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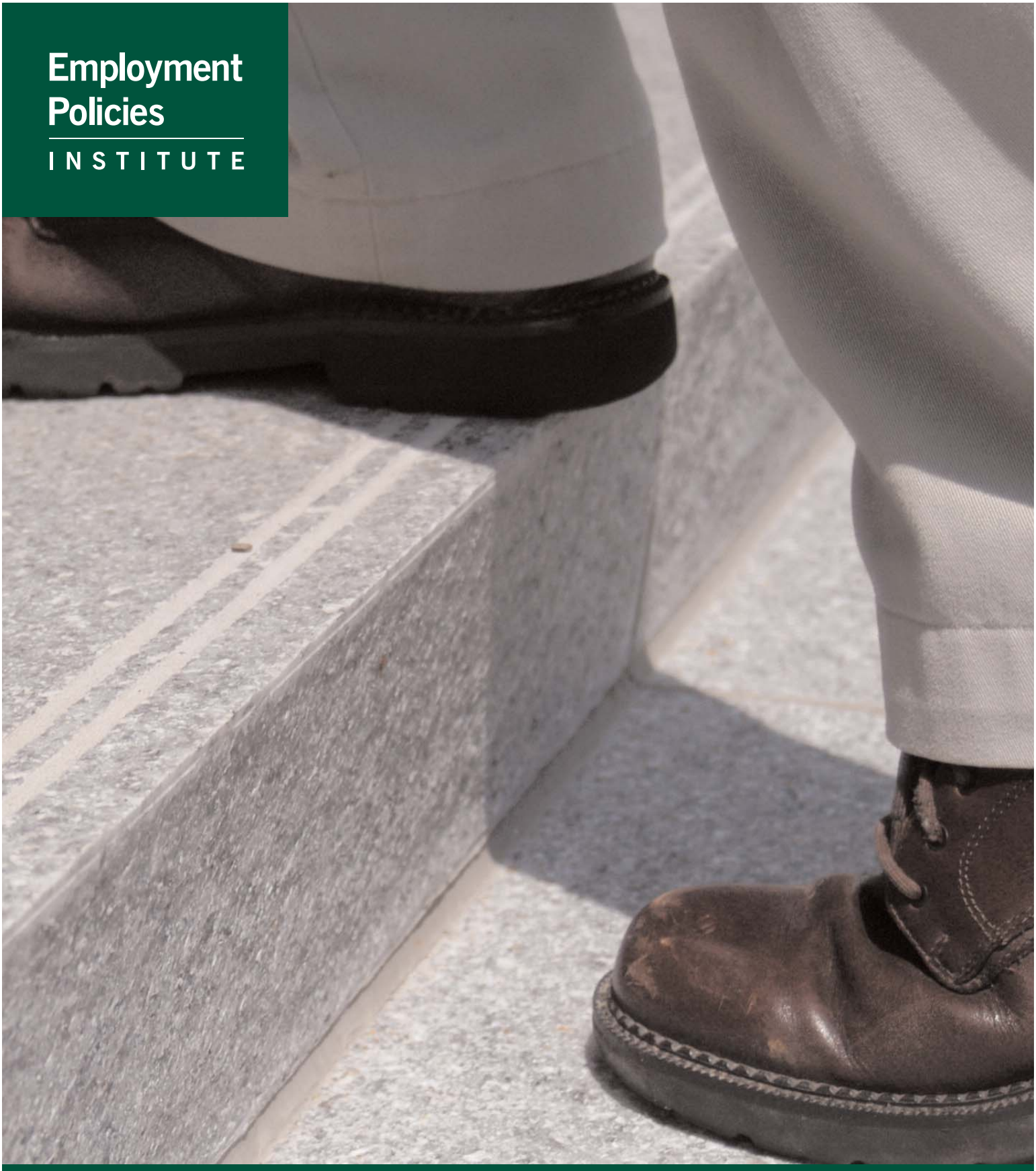

The Cost of Washington's Health Care Responsibility Act

by The Employment Policies Institute

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The Employment Policies Institute (EPI) is a nonprofit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI research focuses on issues that affect entry-level employment. Among other issues, EPI research has quantified the impact of new labor costs on job creation, explored the connection between entry-level employment and welfare reform, and analyzed the demographic distribution of mandated benefits. EPI sponsors nonpartisan research that is conducted by independent economists at major universities around the country.

The Cost of Washington's Health Care Responsibility Act

Employment Policies Institute

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Executive Summary

The recently proposed Health Care Responsibility Act (HCRA) is a costly and inefficient attempt to address the problem of the uninsured in Washington. HCRA is a "pay or play" mandate on employers with more than 50 employees in the state. Under a pay or play system, employers have the option of "paying" a fee to the state to cover the cost of providing insurance to the working uninsured or "playing" by offering a satisfactory level of health coverage.[1]

HCRA requires all employers with more than 50 employees to pay a fee to the state based on the number of hours worked by their employees. Employers can deduct any health-care expenditures from their mandated fee. All employees who work more than 86 hours a month for an employer paying the fee are eligible to enroll in Washington's Basic Health Plan (BHP),[2] provided they pay their portion of the premium.

This analysis finds that Washington has over 850,000 uninsured residents. As a result of HCRA, only 18 percent of these individuals will have access to new health insurance coverage. Even worse, despite an exceptionally high cost, **HCRA fails to provide insurance to even the majority of working uninsured residents in the state.**

Estimated Cost of HCRA

As Lawrence Summers, the former treasury secretary and current president of Harvard, stated, "There is no sense in which benefits become 'free' just because the government mandates that employers offer them to workers."[3] In this case, the mandated benefits under **HCRA will cost nearly $1.6 billion in the first year**. The majority of the fees collected under this program will be paid on behalf of employees who already have health insurance coverage. More than $340 million in fees will be paid by employers already providing health coverage but failing to pay the minimum fee required under HCRA.

Nearly 254,000 employees will have fees paid on their behalf but will be ineligible for coverage under HCRA because they do not work 86 hours per month. This amounts to more than $285 million in fees for employees who are ineligible for coverage. Overall, this group is younger, less likely to be married, more likely to be female, more likely to be a minority, less educated, and poorer than those eligible for BHP coverage. For example, those ineligible for BHP but still paying a fee are more than twice as likely to be a high school dropout and they are 20 percent more likely to be non-white. These facts are important because they demonstrate that employees belonging to **traditionally vulnerable populations will be subsidizing health insurance for a group that is—on average—richer, more educated, and more likely to be white.**

Employment Losses Under HCRA

Even though employers are nominally required to pay the fee under HCRA, economic research has shown that (where possible) employers will shift the cost of HCRA onto employees in the form of lower wages or reduced benefits in other areas. In those cases where employers are unable to shift the cost of HCRA onto their employees, significant

employment loss is expected to occur. Depending on the level of wage shifting, **this analysis finds that HCRA is expected to destroy up to 25,500 jobs.** Ironically, more than 3,300 of those who will lose their jobs are employees who had employer-provided insurance before HCRA and will now be left with neither a job nor insurance.

Those who lose their jobs as a result of HCRA are less likely to be married and more likely to be female, poorer, less educated and from a minority group. Specifically, **job losers are nearly 50 percent more likely to be a high school dropout and 33 percent more likely to be non-white**. The unintended consequence of HCRA will be to make life even more difficult for the least skilled employees in the economy. Low-wage and low-income families will suffer disproportionately more job loss, and their lower education levels will make it much more difficult for them to secure a job in the new high-labor-cost environment.

Conclusion

Despite a $1.6 billion price tag, HCRA will do little to address the problem of the uninsured. The **vast majority of the uninsured will remain without access to any coverage under this legislation**. The extremely low number of individuals receiving insurance creates **an effective cost per newly insured individual of more than $10,200**.

This inefficient program will destroy up to 25,500 jobs without adequately addressing the problem of the working uninsured—let alone the broader problem of the uninsured. The majority of fees will be paid on behalf of employees that already have coverage and the vast majority of the uninsured will remain without coverage.

Health Care Responsibility Act

Washington's recently proposed Health Care Responsibility Act[4] (HCRA) would amount to a massive reorganization and expansion of Washington's Basic Health Plan (BHP) system. HCRA would institute an hourly fee for employees of businesses with more than 50 employees.[5] This fee would be used to expand BHP to allow the enrollment of all individuals who work more than 86 hours a month for an employer with more than 50 employees.[6]

The new fee mandated under HCRA would be determined in the following manner. The administrator of the program would determine the monthly cost of providing BHP to an adult. This fee would then be multiplied by 0.85 to determine the maximum monthly fee per employee. This fee would then be divided by 86 to determine the hourly fee per employee that must be paid by the employer.

In order to determine the aggregate monthly fee employers must pay, businesses must calculate the total number of hours worked that month (up to 86 per employee) and then multiply that amount by the hourly fee per employee to determine the gross fee required under HCRA. Employers will be allowed to deduct all current healthcare spending from this gross total to determine the net monthly fee due to the state government. This net fee shall be transmitted on a quarterly basis.

Even though employers will pay a fee for all employees (regardless of the number of hours worked), employees will be eligible for BHP coverage only if they work more than 86 hours a month.[7] Employees who qualify for Medicare coverage, regardless of the number of hours worked, remain ineligible for BHP coverage. In order to receive BHP coverage, employees will still be responsible for an age-adjusted premium to be determined later.[8] BHP coverage for all employees will be open only to individuals, and not their dependents.

Insurance Status of Washington Residents

Table 1 summarizes the insurance status of all Washington residents. According to the March 2003 Current Population Survey (CPS),[9] in 2002 there were nearly 850,000 uninsured people in the state of Washington. This amounted to 14.2 percent of the over more than 6 million people living in the state. Fully 30 percent of the population have employer-based insurance in their own name, and approximately 30 percent have either privately purchased insurance or dependent coverage (from an employer other than their own). Nearly 11 percent of the population receives coverage

Table 1 Health Insurance Coverage in Washington State, 2002, Entire Population

Uninsured	849,939	14.2%
Employer-Based, Own Name	1,814,368	30.2%
Privately Purchased or Dependent Coverage	1,759,761	29.3%
Medicaid and/or Tricare	640,117	10.7%
Medicare (and any other type)	684,297	11.4%
Employer-Based and Medicaid/Tricare	70,766	1.2%
Other Private and Medicaid/Tricare	181,408	3.0%
Total	6,000,656	100%

Source: Tabulations of 2003 March Current Population Survey

Table 2	Health Insurance Coverage in Washington State, 2002, Workers	
Uninsured	545,724	16.6%
Employer-Based, Own Name	1,742,418	52.9%
Privately Purchased or Dependent Coverage	628,478	19.1%
Medicaid and/or Tricare	160,278	4.9%
Medicare (and any other type)	89,191	2.7%
Employer-Based and Medicaid/Tricare	69,671	2.1%
Other Private and Medicaid/Tricare	55,639	1.7%
Total	**3,291,399**	**100%**

Source: Tabulations of March 2003 Current Population Survey

from Medicaid or Tricare (a federal insurance program for military members and their families). An additional 11.4 percent of the population receives coverage from Medicare. The remaining 4.2 percent of the population receives coverage from some combination of these categories.

Table 2 contains information on the working population of Washington. More than 546,000 of the uninsured in the state worked at some point in 2002. Nearly 53 percent of those working had employer-provided insurance in their own name. Interestingly, more than 45 percent of those who worked during 2002 did not receive coverage from their own employer, with nearly 7 percent of these individuals receiving coverage from either Medicaid or Tricare.

Table 3 contains information about the insurance status of the non-working population of the state. More than 11 percent of this population was uninsured in 2002. Nearly 42 percent had insurance coverage through either an employer other than their own or private coverage. Fully 22 percent had coverage from Medicare and nearly 18 percent received coverage from either Medicaid or Tricare.

Who Is Covered by HCRA?

HCRA requires employers with more than 50 employees to pay a fee for all of their employees, regardless of the number of hours worked. Of the nearly 3.3 million employees in Washington, over 1.8 million work at a firm with more than 50 employees and are therefore covered by the fee portion of HCRA. Table 4 summarizes the insurance status of those covered by HCRA. Nearly 12 percent of those covered by HCRA are uninsured. This represents only 26 percent of the uninsured population in Washington and not all

Table 3	Health Insurance Coverage in Washington State, 2002, Non-Workers	
Uninsured	304,215	11.2%
Employer-Based, Own Name	71,950	2.7%
Privately Purchased or Dependent Coverage	1,131,283	41.8%
Medicaid and/or Tricare	479,839	17.7%
Medicare (and any other type)	595,106	22.0%
Employer-Based and Medicaid/Tricare	1,095	0.0%
Other Private and Medicaid/Tricare	125,769	4.6%
Total	**2,709,257**	**100%**

Source: Tabulations of March 2003 Current Population Survey

Table 4	Health Insurance Status of Employees Covered by HCRA, 2002	
Uninsured	218,446	11.8%
Employer-Based, Own Name	1,243,109	67.4%
Privately Purchased or Dependent Coverage	216,120	11.7%
Medicaid and/or Tricare	82,010	4.4%
Medicare (and any other type)	26,925	1.5%
Employer-Based and Medicaid/Tricare	49,980	2.7%
Other Private and Medicaid/Tricare	6,958	0.4%
Total	1,843,548	100%

Source: Tabulations of March 2003 Current Population Survey

of these individuals will be eligible for BHP coverage because of the number of hours they work.

More than 67 percent of those covered by HCRA, 1.2 million people, already have coverage from their current employer. Because of the structure of the HCRA fee, a portion of **employers will be required to pay a fee even though they already provide coverage to their employees.**

Even though employers are required to pay a fee for all employees, employees will be able to secure BHP coverage only if they work more than 86 hours a month and they are not eligible for Medicare coverage. Table 5 summarizes the insurance status of those who actually qualify for BHP coverage under HCRA.

While 218,446 uninsured Washington employees are covered by the fee-paying portion of HCRA, **only 155,951 of these uninsured employees will actually qualify for BHP** coverage. This represents only 18.3 percent of the uninsured population in the state. Far from covering all of the working uninsured, the stated intent of the bill, **HCRA does not even cover a majority of the working uninsured.** Nearly 4 percent of the people qualifying for BHP coverage under HCRA currently receive insurance coverage from Medicaid or Tricare.

Of the 1.8 million individuals who qualify for the fee-paying portion of HCRA, only 1.59 million qualify for coverage under BHP. This means that the employers of nearly **254,000 Washington residents will be required to pay a fee under HCRA for employees who will receive no new insurance coverage as a result of the legislation**.

Table 6 contains demographic characteristics of those covered by the fee-paying portion of HCRA by their BHP eligibility status. Those

Table 5	Health Insurance Status of Employees Eligible for BHP, 2002[10]	
Uninsured	155,951	9.8%
Employer-Based, Own Name	1,188,475	74.7%
Privately Purchased or Dependent Coverage	141,086	8.9%
Medicaid and/or Tricare	57,045	3.6%
Medicare (and any other type)	0	0.0%
Employer-Based and Medicaid/Tricare	44,071	2.8%
Other Private and Medicaid/Tricare	3,356	0.2%
Total	1,589,984	100%

Source: Tabulations of March 2003 Current Population Survey

who are ineligible for coverage but still covered by the HCRA fee requirements are younger and are less likely to be married. They are more likely to be female, less educated, members of a minority group, and poorer. For example, **those ineligible for BHP but still paying a fee are more than twice as likely to be a high school dropout and they are 20 percent more likely to be non-white.**

Table 7 examines the differences in BHP eligibility by wage rates. Clearly, those who are ineligible for BHP earn significantly lower wages than those who are eligible. Those making less than $7.50 an hour[11] are 172 percent more likely to be ineligible for BHP coverage. Similarly, while 79 percent of the eligible population earn more than $10.50 an hour, they make up only 54 percent of the eligible population.

These demographic statistics are important because the more than 250,000 employees who are paying for but are not eligible for coverage are effectively subsidizing those who are receiving coverage. The statistics in Table 6 reveal that **individuals belonging to traditionally vulnerable populations will be subsidizing a group that is—on average—richer, more educated, and more likely to be white.**

How Much Will HCRA Cost?

The hourly fee per employee mandated by HCRA is based on the average cost of providing BHP coverage to an adult.[12] In 2004, the Washington Health Care Authority (HCA) estimated a subsidized benchmark rate of $204 for BHP coverage.[13] The HCA estimates an inflation rate of between 7 and 8 percent between 2004 and 2005, resulting in a monthly cost of providing BHP coverage of $219.[14] In order to determine the fee under HCRA, the administrator will multiply this cost by 0.85, resulting in a monthly fee per employee of $186 for employees working 86 hours of more. For employees who work fewer than 86 hours, the hourly fee will be $2.17 per hour.

Table 8 estimates the cost of HCRA based on an employer fee of $186 per month ($2.17 an hour for employees working fewer than 86 hours per month). Under HCRA the majority of fees will be paid on behalf of employees who

Table 6 Health Insurance Coverage in Washington State, 2002, Entire Population

	Eligible for BHP	Ineligible for BHP
Married	61%	40%
Male	55%	39%
Dropout	7%	16%
High School Diploma Only	24%	27%
Non-white	13%	17%
Hispanic	7%	4%
Homeowner	67%	63%
Average Age	40.8	36.1
Median Family Income	$64,360	$46,941
Number of Workers	1,589,984	253,564

Source: Tabulations of March 2003 Current Population Survey

already have insurance coverage. Only 34 percent of the fees paid by employers are generated by employees who currently have no coverage.

The current cost of providing BHP coverage is not, however, an appropriate measure of the cost of coverage for "fee-supported enrollees"—employees now eligible for BHP coverage *regardless of income status*. Currently, all BHP "subsidized enrollees" earn less than 200 percent of the federal poverty line and therefore their maternity benefits are paid by Medicaid. As a result, the estimated cost of coverage for 2005 ($219) does not include the cost of providing maternity benefits—coverage authorized under HCRA. HCA estimates that such coverage will increase the per enrollee cost of BHP by 20 percent.[15] In that case, the cost of providing BHP coverage in 2005 (with maternity benefits) would be $263. This amounts to a per employee fee of $224 for employees working 86 hours or more and an hourly fee of $2.60 for employees working fewer than 86 hours.

Table 9 analyzes the cost of HCRA by employee insurance status utilizing the more accurate fee accounting for maternity benefits. **In total, HCRA will cost employers nearly $1.6 billion a year.** These fees will be collected from nearly 1.85 million employees, with an

Table 7 BHP Eligibility by Wage Distribution, 2002

	Eligible for BHP		Ineligible for BHP	
$0 < Hourly wage = $7.50	169,798	11%	76,243	30%
$7.50 < Hourly wage = $8.00	18,658	1%	12,150	5%
$8.00 < Hourly wage = $8.50	25,188	2%	7,470	3%
$8.50 < Hourly wage = $9.00	29,832	2%	4,569	2%
$9.00 < Hourly wage = $9.50	23,738	1%	6,476	3%
$9.50 < Hourly wage = $10.00	48,241	3%	3,952	2%
$10.00 < Hourly wage = $10.50	25,421	2%	5,076	2%
Hourly wage > $10.50	1,249,108	79%	137,628	54%
Total	**1,589,984**	**100%**	**253,564**	**100%**

Source: Tabulations of March 2003 Current Population Survey

Table 8 Cost of HCRA by Insurance Status, Employees Eligible for Fee, 2002

	Employees	Average Fee	Total Fee
Uninsured	218,446	$1,934	$422,529,394
Employer-Based, Own Name	1,243,109	$175	$217,295,453
Privately Purchased or Dependent Coverage	216,120	$1,866	$403,264,359
Medicaid and/or Tricare	82,010	$1,961	$160,840,308
Medicare (and any other type)	26,925	$875	$23,558,594
Employer-Based and Medicaid/Tricare	49,980	$279	$13,930,661
Other Private and Medicaid/Tricare	6,958	$1,726	$12,007,156
Total	**1,843,548**		**$1,253,425,926**

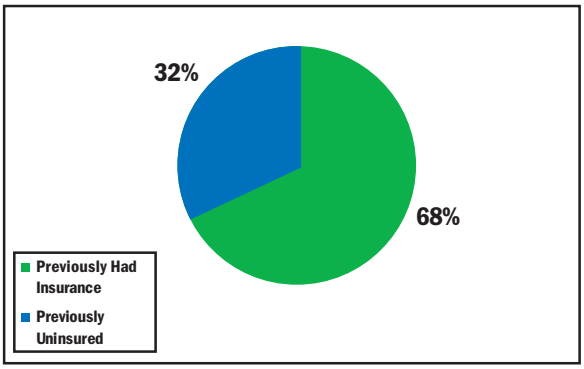
Source: Tabulations of March 2003 Current Population Survey

average net fee ranging from $275 to $2,329 (the net fee includes a deduction for employer health insurance expenditures).

Figure 1 shows the breakdown of fees by the current insurance status of employees. **The vast majority of the fees will be paid on behalf of employees who already have insurance coverage**. More than $340 million of the fees will be paid by employers who already offer coverage to their employees but whose expenditures for health coverage are lower than the fee mandated by HCRA. An additional $485 million is paid on behalf of employees that have coverage either in the private market or through an employer other than their own.

Figure 1

HCRA Fees by Employee Insurance Status



Source: Tabulations of March 2003 Current Population Survey

Who Gets Insurance Under HCRA?

Table 10 analyzes the cost per employee by insurance status for employees eligible for BHP coverage (with the employer paying the fee and the employee working 86 hours per month). Even though the nearly 156,000 uninsured Washington employees eligible for coverage are responsible for more than $419 million in fees, the majority of fees collected cover employees who already have insurance. Similarly, the majority of individuals newly eligible for BHP currently have coverage. The small number of newly insured individuals results in **an effective cost per newly insured employee of over $10,200**—dramatically more than the actual cost of providing insurance to these individuals.

Nearly 254,000 of the employees covered by HCRA must pay a fee but are ineligible for BHP coverage. In total, employers pay nearly $285 million in fees on behalf of employees who receive no new insurance. More than 62,000 of these employees have no insurance now. **These 62,000 people will pay nearly $90 million in fees into the system while remaining without any insurance**—an average net fee of more than $1,400.

Table 9 Cost of HCRA by Insurance Status, Employees Eligible for Fee, 2002

	Employees	Average Fee	Total Fee
Uninsured	218,446	$2,329.42	$508,852,481
Employer-Based, Own Name	1,243,109	$275.02	$341,882,945
Privately Purchased or Dependent Coverage	216,120	$2,247.14	$485,651,897
Medicaid and/or Tricare	82,010	$2,361.91	$193,700,157
Medicare (and any other type)	26,925	$1088.88	$29,317,986
Employer-Based and Medicaid/Tricare	49,980	$401.47	$20,065,716
Other Private and Medicaid/Tricare	6,958	$2,078.21	$14,460,234
Total	**1,843,548**		**$1,593,931,416**

Source: Tabulations of March 2003 Current Population Survey

An additional 57,000 employees currently receive coverage from either Medicaid or Tricare. Employers for these individuals are required to pay more than $150 million into HCRA, despite the fact that these employees are already receiving more than adequate health coverage.[16] These results are summarized in Table 11.

Nearly 27,000 employees covered by HCRA receive Medicare insurance and are therefore ineligible for BHP coverage. Despite their ineligibility, employers are required to pay more than $29 million in fees for these Medicare eligible employees.

Employment Effects of HCRA

The costs generated by HCRA will have significant effects on Washington's labor market. Because HCRA has not been implemented, there are no empirical estimates of the potential disemployment responses. Furthermore, few other states have enacted any reforms approaching the scope of this mandate. Although little research has been conducted on the potential employment response from mandated benefits, the studies that have been conducted suggest an expected employer response. Gruber (1994) estimated the labor market effects of mandated maternity benefits.[17] The response of employers to the HCRA mandate is likely to be similar. Gruber found that, wherever possible, employers will attempt to shift the cost of the mandate (the HCRA fee in this case) onto employees.

It is unclear to what degree—in the short term, and in a period of low inflation—employers will be able to fully shift the cost of HCRA onto their employees. It is clear, however, that employers of low-wage employees will be unable to fully shift the cost of HCRA onto the wages of their employees. Summers (1989) states that in the presence of a binding minimum wage, "wages cannot fall to offset employers' cost of providing a mandated benefit, so it is likely to create unemployment."[18]

Under the constraint of the minimum wage (currently $7.35 an hour in Washington), the effect of HCRA will be analogous to a minimum wage hike. Employers must accept lower profits, increase prices, or alter the size and composition of their labor force to respond to the increased costs. Ultimately, employers will adopt some combination of the three responses. Table 12 shows that nearly 272,000 employees in the state of Washington are at-risk of losing their jobs as a result of HCRA. This includes nearly 30 percent of employees in the state earning less than $7.50 an hour and 45 percent of employees earning between $7.50 and $8.00 an hour.

Table 10 Cost of HCRA by Insurance Status, Employees Eligible for Fee, 2002

	Employees	Average per Employee	Total
Uninsured	155,951	$2,688.00	$419,196,288.00
Employer-Based, Own Name	1,188,475	$ 278.78	$331,319,851.62
Privately Purchased or Dependent Coverage	141,086	$2,688.00	$379,239,168.00
Medicaid and/or Tricare	57,045	$2,688.00	$153,336,960.00
Medicare (and any other type)	-	-	-
Employer-Based and Medicaid/Tricare	44,071	$ 373.50	$16,460,478.84
Other Private and Medicaid/Tricare	3,356	$2,688.00	$9,020,928.00
Total	**1,589,984**		**$1,308,573,674**

Source: Tabulations of March 2003 Current Population Survey

Table 11	Cost of HCRA by Insurance Status, Employees Ineligible for BHP, 2002		
	Employees	Average Fee	Total
Uninsured	62,495	$1,435	$89,656,202
Employer-Based, Own Name	54,634	$193	$10,563,009
Privately Purchased or Dependent Coverage	75,034	$1,418	$106,412,619
Medicaid and/or Tricare	24,965	$1,617	$40,363,187
Medicare (and any other type)	26,925	$1,089	$29,317,986
Employer-Based and Medicaid/Tricare	5,909	$610	$3,605,233
Other Private and Medicaid/Tricare	3,602	$1,510	$5,439,305
Total	253,564		$285,357,540

Source: Tabulations of March 2003 Current Population Survey

Neumark and Wascher (2000) found that for every 10 percent increase in the minimum wage, affected employees will suffer a 2.2 percent decrease in employment.[19] Fuchs, Poterba, Krueger (1998), a broad-based survey of leading economists, found that the average economist believes a 10 percent increase in the minimum wage results in a 2.1 percent decrease in affected employment.[20]

Table 13 estimates potential employment losses under HCRA, assuming 100 percent wage shifting—an unrealistic short-term assumption. Under full wage shifting, more than 13,000 Washington employees are expected to lose their jobs as a result of HCRA. Nearly 40 percent of this job loss will be for the uninsured. Importantly, even under the case of full wage shifting, nearly 1,000 of the employees who lose their jobs had employer-based insurance before HCRA—and now have neither insurance nor a job.

In the short term, it is unrealistic to assume that employers will be able to fully shift the cost of the mandate onto employees. In the case where employers do not shift the cost of the mandate onto employee wages, more than 25,500 employees will lose their jobs (see Table 14). Even though nearly 35 percent of those who lose their jobs were uninsured before HCRA, **the vast majority of those who lose their jobs had insurance coverage before HCRA and now find themselves without a job.** Nearly 3,300 of those who will lose their jobs had employer-based insurance before HCRA.

Table 15 analyzes employment loss by the wage distribution. Nearly 50 percent of the job loss under HCRA will be suffered by employees earning less than $7.50 an hour. A majority of the jobs (53%) will be lost by those earning less than $8.00 an hour.

Table 16 summarizes the demographic characteristics of job losses, compared with all employees in the state. Overall, those who lose their jobs as a result of HCRA are less likely to be married, more likely to be female, poorer, less educated, and more likely to be a minority. Specifically, **job losers are nearly 50 percent more likely to be high school dropouts and 33 percent more likely to be non-white.** These facts clearly show that HCRA will make life even more difficult for the least skilled employees in the economy. Low-wage and low-income families will suffer disproportionately more job loss, and their lower education levels will make it that much more difficult to secure a job in the new, high-labor-cost environment.

Different Fee Simulations

This analysis utilizes an estimated fee (including maternity benefits) of $224 per employee (or $2.60 per hour for employees

Table 12 Employees at Risk for Employment Loss Under HCRA due to Incomplete Wage Shifting, by Wage Distribution, 2002

	All Workers	At Risk of Job Loss	Percent of Wage Group
$0 < Hourly wage = $7.50	748,367	217,855	29%
$7.50 < Hourly wage = $8.00	51,048	23,039	45%
$8.00 < Hourly wage = $8.50	65,498	14,128	22%
$8.50 < Hourly wage = $9.00	61,506	10,159	17%
$9.00 < Hourly wage = $9.50	66,890	6,476	10%
$9.50 < Hourly wage = $10.00	110,090	0	0%
$10.00 < Hourly wage = $10.50	62,210	0	0%
Hourly wage >$10.50	2,125,790	0	0%
Total	**3,291,399**	**271,657**	**8%**

Source: Tabulations of March 2003 Current Population Survey

Table 13 Employment Loss Under HCRA, Full Wage Shifting, 2002

	100% Shifting	Percent of Job Loss
Uninsured	5,142	39%
Employer-Based, Own Name	956	7%
Privately Purchased or Dependent Coverage	4,384	33%
Medicaid and/or Tricare	2,085	16%
Medicare (and any other type)	289	2%
Employer-Based and Medicaid/Tricare	38	0%
Other Private and Medicaid/Tricare	342	3%
Total	**13,236**	**100%**

Source: Tabulations of March 2003 Current Population Survey

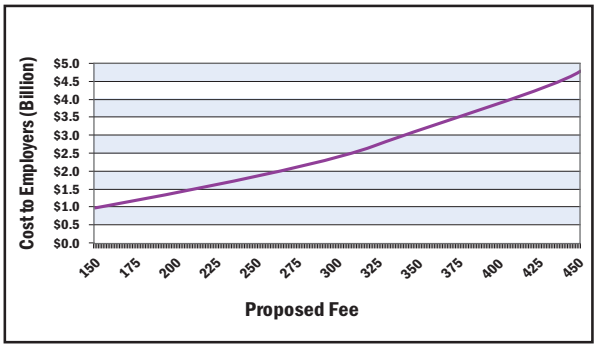
working fewer than 86 hours). Although this is believed to be a realistic assumption of the fee mandated by HCRA, clearly there are several ambiguities about what the fee will actually be—even among experts at the HCA. Figure 2 examines the potential cost of HCRA under several different fee scenarios, ranging from $150 to $450 per month ($1,800 to $5,400 per year). Potential costs under these scenarios range from $968 million to $4.68 billion. Although we do believe that the fee utilized in this scenario is the most accurate (and most conservative) estimate possible, it is interesting to note the potential growth in costs with differing fee levels. One important consideration is that the cost of the program increases in a non-linear fashion. As the fee increases, more and more employers are required to pay into the system, since their expenditures on healthcare no longer meet the minimum required level. These differing fee simulations are also interesting because of expected inflationary growth in healthcare costs. While the HCA assumes a 7.5 percent inflation rate for premiums, the cost of employer-provided healthcare plans has increased more than 11 percent on average during the last five years.

Table 14	Employment Loss Under HCRA, No Wage Shifting, 2002	
	No Shifting	Percent of Job Loss
Uninsured	8,898	35%
Employer-Based, Own Name	3,301	13%
Privately Purchased or Dependent Coverage	8,462	33%
Medicaid and/or Tricare	3,868	15%
Medicare (and any other type)	543	2%
Employer-Based and Medicaid/Tricare	114	0%
Other Private and Medicaid/Tricare	366	1%
Total	25,552	100%

Source: Tabulations of March 2003 Current Population Survey

Figure 2

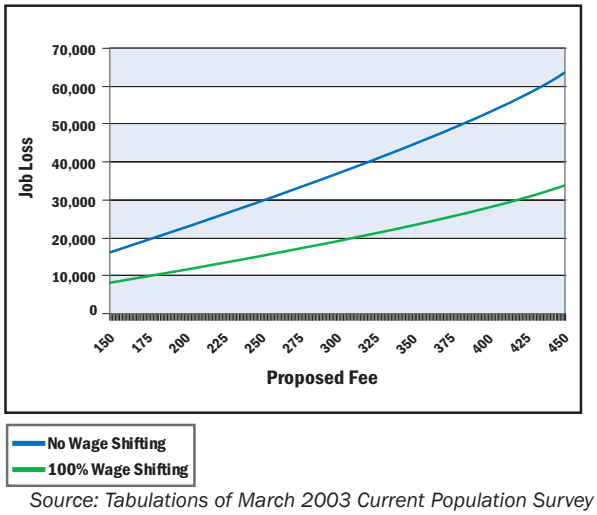
Cost of HCRA Under Different Monthly Fee Simulations ($150 - $450)



Source: Tabulations of March 2003 Current Population Survey

Figure 3

Cost of HCRA Under Different Monthly Fee Simulations ($150 - $450)



Source: Tabulations of March 2003 Current Population Survey

As the cost of HCRA increases, so will the expected employment losses. Figure 3 estimates the potential number of lost jobs under conditions of 100 percent wage shifting and no wage shifting. In the case of no wage shifting, the potential for lost jobs ranges from 16,000 to 63,000. Clearly, changes in the HCRA fee can lead to dramatically different effects on the state's labor market.

Inefficient Healthcare Spending

Unlike other pay or play mandates that have been passed or proposed, the structure of HCRA creates significant incentives toward inefficient healthcare spending. These inefficiencies arise from the fact that HCRA gives employers a credit based on the dollars they spend on health coverage and not on the quality of coverage their employees enjoy. Basing the credit for "playing" under the system on the cost of coverage sets a minimum level of acceptable health spending in the state and strips employers of an incentive to negotiate or economize to get below that level of spending while still supplying an appropriate level of coverage.

This structure not only creates a disincentive to control healthcare spending, it also results in increased costs for employers that are currently

Table 15	Employment Losses Under HCRA, No Wage Shifting, by Wage Distribution, 2002

	No shifting	Percent
$0 < Hourly wage = $7.50	12,323	48%
$7.50 < Hourly wage = $8.00	1,121	4%
$8.00 < Hourly wage = $8.50	1,037	4%
$8.50 < Hourly wage = $9.00	1,011	4%
$9.00 < Hourly wage = $9.50	1,090	4%
$9.50 < Hourly wage = $10.00	1,025	4%
$10.00 < Hourly wage = $10.50	636	2%
Hourly wage > $10.50	7,309	29%
Total	**25,552**	**100%**

Source: Tabulations of March 2003 Current Population Survey

Table 16	Demographics of Job Losers Under HCRA, 2002

	All Workers	Job Losers
Married	55%	38%
Male	54%	42%
Dropout	13%	19%
High School Diploma Only	26%	29%
Non white	12%	16%
Hispanic	6%	7%
Average Age	39.59	32.5%
Median Family Income	$55,154	**100%**

Source: Tabulations of March 2003 Current Population Survey

offering acceptable coverage to their employees. Under the current HCRA structure, employers of employees that are currently receiving insurance are responsible for more than $340 million in increased costs. As a result, nearly 3,300 employees who are currently receiving health coverage are expected to lose their jobs under HCRA.

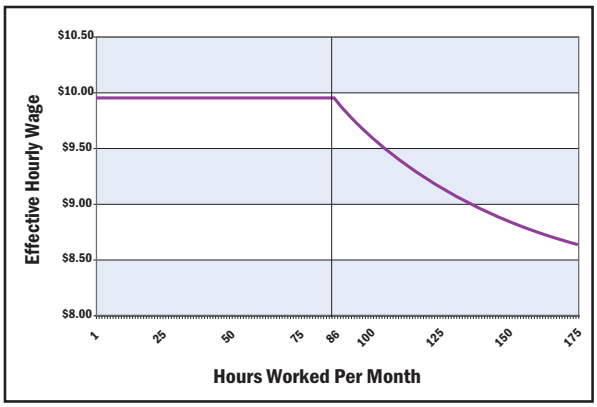
Effect on Part-Time Employment

The fact that employers are required to pay a fee regardless of the number of hours worked by employees creates a significant disincentive toward hiring part-time labor. The currently proposed structure of HCRA dramatically increases the cost of employees who work fewer than 86 hours compared with employees who work more than 86 hours. Figure 4 models the effective minimum wage based on number of hours worked. For employees working fewer than 86 hours, the effective minimum wage is $9.95 per hour. This is compared with an effective minimum wage of $8.64 per hour for employees working full-time.

The difference in these wage rates means that having two employees working 86 hours per month would cost an employer nearly 14

Figure 4

Effective Hourly Minimum Wage Under Washington Health Care



Source: Tabulations of March 2003 Current Population Survey

percent more than having one employee who works 174 hours per month. In addition, the employee working 174 hours will have access to BHP coverage, allowing the employer to offer a richer benefit package (wages plus insurance) to those employees at a lower actual cost.

It is difficult to imagine a situation where a rational employer would choose part-time employees under this situation. This is particularly important in light of the fact that employees in Washington who work fewer than 86 hours per month are poorer, less educated, more likely to be female, and more likely to be a minority than those working more than 86 hours per month. Furthermore, part-time employment serves as an important means of gaining valuable work experience for teenagers and other low-skilled employees.

Expanded Insurance Coverage

Even though approximately 155,000 uninsured Washington residents will gain access to new coverage as a result of HCRA, this is clearly an overstatement of how many of these individuals will actually purchase insurance under the plan. Because enrolling in BHP would be optional under HCRA, and would require a premium intended to account for approximately 15 percent of the cost of coverage, it is clear that many of the newly eligible employees would not take up coverage—reducing the effect of HCRA on the number of uninsured people in the state. Indeed, some of those who are currently uninsured in Washington state are *already* in precisely this situation—employers offer coverage, but employees turn it down because of the premium cost.

Characteristics of individuals who take up insurance could have very important effects on the sustainability of HCRA. If those who take up coverage are significantly older and/or sicker than the HCA expects when determining the cost of the program, BHP could have difficulty meeting the demands of covering all eligible "fee-supported enrollees." In addition, there is a significant likelihood of adverse selection. Those who are sicker might be more likely to actually enroll in BHP, creating problems for the risk pool. BHP's own history speaks to this point, with the demise of the "nonsubsidized enrollee" category as a result of the inability to find private companies willing to bid on providing this coverage. A more detailed analysis of the potential effects of differing take-up rates on both the cost and sustainability of the program is left to a further analysis.

Conclusion

This analysis reveals that HCRA is an exceptionally costly and inefficient mandate. In total, this legislation will cost employers $1.6 billion in the first year and destroy up to 25,500 jobs. This extreme cost will provide little benefit to the state, particularly to the state's uninsured employees. Only 18 percent of the working uninsured population in Washington will receive new coverage as a result of HCRA. The vast majority of fees collected under the legislation will be paid on behalf of employees who already have insurance coverage, with $340 million of the cost being borne employers who already pay for their employees' health coverage.

Clearly, HCRA does not meaningfully address the problem of the uninsured in the state. It is a costly new fee for employers that will destroy jobs. More troubling, this job loss will disproportionately harm the state's least skilled and most vulnerable employees. Those who lose their jobs are more likely to be poor, less educated, female and minority—groups that already face very difficult labor market conditions.

Appendix A: Data

The primary data set used in the analysis is the March 2003 CPS Annual Social and Economic Survey (U.S. Department of Commerce, Bureau of the Census, 2003). The March CPS Annual Social and Economic Survey (ASEC) was formerly called the Annual Demographic Survey. The CPS is recognized as a credible and widely respected survey. It currently surveys nearly 80,000 households for the March supplement and asks questions that specifically address issues of health coverage and health insurance. It is administered by the Bureau of the Census for the Bureau of Labor Statistics and has been conducted for more than 50 years. The response rate for the March survey is exceptionally high for a voluntary, household-based survey. The sample is scientifically selected to represent the civilian noninstitutional population. The Census Bureau states that the CPS sample provides estimates for the nation as a whole and serves as part of model-based estimates for individual states and other geographic areas. The CPS is conducted by telephone and in person (and thus includes residences without telephones).

The ASEC asks detailed questions about health insurance and work behavior for the entire preceding calendar year. Health insurance status is asked for all household members and the survey includes questions about employer-provided health insurance, private health insurance, and government insurance. The CPS does not directly ask people whether they are uninsured. The survey asks about specific types of insurance, and respondents who answer "no" to all of the categories are considered uninsured. The March 2003 CPS asks about health insurance coverage in 2002. It asked respondents about coverage at any time during the preceding calendar year, so being classified as uninsured reflected lack of health insurance throughout the calendar year. It is thought that the CPS misclassifies insurance status for some people.

Health insurance definitions utilized in this analysis are identical to those of the Census Bureau. The CPS is useful as a source of estimates of the insured and uninsured populations at the state level. According to the Census Bureau, the March CPS is perhaps the most widely used source of data on health insurance coverage in the United States. It is the official source for estimates used to allocate federal funding to states for the State Children's Health Insurance Program (SCHIP), which amounted to $3.7 billion in federal fiscal year 2002.

Appendix B: Calculations utilizing a weekly hours of work measure

Estimates of BHP eligibility utilized in this analysis are based on an annual hours of work calculation (86 hours worked for 12 months, or 1,032 hours). This method was selected instead of a weekly hours of work calculation (19.85 hours) because it is believed that eligibility for the program will not be determined on a monthly basis, but rather on a quarterly or annual basis. Below are tables summarizing the results of a weekly analysis:

Appendix Table 1 Health Insurance Status of Employees Eligible for BHP, Weekly Hours, 2002

Uninsured	200,367	11.6%
Employer-Based, Own Name	1,222,724	70.6%
Privately Purchased or Dependent Coverage	174,707	10.1%
Medicaid and/or Tricare	79,685	4.6%
Medicare (and any other type)	0	0.0%
Employer-Based and Medicaid/Tricare	49,980	2.9%
Other Private and Medicaid/Tricare	4,537	0.3%
Total	**1,732,000**	**100.0%**

Source: Tabulations of March 2003 Current Population Survey

Appendix Table 2 Demographic Characteristics of Employees Covered Under HCRA by BHP Status, Weekly Hours, 2002

	Eligible for BHP	Ineligible for BHP
Married	60%	38%
Male	53%	41%
Dropout	8%	19%
High School Diploma Only	24%	26%
Non-white	13%	19%
Hispanic	6%	5%
Homeowner	66%	70%
Average Age	40.2	39.6
Median Family Income	$62,100	$55,600
Number of Workers	1,732,000	111,548

Source: Tabulations of March 2003 Current Population Survey

Appendix C: What is the Washington Basic Health Plan?

Washington's Basic Health Plan (BHP) traces its roots back to 1987 and the passage of the Health Care Access Act. The initial pilot project was open to 4,000 residents in King and Spokane counties. Initially, the benefits package included preventive care, hospital care, physician services, emergency room coverage, ambulance coverage, and maternity benefits through Medicaid.

By 1991, BHP had 22,000 enrollees and opened its first waiting list for enrollment. In 1993, BHP became a permanent program and merged with the Health Care Authority (HCA). In 1995, the legislature established a statutory enrollment target of 200,000 adults and 130,000 children for BHP.

By the year 2000, the rising costs of unsubsidized BHP coverage led to decreased bids from healthcare companies for subsidized coverage because of the requirement to provide both forms of coverage. In order to continue the subsidized program, BHP allowed companies to bid on each form of coverage individually. Most health plans did not bid on unsubsidized coverage and by 2002 no plans were accepting new unsubsidized enrollees.

In 2003 the Washington Legislature dramatically curtailed benefits under BHP. Key features of BHP now include the following:[21]

- $150 annual deductible
- 20 percent coinsurance rate
- $1,500 per person out-of-pocket maximum
- Office visit copayment of $15

Endnotes

1. A recent example of this style of mandate was California's Health Insurance Act of 2003, which was defeated at the ballot box during the Proposition 72 campaign.
2. For a full discussion of the benefits provided by BHP, please see Appendix C.
3. Summers, Lawrence H., "Some Simple Economics of Mandated Benefits," *The American Economic Review*, May 1989, 177–183.
4. SB 5637 and HB 1705.
5. Under HCRA, an "employee" is defined as "a per son in employment under Title 50 RCW who has worked for an employer for at least three months." For the purposes of this analysis, individuals were counted as "employees" if they worked at least 12 weeks during the preceding year.
6. This category of enrollees in the BHP is designat ed as "fee supported enrollees." According to WA SB 5637 Sec 202(8), " 'fee supported enrollee' means an individual not eligible for medicare whose employer has paid a fee deposited in the basic health plan employer fee account according to section 103 of this act, who works at least eighty-six hours per month for the employer that has paid the fee, and who chooses to obtain basic health plan coverage from a participating managed healthcare system in return for periodic payments to the plan."
7. Currently, the legislation does not specify how this hourly limit will be calculated. The preceding analysis computes cost estimates using two poten tial methods. The first uses a weekly hours of work cut-off of 20 hours per week. The second uses an annual hours of work measure of 1,032 hours. Hours of work are determined using the CPS. Because of the practical complexity of the former method, the latter calculation would appear to be a more realistic means of determining eligi bility than a monthly calculation and is therefore used on for the majority of the analysis.
8. Current premiums for subsidized enrollees range from $17 to $189, depending on both age and income level. Premiums for the new "fee support ed enrollee" category will be adjusted for age but not income.
9. For a full discussion of the data utilized in this analysis, please see Appendix A.
10. Eligibility for BHP is determined by an annual calculation of hours. Employees are considered eligible for BHP if they work more than 1,032 hours in the year. For a calculation based on weekly hours, please see Appendix B.
11. These wage rates are in 2002 dollars. In 2002 the state minimum wage in Washington was $6.90 an hour, not the 2005 minimum wage rate of $7.35 an hour.
12. Information obtained during a conversation with Dale Fry of the Washington Health Care Authority, February 4, 2005.
13. This analysis uses an inflation rate of 7.5 percent.
14. A similar problem was encountered during the 2004 legislative session during the consideration of HB 3204.
15. HB 3204 would have allowed employees of home healthcare agencies to enroll in BHP. Because these new enrollees would not qualify for Medicaid maternity benefits, HCA produced a fis cal note estimating the cost of providing these benefits. The analysis estimated the cost at 20 per cent. For more information, please see www.ofm. wa.gov/fns/PublicSearch.asp?BillNumber3204& BillTitle=&SessionYear=2004&PubFromDate= &PubToDate=&page=1database=2004_Public Seach.mdb.
16. In fact, Medicaid coverage is actually significantly more generous then BHP coverage. Due to this fact, very few of the Medicaid beneficiaries would be expected to enroll in BHP.
17. Gruber, Jonathan, "The Incidence of Mandated Maternity Benefits," *The American Economic Review*, June 1994, 622–641.
18. Summers, Lawrence H., "Some Simple Economics of Mandated Benefits," *The American Economic Review*, May 1989, 177–183.
19. Neumark, David, and William Wascher, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Comment," *The American Economic Review*, December 2000, 1362–1396.
20. Fuchs, Victor R., Alan B. Krueger, and James M. Poterba, "Economists' Views about Parameters, Values, and Policies: Survey Results in Labor and Public Economics," *Journal of Economic Literature*, September 1998, 1387–1425.
21. For a full description of benefits, please see www.basichealth.hca.wa.gov.understanding/ benefits.shtml.

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The Effects of the Proposed California Minimum Wage Increase, by Dr. David Macpherson - Florida State University, Craig Garthwaite, Employment Policies Institute, August 2004.

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