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HEALTH CARE DEBATE TALKING POINTS #8: IMPACT OF THE MITCHELL BILL'S INDIVIDUAL MANDATE ON THE MIDDLE CLASS

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Under the health care legislation introduced by Senate Majority Leader George Mitchell (D-ME), if in any state the proportion of Americans with health insurance has not reached 95 percent by the year 2002, two mandates will be introduced to take effect in 2002 within that state. The first is a mandate on employers (except those with fewer than 25 employees) to pay for at least 50 percent of the cost of a standard health plan for their employees. The second applies to all individuals in the state. Under this individual mandate:

...each eligible individual —

(1) must enroll in (or be covered under) a certified standard health plan, and

(2) must pay any premium required, consistent with this Act, with respect to such enrollment.

The legislation's individual mandate requires each family to pay the premium for at least the standard plan, less the employer's payment (which must be at least 50 percent), less certain subsidies available to low-income families.

With this mandate, when compared with the House leadership bill, the Mitchell bill simply rearranges the heavy cost of the standard benefits package between the employer and employee. But in either case the employee will pay the ultimate cost. Under the bill introduced by House Majority Leader Richard Gephardt (D-MO), most of the burden falls on the employer. This burden will lead to wage cuts for employees and unemployment for many workers.[1] Under the Mitchell bill, the bur-

1 For an estimate of the cost to business of the Gephardt mandate, 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* #21, August 9, 1994. For an estimate of the wage impact of the Gephardt bill, see Stuart M. Butler with David H. Winston and Christine L. Olson, "Health Care Debate Talking Points #4: How the Gephardt Bill's

burden still will lead to wage cuts and unemployment — but the burden on employees is sharply higher than under Gephardt. The Mitchell bill thus will lead to large reductions in family income after premium payments are made, while its employer mandate will in addition lead to further wage cuts or unemployment for millions of families.

Using The Heritage Foundation's simulation model of the Mitchell bill, Heritage Senior Fellow David Winston has calculated the financial impact of this mandate to buy insurance on middle-class families in 2002. The calculation is confined to families in the private sector. The specific assumptions used in the model are described in detail in the appendix. These include the following assumptions:

- ✔ **"Middle class" is taken to mean families with incomes exceeding 200 percent of the poverty threshold for each particular family composition and incomes of below 500 percent of the poverty threshold.** For 1994, this means, broadly, singles with incomes between $15,150 and $37,850 and families of four with incomes between $30,400 and $76,000. The model assumes that with the anticipated growth in family income and poverty definitions, the same cohorts of the population deemed middle class today would be considered middle class in 2002.

- ✔ **CBO's estimate of the cost of standard plans (both community-rated and experience-rated plans) is used as the basis for calculation.** The cost of this standard plan is assumed to grow at 5 percent per year (which would be slightly below current rates of increase and a lower rate of increase than has been experienced for many years). For reference purposes, this means that the average standard plan for a two-parent family, estimated by CBO to cost $5,883 in 1994, would cost $8,692 in 2002. If the rate of premium increase were greater than 5 percent, the cost of the standard plan and hence the mandate would be higher in 2002.

- ✔ **In most instances, employers are presumed to pay 75 percent of the premium in 2002 if they currently pay for coverage, and 50 percent in 2002 if they are not paying for a plan today.** For those employed by exempt firms, the family is assumed to pay the full cost of the standard premium in 2002 if the firm today does not pay toward the cost of coverage.

COST OF THE INDIVIDUAL MANDATE

The Heritage simulation model indicates the following impacts on middle-class Americans in the private sector.

- ✔ **Two-parent middle-class families would have to pay an average of $6,092 for their share of standard health insurance in 2002.** This represents 67 percent of the cost of the plan that year. The remaining amount would be paid by the employer. The average family's share of the premium is higher than the 50 percent suggested by the Mitchell bill because many families work for small firms exempted from the 50 percent mandate. These families would have to pay the entire cost of the premium. A two-parent family with children paying the full premium would have to pay an average of $8,692.

Employer Mandate Will Cut Wages in Most States," Heritage Foundation *FYI* #25, August 11, 1994.

- ✔ **Only a small portion of families would be eligible for some tax relief on their part of the premium.** Deductibles and copayments would be in addition to this cost, and generally not deductible. Supplemental coverage purchased by the family for items not included in the standard benefits package also would be an additional cost and generally not tax-deductible.

- ✔ **The family's share of the cost of insurance in 2002 for average two-parent middle-class families with children ranges from $4,304 in Hawaii to $7,617 in Wyoming.** The Hawaii family would be paying 47 percent of the premium (with the employer paying the rest), while the Wyoming family would pay 83 percent of the total premium.

- ✔ **The portion of coverage in 2002 to be paid by individuals and childless couples would cost an average of $2,514.**

Mitchell Mandate: Cost to Middle-Class Families

State	Annual Employee Premium Payments			
	Two Parents with Children	One Parent with Children	Individuals and Families without Children	Average Premium for all Families
AL	$6,555	$3,180	$2,923	$3,696
AK	$6,900	$3,387	$2,611	$3,630
AZ	$5,337	$3,012	$2,680	$3,014
AR	$6,709	$3,319	$3,007	$3,617
CA	$6,001	$3,346	$2,368	$3,121
CO	$6,744	$3,451	$2,447	$3,123
CT	$5,532	$3,067	$2,008	$2,801
DE	$7,701	$3,553	$2,375	$3,133
DC	$7,238	$3,202	$2,058	$2,705
FL	$6,713	$3,489	$2,823	$3,545
GA	$6,998	$3,684	$2,469	$3,215
HI	$4,304	$3,094	$2,464	$2,860
ID	$6,392	$3,350	$2,774	$3,688
IL	$5,536	$3,128	$2,129	$2,749
IN	$5,627	$2,827	$2,203	$2,848
IA	$6,423	$3,006	$2,659	$3,432
KS	$6,865	$2,883	$2,511	$3,376
KY	$6,888	$3,744	$2,828	$3,714
LA	$6,558	$4,187	$3,275	$3,957
ME	$6,468	$2,941	$2,622	$3,310
MD	$6,709	$3,297	$2,870	$3,500
MA	$5,953	$3,098	$2,097	$2,731
MI	$4,920	$2,890	$2,159	$2,702
MN	$6,684	$3,419	$2,194	$3,031
MS	$6,225	$3,282	$3,195	$3,975
MO	$6,176	$2,859	$2,512	$3,014
MT	$7,060	$3,870	$3,392	$4,279
NE	$6,131	$3,188	$2,917	$3,565
NV	$6,229	$2,979	$2,530	$2,912
NH	$6,003	$3,186	$2,206	$2,904
NJ	$5,639	$3,079	$2,378	$3,144
NM	$6,497	$3,259	$2,908	$3,726
NY	$5,768	$2,908	$2,407	$3,085
NC	$6,378	$3,207	$2,672	$3,276
ND	$6,894	$4,797	$2,902	$4,063
OH	$5,368	$2,628	$2,236	$2,691
OK	$6,475	$3,595	$3,270	$3,894
OR	$6,056	$2,770	$2,283	$2,879
PA	$4,986	$2,758	$2,320	$2,810
RI	$6,623	$3,118	$2,228	$2,980
SC	$6,948	$3,549	$3,122	$3,832
SD	$6,996	$3,866	$2,943	$4,027
TN	$5,642	$3,320	$2,852	$3,231
TX	$6,897	$3,245	$2,859	$3,716
UT	$6,749	$2,975	$2,660	$3,600
VT	$6,002	$3,106	$2,438	$3,160
VA	$5,441	$3,191	$2,617	$3,167
WA	$5,930	$2,959	$2,252	$3,061
WV	$6,810	$2,998	$2,504	$3,082
WI	$5,758	$3,238	$2,526	$3,112
WY	$7,617	$3,462	$2,943	$4,027
U.S.	$6,092	$3,164	$2,514	$3,188

Mitchell Plan Cost Calculation Assumptions

1. The estimates of premiums paid by private employees for private health insurance are based on CBO's estimates.

2. The estimate of the cost to employees of the Mitchell plan is based on the Census Bureau's March 1993 Current Population Survey.

3. To determine the employee proportion of the premium for each family, we applied the following assumptions:

   A. If a company currently provides an insurance package that is greater in cost than the Mitchell bill, the company would not downgrade to the Mitchell premium.

   B. If the individual's present employer contribution is between 50% and 100% of the Mitchell premium in 1994 dollars, the employer's contribution in 2002 is 75%.

   C. If the individual's present employer contribution is under 50% of the Mitchell premium in 1994 dollars, the employer's contribution in 2002 is 50%.

4. 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 2002 costs.

5. 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.