



# Research Insights

## ■ The Role of Employer-Based Health Insurance under Health Care Reform

### Summary

As the administration and Congress continue to move toward comprehensive health reform, the role and future of the current employer-based insurance system is a crucial point of discussion. Employers, both large and small, as well as their workers are dissatisfied with the current employer-based health insurance system and are generally supportive of the concept of reform. As with every aspect of reform, however, the devil is in the details. The ability to address employer concerns and maintain their cooperation will be a major factor in the health reform debate.

Employers identify four critical challenges that can be met through health care reform:

- Obtaining greater value through the use of health information technology;
- Creating more affordable insurance options for individuals through a more competitive private market and replacing the current state-by-state market with multi-state markets;

- Engaging Americans to take an active role in the health care through an individual mandate as well as encouragement to participate in prevention, wellness and chronic care programs; and
- Offering assistance to the uninsured and low-income workers to enable them to meet the obligation to be insured and financing this support through savings gleaned from a more efficient health care system.

Although a lack of data about how firms and their workers are likely to respond to specific reforms precludes simple predictions of the degree to which reform will impact employers and their employees, impact is nonetheless likely in a number of areas, particularly those related to monitoring and enforcement of individual or employer mandates, premium subsidies, delivery system reform and care coordination, and performance-based measurement and payment systems.

AcademyHealth held a breakout session at its 2009 National Health Policy Conference to better understand employers' desire for comprehensive health care reform and the commitment of support from employers and businesses. Mark Pauly, University of Pennsylvania, moderated a panel comprising John Castellani, Business Roundtable, Sherry Glied, Columbia University\*, and Peter Lee, Pacific Business Group on Health. The speakers addressed the impact that health care reform is likely to have on employers and employees, as well as current problems with the employer-based insurance market that might be addressed through health care reform. This policy brief is based largely on the presentations of the panel.

\* Sherry Glied was unable to attend and present in person due to illness but provided written remarks that were presented by Mark Pauly.

### Background

Health care reform was near the top of the agenda of both candidates in the 2009 presidential election, and it continues to be a front-burner issue among policymakers. In his February 24 address to Congress, President Obama stated, “We can no longer afford to put health care reform on hold.” Congressional leaders, too, have identified health care reform as an issue near the top of their agendas, with Senator Max Baucus, D-Mont., introducing his plan for health care reform in early November and promising to work with Senator Ted Kennedy, D-Mass., chair of the Senate Committee on Health, Education, Labor and Pensions, to bring a comprehensive health care reform bill to the Senate floor by early summer.

The two major political parties, Congress, consumer groups, employers, and providers agree that health care costs must be controlled, especially in the current economic climate, and all Americans must have access to high quality health care. Already, Congress has reauthorized the State Children’s Health Insurance Program (SCHIP) program and supported provisions for improved health information technology and comparative effectiveness research as part of the economic stimulus bill. However, there is consensus that while important, these small measures do not go far enough, and broad-based reform of the health care system is necessary.

Though there is much discussion about the best way to achieve health care reform and some concern that the country has been down this road before without success, there is also optimism that this time health care reform will be implemented. The last time comprehensive health care reform was seriously considered was in 1993 during the first two years of the Clinton administration. Initially, reform seemed to have widespread support. However, as consideration of President Clinton’s plan was delayed due to other policy priorities, the political climate changed, the economy improved, and businesses, insurers, and providers withdrew their initial support of President Clinton’s plan and comprehensive health care reform, in general.<sup>1</sup>

Congress and the Obama administration seem eager to capitalize on the current support for overhaul of the health care system. President Obama has sought the input and leadership of key senators and members of Congress, as well as other players in the health care market. His desire to quickly enact health care reform is supported by a wide range of stakeholders, including employers and consumer organizations. “He has rightly sounded the urgent plea to get comprehensive reform done early...and recognizes that the failure to act has dire and unacceptable consequences for working families, businesses and our national economy,” AFL-CIO President John Sweeney said in a statement. Families USA Executive Director Ron Pollack stated, “There has never been a more auspicious opportunity

to secure meaningful health care reform. The president... has made it a top priority; key congressional committee chairs have made it their top priority; and the large and diverse health care interest groups are working cooperatively to find common ground.”<sup>2</sup>

Providers and insurers have also expressed support for health care reform. Nancy Nielson, President of the American Medical Association, stated, “In these tough economic times, the need for health system reform that provides coverage and high quality, affordable health care for all Americans is clear.”<sup>3</sup> Additionally, Karen Ignagni, president and CEO of America’s Health Insurance Plans, stated she “applaud[s] the president for laying out a bold framework and setting aside significant resources to put our nation on a path toward comprehensive health care reform, which is a goal that has eluded our country for more than a century.”<sup>4</sup>

### Employers Support Health Care Reform While Maintaining Employer-Based Insurance

Problems experienced by small and large employers, as well as the likely impact of health care reform, differ considerably. Currently, the health insurance scenario among large employers is relatively positive, with most workers having good coverage. However, small employers and their relatively low-age workers face problems of lack of access to health insurance, poor or incomplete insurance coverage, and health insurance options that are not financially feasible. Relative to large firms, the tax benefits are low and the administrative costs are high in small firms. In the current

#### Employer-Based Health Insurance

The employer-based insurance system has worked reasonably well for a long time. It is characterized by:

- Groups of people who came together for a different purpose and are then used for obtaining insurance (e.g., insurance incidental to job);
- People/groups who maintain coverage over time and in the same place, as long as the employer continues to offer insurance;
- Employers who act as agents for workers, advocating to get them the best value for their money;
- The ability to achieve efficiency in administrative costs; and
- Tax reductions for workers for the portion of their compensation that goes toward health insurance.

economic recession—with fewer jobs, stagnant wages, and an increased number of part-time workers—the employer-based insurance system could deteriorate. An extended recession would likely stress the system, even among large employers.

Employers recognize that health care reform offers potential benefits to both the firm and the workers, and is critical to a return to a robust economy. They are striving to create jobs in the face of challenging economic circumstances and know that workers who lose their jobs often lose their health insurance as well. Employers want to provide health insurance, but escalating health care costs that they cannot control are one of the greatest cost pressures they face. While many argue that the burden of increasing health care costs ultimately is borne by the workers, placing stress on household incomes, others contend that these costs inhibit job creation by employers, and detract from the United States' ability to compete in global markets.

Employers believe reform can lead to decreased costs, increased affordable health insurance options, and financial assistance for those who cannot afford coverage. They remain committed to offering health insurance to workers. In addition, they recognize that a large portion of innovation comes out of the private sector, and they continue to believe that good health insurance benefits attract and retain high quality workers. Workers want highly affordable health care for all employees and dependents, and there is evidence that health insurance coverage leads to more productive workers. The primary reason that employers choose not to offer health insurance is because it is too expensive. So, when debating health care reform, policymakers must consider both coverage trends and cost trends. In other words, health care reform must take into account cost and quality, not just the addition of increased coverage within the current health care system. Health care reform must address methods for measuring performance, design of the delivery system, and appropriate reimbursement policies and incentives. Americans with health insurance are not only better able to take care of themselves, but firms whose workers have access to quality health care may be able to be more competitive and effective in a worldwide economy.

## Health Care Reform

Employers identify four critical challenges that can be met through health care reform:

- Obtaining greater consumer value from the health care system through better use of health information technology (HIT) to provide consumers with information about quality health care;
- Creating more affordable health insurance options for Americans through a broader, more competitive (open and

inclusive) private market, replacing the current state-by-state market with multi-state markets;

- Engaging all Americans and ensuring they are taking an active role in their health care by obligating them to purchase health insurance through their employer, the private market, or a public program for which they are eligible, as well as encouraging them to participate in prevention, wellness, and chronic care programs; and
- Offering assistance to the uninsured and those with low incomes so that they can meet the obligation to be insured, financing this support through savings resulting from a more efficient, value-driven health care system.

Two of the most commonly discussed approaches to increasing health care coverage are an individual mandate to obtain health care coverage and an employer mandate requiring firms to provide health insurance.

- An **individual mandate** is not likely to have a direct effect on most large employers. It may, however, have an indirect positive effect on some small employers. If workers receive a health insurance subsidy or are penalized for not purchasing insurance, they might encourage their employers to offer insurance, since that is an easier arrangement for them than purchasing in the individual market. Employer-based insurance may become the path of least resistance under an individual mandate. Policymakers need to consider how they would enforce an individual mandate, with one option being to have employers report information on workers' health insurance coverage to the IRS and monitor coverage through existing tax systems.
- Most economists agree that the costs of an **employer mandate** would be borne by workers, in the absence of a new source of money. The primary impact of an employer mandate is likely to be on workers in small, low-wage firms. However, since little is known about why firms behave the way they do or how workers with varying characteristics respond, it is very difficult to predict how things would change under an employer mandate. Those opposed to an employer mandate frequently argue that the burden would shift to workers.

Increased coinsurance and premium subsidies are frequently discussed options for making the purchase of health insurance more financially feasible. Increasing workers' share of premiums might be better received than reducing wages as employers face budget constraints resulting from the economic slowdown. To the extent that subsidies are implemented, it would be more efficient to make them to workers, rather than to the employers. If the subsidies are given to employers, then there will have to

be oversight and coordination, since some workers will get their insurance in other ways, e.g., in the individual market. Reporting and enforcement requirements also would need to be developed.

In addition to expanding coverage, health care reform must also address the delivery system. The current system is uncoordinated, inconsistent, and unaffordable. Health information technology, including payment incentives for its use, is a critical piece of a revamped delivery system. Efforts to coordinate care, including establishing medical homes with care linked to payment, as well as incentives for wellness care and health promotion, are also frequently proposed elements of reform.

Many also agree that a reformed health care system should be performance-anchored, taking into account the relative performance of physicians, as well as comparative effectiveness. Tools must be developed that permit the assessment of functional status (health outcomes), measurement of development and implementation, and linkages between physician performance and payment. It must be possible to determine which physicians do a better job, as well as which treatments are better. Relating payment to performance is a key element of many health care reform proposals. Proponents support a move away from the current volume-based payment system that is strongly influenced

by Medicare's Relative-value Update Committee, with some bias toward technologically advanced procedures and providers. Overall, they argue that there is a need to re-align public and private payment systems, noting that the problem is not just a problem for the government and not just related to Medicare spending, but rather applies to total health care expenditures.

Ultimately, all these challenges will have to be addressed as part of the reform process. Yet it remains clear from the current political and policy debate that key stakeholders, including employers, are no longer satisfied with the status quo and are actively engaged in debate about the best way to reform the health care system.

### About the Author

Deborah Rogal is a director at AcademyHealth.

### Endnotes

- 1 Starr, P., "What Happened to Health Care Reform?" *The American Prospect* no. 20 (Winter 1995): 20-31, <http://www.princeton.edu/~starr/20starr.html>.
- 2 Fox, M., "Healthcare reform gets backing in Congress," Reuters, November 13, 2008, <http://www.reuters.com/article/politicsNews/idUSTRE4AB67T20081113>.
- 3 Nielson, N., M.D., "AMA Congratulates Obama's New Health Care Picks: Gov. Sebelius and Nancy-Ann Deparle," March 2, 2009, <http://www.ama-assn.org/ama/no-index/news-events/governor-sebelius-hhs.shtml>.
- 4 Ignani, K., "AHIP Statement on the President's Budget," February 26, 2009, <http://www.ahip.org/content/pressrelease.aspx?docid=26068>.