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Goodbye, Employer-Sponsored Insurance

Companies are discovering that it's cheaper to pay fines to the government than to cover workers.

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Millions of American workers could discover that they no longer have employer-provided health insurance as ObamaCare is phased in. That's because employers are quickly discovering that it may be cheaper to pay fines to the government than to insure workers.

AT&T, Caterpillar, John Deere and Verizon have all made internal calculations, according the House Energy and Commerce Committee, to determine how much could be saved by a) dropping their employer-provided insurance, b) paying a fine of $2,000 per employee, and c) leaving their employees with the option of buying highly-subsidized insurance in the newly created health-insurance exchange.

AT&T, for example, paid $2.4 billion last year to cover medical costs for its 283,000 active employees. If the company dropped its health plan and paid an annual penalty for each uninsured worker, the fines would total almost $600 million. But that would leave AT&T with a tidy profit of $1.8 billion.

Economists say employee benefits ultimately substitute for cash wages, which means that AT&T employees would get higher take-home pay. But considering that they will be required by federal law to buy their own insurance in an exchange, will they be net winners or losers? That depends on their incomes.

A Congressional Budget Office (CBO) analysis of the House version of ObamaCare, which is close to what actually passed in March, assumed a $15,000 premium for family coverage in 2016. Yet the only subsidy available for employer-provided coverage is the same one as under current law: the ability to pay with pretax dollars. For a $30,000-a-year worker paying no federal income tax, the only tax subsidy is the payroll tax avoided on the employer's premiums. That subsidy is only worth about $2,811 a year.

If this same worker goes to the health-insurance exchange, however, the federal government will pay almost all the premiums, plus reimburse the employee for most out-of-pocket costs. All told, the CBO estimates the total subsidy would be about $19,400—almost $17,000 more than the subsidy for employer-provided insurance.

In general, anyone with a family income of $80,000 or less will get a bigger subsidy in the exchange than the tax subsidy available at work.

But will the insurance in the exchange be as good? In Massachusetts, people who get subsidized insurance from an exchange are in health plans that pay providers Medicaid rates plus 10%. That's less than what Medicare pays, and a lot less than the rates paid by private plans. Since the state did nothing to expand the number of doctors as it cut its uninsured rate in half, people in plans with low reimbursement rates are being pushed to the rear of the waiting lines.

The Massachusetts experience will only be amplified in other parts of the country. The CBO estimates there will be 32 million newly insured under ObamaCare. Studies by think tanks like Rand and the Urban Institute show that insured people consume twice as much health care as the uninsured. So all other things being equal, 32 million people will suddenly be doubling their use of health-care resources. In a state such as Texas, where one out of every four working age adults is currently uninsured, the rationing problem will be monumental.

Even if health plans in the exchange are identical to health plans at work, the subsidies available can only be described as bizarre. In general, the more you make, the greater the subsidy at work and the lower the subsidy in the exchange. People earning more than $100,000 get no subsidy in the exchange. But employer premiums avoid federal and state income taxes as well as payroll taxes, which means government is paying almost half the cost of the insurance. That implies that the best way to maximize employee subsidies is to completely reorganize the economic structure of firms.

Take a hotel with maids, waitresses, busboys and custodians all earning $10 or $15 an hour. These employees can qualify for completely free Medicaid coverage or highly subsidized insurance in the exchange.

So the ideal arrangement is for the hotel to fire the lower-paid employees—simply cutting their plans is not an option since federal law requires nondiscrimination in offering health benefits—and contract for their labor from firms that employ them but pay fines instead of providing health insurance. The hotel could then provide health insurance for all the remaining, higher-paid employees.

Ultimately, we could see a complete restructuring of American industry, with firms dissolving and emerging based on government subsidies.

A much better approach was proposed by Sen. John McCain in the last presidential election. The principle behind that plan is enshrined in the legislation sponsored by Sens. Tom Coburn (R., Okla.) and Richard Burr (R., N.C.), and Reps. Paul Ryan (R., Wis.) and Devin Nunes (R., Calif). This approach would replace the current subsidies with a system that gives every family, regardless of income, the same number of dollars of tax relief for health insurance.

Under this approach, all insurance would be subsidized the same way, regardless of where it is purchased. All taxpayers would be subsidized the same way, regardless of how they obtain their insurance. Unlike the president's scheme, it makes sense both in terms of equity and economics.

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