000	$853
MO	$468,990,000	$230
NM	$406,343,000	$846
NE	$327,599,000	$541
WA	$284,923,000	$136
DE	$248,067,000	$733
ID	$210,327,000	$573
WV	$201,029,000	$425
IA	$162,657,000	$160
HI	$144,449,000	$292
SD	$123,752,000	$545
WI	$82,358,000	$40
ND	$82,279,000	$435
AK	$65,903,000	$344
KS	$19,631,000	$21

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.