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# Baucus Plan Increases Out-of-Pocket Costs for Many Families

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The mandates in Senate Finance Chairman Max Baucus's (D–MT) U.S. health care reform bill will:

- Force individuals to pay more money out of pocket, and
- Compel businesses to reduce wages, salaries, and job opportunities.

Baucus's plan for "reform" requires that individuals currently without insurance must purchase insurance through either their company or an exchange mechanism. If a worker decides to purchase insurance on the exchange, his or her employer will be responsible for subsidizing the cost of that insurance through a new tax. Businesses will also be capped as to how much they will be able to charge workers whose income falls below 400 percent of the federal poverty level (FPL). Consequently, these mandates will reduce employment opportunities and slow economic growth.

**The Baucus Plan.** The Baucus plan caps the employee share of insurance premiums for individuals and families based on income. Specifically, individuals and families with incomes falling between the poverty level and four times the FPL will see their employee shares capped at an amount between 2 and 12 percent of their income.

For example, a family whose income would place them toward the bottom of this scale—around 150 percent of the FPL, or almost $35,000 for a family of four—would pay a maximum of 4.5 percent of family income, or almost $1,600, to purchase insurance. The maximum payable amount of out-of-pocket expenditures increases to 12 percent for families making almost 400 percent of the FPL ($87,336 for a family of four with two children in 2008). The 12 percent cap for a family with an income just under 400 percent of the FPL would result in a maximum out-of-pocket contribution of $11,000 to purchase insurance. In 2013, those under 133 percent of the FPL would be eligible for Medicaid.[1]

Beginning in the second year the Baucus proposal would be in effect, families would be required to pay a set percentage of insurance premiums rather than a cap on payments based on income. This requirement will increase the financial burden on families, since there is little reason to expect that the rise in health insurance premiums will continue to outpace income. After three years, the effective out-of-pocket costs would rise to 3.2 percent for those at 100 percent of the FPL and 13.9 percent of income for those with income 300–400 percent of the FPL.[2]

These calculations were based on the original chairman's mark and will be slightly less under the new, modified Baucus plan. The September 22 modified chairman's mark changes the numbers to 2 percent and 12 percent, respectively.

This paper, in its entirety, can be found at:
*www.heritage.org/Research/HealthCare/wm2628.cfm*

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Senator Baucus's plan also has an escape hatch for full-time employees who pay more than 13 percent of their income to obtain insurance through their employer-offered plan: These employees would be able to purchase insurance through the exchange and have their expenditures capped at 13 percent, with their employers paying a penalty.

**Direct Impact to Employees.** Employees forced to purchase insurance under the Baucus plan would be affected in two different ways:

1. They will be required to pay a certain percentage of their income to purchase insurance; and
2. Some workers will see their businesses taxed by the government to cover their newly subsidized insurance.

Since the mandate is effectively an increase in employers' labor costs, workers can expect to see their wages and hours of work shrink as businesses pass on these increased costs to employees.

According to the Congressional Budget Office, businesses will likely reduce low-income workers' hours or even eliminate such positions entirely. In addition, when filling low-income jobs, employers will have a strong incentive to hire workers who are covered under someone else's insurance plan, such as teenagers covered under their parents' plans, those with Medicaid, or single workers who would not need a family plan to comply with the mandate.

The Baucus plan will also likely have a negative affect on employee pay and could potentially lead to increased prices for consumer goods. In a recent survey of human resource executives, 86 percent of respondents said they would pass costs of health care on to employees. Other respondents said they would cut jobs, and over a third would pass on the cost of the increase to customers through higher prices.[3] These survey findings are consistent with other research that shows that businesses pass on higher mandated labor costs to employees—often transferring as much as 88 percent of the new costs.[4]

**Effects of the Baucus Plan.** For families and individuals who are required to purchase individual coverage, they will pay substantial out-of-pocket costs.[5] A family with 200 percent of the FPL will pay 7 percent of their income—which, in 2013, would be over $3,000—to purchase an acceptable insurance plan. The out-of-pocket costs would almost double to 12 percent of income for a family making 300 percent of the FPL.

A family of four at 300 percent of the FPL has slightly over $23,000 in income more than a similar family at 200 percent of the FPL. The family at 300 percent of the FPL will pay a maximum out-of-pocket cost over $5,000 more than a family at 200 percent of the FPL. So while income increases by a third, the out-of-pocket insurance costs more than double. This escalating cost makes work more expensive as families advance up the income curve and could act as a disincentive for working more.

Table 1 shows the estimated change in the average premiums paid by singles and families of four with incomes between 100 and 400 percent of the FPL, as well as the maximum contribution paid by those individuals or families and their employers.

The maximum contribution that enrollees would be expected to pay toward their insurance premiums

1. These numbers are based on the original Senate Finance chairman's mark and do not reflect changes after September 22, 2009.
2. Congressional Budget Office, "An Analysis of Premiums Under the Chairman's Mark of America's Healthy Future Act," letter to Senate Finance Chairman Max Baucus, September 22, 2009, *at http://cbo.gov/ftpdocs/106xx/doc10618/09-22-Analysis_of_Premiums.pdf* (September 24, 2009).
3. Towers Perrin, "Health Care Reform 2009: Leading Employers Weigh In," September 2009, at *http://www.towersperrin.com/tp/getwebcachedoc?webc=USA/2009/200909/HCR_Pulse-Survey_Sept-09_Final.pdf* (September 22, 2009).
4. David Winston, Christine Olsen, and Rea S. Hederman, Jr., "The Cost of No Medicare Reform: What Industry and Government Would Pass to Consumers, Investors, Taxpayers, and Workers," Heritage Foundation *FYI* No. 67, October 16, 1995, at *http://www.heritage.org/Research/SocialSecurity/FYI67.cfm.*
5. All estimates assume that individuals will purchase a "silver" plan, which would be slightly more generous than the minimum "bronze" plan required. However, since the required actuarial value between the silver and bronze plans is only 5 percentage points, the difference in the premiums will likely not be substantial.

# Out-of-Pocket Costs to Purchase Health Care Insurance

Based on the health care bill by Senate Finance Chairman Max Baucus (D–MT)

**SINGLES**

| Income as a Percent of Poverty | Total Family Income in 2013* | Maximum Permissible Out-of-Pocket Contribution | Average Estimated Premium for a Single "Silver" Plan | Average ESI Premium in 2009 | Estimated Average ESI Premium without Baucus in 2013 | Difference between the "Silver" Premium and 2013 ESI Premium | Premium Subsidy, as a Percentage of the Premium | Average Cost-Sharing Subsidy | Average Net Cost Sharing | Out-of-Pocket Contribution Plus Cost-Sharing Subsidy: Dollars | Out-of-Pocket Contribution Plus Cost-Sharing Subsidy: Percent of Income |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 100% | $11,380 | $228 | $3,990 | $1,841 | $2,209 | $1,781 | 94% | $690 | $910 | $1,138 | 10% |
| 125% | $14,225 | $462 | $3,990 | $2,251 | $2,701 | $1,289 | 88% | $577 | $1,024 | $1,486 | 10% |
| 150% | $17,070 | $768 | $3,990 | $2,661 | $3,194 | $796 | 81% | $633 | $967 | $1,735 | 10% |
| 175% | $19,915 | $1,145 | $3,990 | $2,856 | $3,428 | $562 | 71% | $347 | $1,253 | $2,398 | 12% |
| 200% | $22,760 | $1,593 | $3,990 | $2,328 | $2,793 | $1,197 | 60% | $795 | $805 | $2,398 | 11% |
| 225% | $25,605 | $2,112 | $3,990 | $2,578 | $3,093 | $897 | 47% | – | $1,600 | $3,712 | 14% |
| 250% | $28,450 | $2,703 | $3,990 | $2,831 | $3,397 | $593 | 32% | – | $1,600 | $4,303 | 15% |
| 275% | $31,295 | $3,364 | $3,990 | $3,018 | $3,622 | $368 | 16% | – | $1,600 | $4,964 | 16% |
| 300% | $34,140 | $4,097 | $3,990 | $2,817 | $3,380 | $610 | 0% | – | $1,600 | $5,697 | 17% |
| 400% | $45,520 | $5,462 | $3,990 | $6,340 | $7,608 | – | 0% | – | $1,600 | $7,062 | 16% |

**FAMILY OF FOUR**

| Income as a Percent of Poverty | Total Family Income in 2013** | Maximum Permissible Out-of-Pocket Contribution | Average Estimated Premium for a Single "Silver" Plan | Average ESI Premium in 2009 | Estimated Average ESI Premium without Baucus in 2013 | Difference between the "Silver" Premium and 2013 ESI Premium | Premium Subsidy, as a Percentage of the Premium | Average Cost-Sharing Subsidy | Average Net Cost Sharing | Out-of-Pocket Contribution Plus Cost-Sharing Subsidy: Dollars | Out-of-Pocket Contribution Plus Cost-Sharing Subsidy: Percent of Income |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 100% | $23,160 | $463 | $12,240 | $9,093 | $10,911 | $1,329 | 96% | $3,147 | $1,853 | $2,316 | 10% |
| 125% | $28,950 | $941 | $12,240 | $10,855 | $13,025 | – | 92% | $3,046 | $1,954 | $2,895 | 10% |
| 150% | $34,740 | $1,563 | $12,240 | $13,199 | $15,839 | – | 87% | $3,097 | $1,903 | $3,466 | 10% |
| 175% | $40,530 | $2,330 | $12,240 | $14,217 | $17,060 | – | 81% | $1,251 | $3,749 | $6,080 | 15% |
| 200% | $46,320 | $3,242 | $12,240 | $11,727 | $14,073 | – | 74% | $794 | $4,206 | $7,448 | 16% |
| 225% | $52,110 | $4,299 | $12,240 | $13,688 | $16,426 | – | 65% | – | $5,000 | $9,299 | 18% |
| 250% | $57,900 | $5,501 | $12,240 | $15,199 | $18,238 | – | 55% | – | $5,000 | $10,501 | 18% |
| 275% | $63,690 | $6,847 | $12,240 | $14,206 | $17,047 | – | 44% | – | $5,000 | $11,847 | 19% |
| 300% | $69,480 | $8,338 | $12,240 | $13,661 | $16,393 | – | 32% | – | $5,000 | $13,338 | 19% |
| 400% | $92,640 | $11,117 | $12,240 | $15,330 | $18,396 | – | 0% | – | $5,000 | $16,117 | 17% |

* FPL is projected to equal $11,380 in 2013, an increase of about 1.2% per year.

** FPL is projected to equal $23,160 in 2013, an increase of about 1.2% per year.

**Source:** Heritage Foundation calculations based on the Baucus health care plan.

Table 1 • WM 2628 heritage.org

begins at 2 percent of income for those with total family income at 100 percent of FPL and gradually increases to 12 percent of income for those with income at 300 percent of FPL. For those with a total family income between 300 and 400 percent of FPL, the maximum contribution is a constant 13 percent of income.

In addition, these tables estimate the average change in the cost of:

- An employer-sponsored insurance premium in order to meet the standards set by the Baucus proposal for a "silver" plan in 2013; and
- An insurance plan that covers 70 percent of the actuarial value as well as the average cost of an insurance plan purchased by those same individuals in the absence of the Baucus plan.

In essence, the difference in average price between these two plans is the change in total compensation for employees, assuming that employee wages and other benefits do not fall. However, as noted earlier, either wages or employment will likely fall in order to pay for the new mandated insurance requirements.

**Disparate Impact on Low-Wage Workers.** The Baucus plan will heavily impact semi-skilled and low-skilled workers. The pay-or-play mandate will encourage businesses to hire workers either below 133 percent of the FPL and Medicaid eligible or over 400 percent of the FPL. Businesses will also give preference to workers who are more likely to purchase single coverage as compared to family plans, as well as dependents of individuals who already have health coverage.

The Senate Finance chairman mark expands coverage but at a steep cost to businesses. These costs are quickly passed to employees. The bill also increases the marginal cost of work for semi-skilled employees as each dollar they earn means they must pay more out of pocket for their own health insurance. Ultimately, the Baucus reform "plan" will reduce the affected employees' incentive to work as well as their likelihood of finding a new job in the future.

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