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HEALTH CARE DEBATE TALKING POINTS #4: HOW THE GEPHARDT BILL'S EMPLOYER MANDATE WILL CUT WAGES IN MOST STATES

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House members soon will vote on health care legislation developed by Majority Leader Richard Gephardt (D-MO). The Gephardt bill, like the Clinton bill, mandates employers to pay at least 80 percent of the cost of a standard benefits package designed by Congress.

Most working Americans assume that if their employer is required to provide more in fringe benefits, this will not have an effect on their paychecks. But as the CEO of Godfather's Pizza reminded President Clinton, in the real world of competitive business additional payroll taxes and fringe benefits forced on businesses translate into less money for wages and some job losses. Similarly, a reduction in fringe benefit costs or payroll taxes means more cash for wages.

Economic analysis confirms this well-known effect on main street and enables estimates to be made of the "pass-through" wage effect of employer mandates. A survey of the economic literature by Lewin-VHI, a leading health care econometrics firm, indicates that for every additional $100 in mandated health benefits an employer must provide for an employee, an average of $88 actually will be paid for in reduced wages for the worker.[1] The rest will be paid for by such things as re-

FYI25/94

1 The Lewin-VHI figure of 88 percent is based on such analyses as Jonathan Gruber and Alan B. Krueger, "The Incidence of Mandated Employer-Provided Insurance: Lessons from Workers Compensation Insurance," *Tax Policy and Economy* (1991); Jonathan Gruber, "The Incidence of Mandated Maternity Benefits," *American Economic Review* (forthcoming); and Lawrence H. Summers, "Some Simple Economics of Mandated Benefits," *American Economic Review*, Vol. 79, No. 2 (May 1989).

duced profits and higher prices. Similarly, if the cost of fringe benefits is reduced, employees generally will gain wages.

An analysis of the Clinton plan by Lewin-VHI found that when the pass-through of business costs is included, the new health system would have led to an average wage reduction of $189 per employee in 1998.[2]

Heritage analysts have computed the pass-through effect of the employer mandate in the Gephardt bill using The Heritage Foundation simulation model of the legislation.[3]

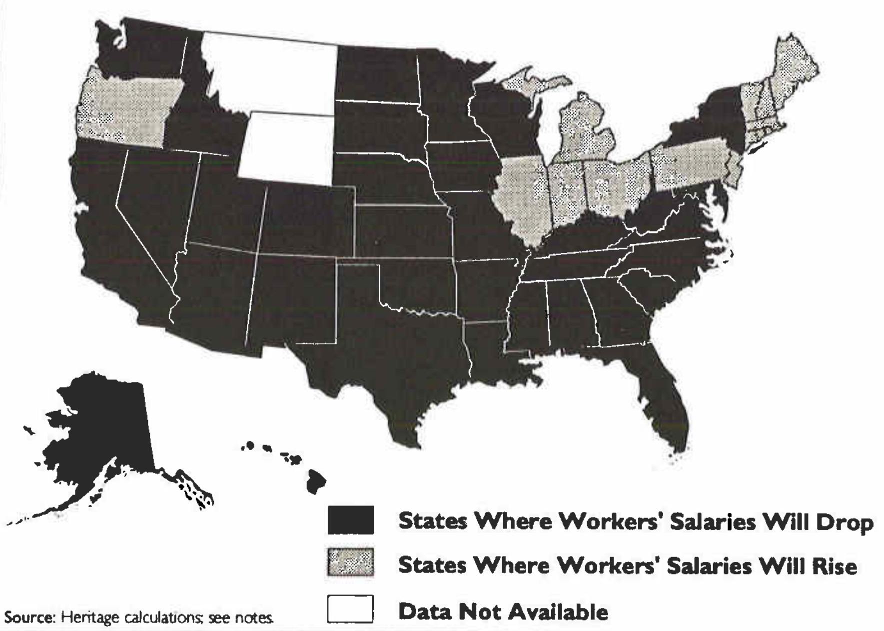
The analysis indicates:

✓ **The Gephardt mandate on employers will lead to a total reduction in wages in 1999 of $37.5 billion.** This would range from an *increase* in wages in Michigan of $2.4 billion (due to taxpayer-paid windfalls for employers because of such things as subsidies to smaller firms already covering workers) to a *decrease* in wages of $7.0 billion in Texas.

✓ **Wages would increase in 13 states (almost exclusively New England and rustbelt states), while wages would fall in 35 states and the District of Columbia.** Data for Montana and Wyoming are not available.

✓ **The impact per worker would range from an *increase* of $694 in Michigan to a *decrease* of $1,164 in Nevada and $2,124 in the District of Columbia.**

Gephardt's Health Care Bill: Effect on Workers' Wages



Source: Heritage calculations; see notes.

2 The wages of employees in firms currently providing health coverage would have risen by an average of $400, according to Lewin-VHI (because of premium controls, payroll subsidies etc.), while the wages of employees not currently receiving coverage would be lower by about $1,243. See Stuart M. Butler, "How the Clinton and Nickles-Stearns Bills Would Affect American Workers," *Issue Bulletin* No. 188, April 11, 1994.

3 For the full analysis of the Gephardt bill see Stuart M. Butler, with David H. Winston and Christine L. Olson, "Health Care Debate Talking Points #1: Cost to Business of the Gephardt Bill," Heritage Foundation *FYI* No. 21, updated August 9, 1994.

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.