Employers Consider Dropping Insurance Plans Once Health Law Provisions Take Effect

By Jim Angle

November 1, 2011

Three years before the new health care law takes full effect, a survey of employers has found 30 percent of them are thinking about dropping coverage, in part because most employees will have an alternative -- government-subsidized insurance exchanges.

McKinsey & Company commissioned a survey of 1,329 private sector employers in February and found that three out of 10 respondents who said their companies offered employer-sponsored health insurance said they would "definitely" or "probably" drop coverage in the years following 2014, the year the Affordable Care Act takes full effect.

"The employer knows there's no reason to provide private, expensive coverage if there's free options available from the government," said John Goodman, of the conservative National Center for Policy Analysis in Dallas.

Workers in the exchanges making all the way up to more than $90,000 in income would get generous federal subsidies. For lower-wage workers, the government would pay almost the entire cost of insurance.

"For a $12,000-dollar health insurance plan, if you make about $30,000 a year, the government pays about $11,000 of the premium," Goodman said.

Liberal supporters of the law note that there are provisions that discourage employers from dropping insurance and shifting workers to the subsidized exchanges.

"They can't simply move their workers onto the exchanges and have those workers obtain coverage on the taxpayers' dime," said Igor Volsky of the Center for American Progress. "That's the free rider provision in the law."

That is true, but analysts say there are many ways around that. And they argue that low-wage workers might work with employers to get around it because they'd come out ahead.

"The employers and the employees will be in cahoots, and say, 'Hey, we can both get something out of this if we'd like, if we just rearrange how we're doing our compensation to allow me to go into the exchanges,'" said Jim Capretta, a former associate director of the Office of Management and Budget, now with the conservative Ethics and Public Policy Center.

For instance, the average cost for employers to provide insurance is about $12,000 a year. If they don't provide insurance, they must pay a $2,000 fine.

But that would leave employers $10,000 thousand dollars ahead, some of which could be shared with workers in the form of higher pay while the exchanges paid much of their insurance costs.

"In other words," Capretta said, "they'd be, on net, better off, because the federal government would be paying a big chunk of the premium now, instead of either the employer or the worker."

But supporters of the law argue employers will want to provide insurance in order to recruit good workers, just as they did in the state that mandated universal care, Massachusetts.

If retaining quality workers didn't matter, Volsky said, "then the employers in Massachusetts would say 'Oh great, we don't have to offer coverage anymore, we're gonna put them in the Massachusetts exchanges here and be done with it.' But that's not what we saw in Massachusetts."

As a result, the administration assumes that 19 million people will go onto the exchanges. But critics fear it will be three times that many, which would increase the cost of the new law by hundreds of billions in just the first 10 years, and $1.4 trillion in the following 10 years.

Capretta noted that even the Congressional Budget Office, which made the estimate, acknowledged the problem. "Even CBO and others assume some bleed out of the employer system for these low wage workers into the exchanges. They just assume it is going to be more of a trickle, and others assume it will be more of a flood."

There is another factor. Analysts note the law does not force employers to provide insurance for part-time workers, creating an incentive to make jobs part-time instead of full-time, or subcontract with firms that do. That could also push more workers into the exchanges.