From: Jacobs, Chris (RPC)
Sent: Friday, October 22, 2010 10:39 AM
To: Jacobs, Chris (RPC)
Subject: More on Employers Dropping Coverage

Paid Administration advisor Jonathan Gruber* is out with a rebuttal to yesterday's Wall Street Journal op-ed by Gov. Phil Bredesen (D-TN) arguing that the health care law will encourage employers – including the state of Tennessee – to drop health coverage for their workers. Gruber's analysis is based on the following points:

> [Bredesen's] math is way off. First of all, Tennessee state employees generally make too much money to get big subsidies through the exchanges. Forty percent have incomes higher than 400 percent of the poverty lines, which means they'd be eligible for no tax credits at all; even for those with incomes below that level, the average tax credit would offset just a third of their premium cost. Second, if these individuals lost their public employee insurance and went into the exchanges, they would want to receive the same very generous benefits they get now–coverage comparable to the platinum plans offered in the exchange. Working from CBO's estimate of the cost of less generous plans in the exchange in 2016, those plans would cost about $6650 for an individual and $17,400 for a family in 2014.

Gruber's analysis itself raises its own questions:

1. The main point of the rebuttal is that state bureaucrats in Tennessee are too well-paid to qualify for Exchange subsidies (which, remember, are available up to levels of about $88,000 of income for a family of four), and those eligible for subsidies wouldn't want to give up their existing "very generous" coverage anyway. Some would assert however that **Gruber's argument more illustrates the separate problem of overpaid government bureaucrats, rather than the debunking the inherent logic that an employer would gladly pay a $2,000 tax penalty rather than financing insurance plans costing $10,000-plus per employee**.
2. On a related note, Democrats have repeatedly claimed that all Americans would be eligible for the same coverage that Members of Congress receive. (It's a claim of questionable validity, due to drafting errors in the statute, but assume it at face value for these purposes.) At a time when state budgets are increasingly strapped, how long after 2014 does anyone think government bureaucrats will be able to maintain their "platinum" health benefits in their existing state plans, if those benefits are much richer than the coverage that Members of Congress themselves receive through the Exchanges?
3. What about companies with much lower wage scales than Tennessee's government employees? Small businesses with under 50 employees face no penalty for dropping coverage, and for many retail and service firms (large and small), the vast majority of their employees would qualify for subsidies. For instance, the small business tax credit assumes an average wage of no more than $50,000 per year – far below the threshold to become eligible for Exchange subsidies in 2014. What incentive would these firms have to keep their insurance plan once the small business tax credit expires in 2016, and struggling firms are faced with the full brunt of rising premium costs?

Given the plausible (and significant) holes in Gruber's rebuttal, some may find his argument unpersuasive, and worry about the budgetary impact on the federal government should many employers make the rational choice to drop health care coverage beginning in 2014.

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* It is worth noting that in his New Republic post, Gruber did disclose his role as a paid Administration advisor; in other reports he has written this year, Gruber has not been similarly transparent.