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Statement

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Committee on Ways and Means
U.S. House of Representatives

Hearing on

The Impact on Jobs of the Administration's Health Security Act

by

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Mr. Chairman, I am pleased to submit this statement for the record on the estimates of the impact of the Clinton Administration's health care reform proposal on jobs. The Employee Benefit Research Institute (EBRI), a nonprofit, nonpartisan public policy research organization, is dedicated to providing objective analysis of health care and other work force issues. To that end, this testimony reflects the research EBRI has compiled on the possible effects of an employer mandate under the Administration's health care reform proposal. Using a variety of assumptions, EBRI has produced a range of estimates on the employment effects of the Administration's employer mandate of between 661,000 net jobs created to 158,000 net jobs lost. However, the Administration's proposal for determining the employer contribution is likely to reduce the cash income of lower wage workers and increase the cash income of higher wage workers.

ESTIMATES OF JOB LOSS DUE TO AN EMPLOYER MANDATE

Analysts must make three basic assumptions in order to arrive at an estimate of the impact of an employer mandate on jobs. First, they must determine the cost of the benefit being mandated. Second, they must use an estimate of the sensitivity of the demand for labor to a change in the cost of labor. Finally, and most importantly, they need to make an assumption about the operation of the labor market and the speed with which it adjusts.

In the long run, mandating that a benefit be offered does not affect the labor market. In general, it does not affect the intrinsic value of a worker to an employer or change the number of workers available. It does affect the composition of total compensation, which may have important policy and economic implications, but it will not affect the number of jobs.

In the short and medium run, however, markets may not adjust completely. In these cases, the cost of the mandate will be divided among: workers in the form of lower wages and/or fewer jobs; employers in the form of lower profits; and consumers in the form of higher prices. Similarly, the benefits of a cap on employer contributions for health benefits will be divided among workers, employers, and consumers. The actual share of the burden or benefit is likely to vary by geographic region, occupation, industry, and size of employer.

As a nonpartisan, nonprofit research institute, EBRI's role in the health care debate is to provide objective information on the tradeoffs inherent in all the health care reform proposals. To that end, we have developed our own micro-simulation model to: understand how researchers arrive at widely different estimates, examine the sensitivity of these estimates to different assumptions, and understand the weaknesses in the methodologies employed. By examining the assumptions and methodologies used in the various estimates of the impact of an employer mandate, we can place reasonable bounds around the likely impact of an employer mandate on employment.

The Employment Policies Institute (EPI) released a report that contained estimates of 3.1 million jobs lost as a result of an employer mandate. The study was done before the Clinton Administration released its health plan, so it did not incorporate the actual mandate contained in the Administration's proposal. EPI assumed that benefits would cost $2,400 for an individual and $5,900 for a family. They further assumed that employers would pay 90 percent of the premiums. **Finally, they assumed that wages would not change as a result of an employer mandate, so that employers would bear the full costs.** They used the March Supplement to the 1991 Current Population Survey to derive their estimate. Using similar, but not identical, methodology and EPI assumptions on the premiums, we arrived at an estimate of 2.9 million jobs lost due to a mandate, using the March Supplement to the 1993 Current Population Survey.

In contrast to the assumptions used in the EPI and most other studies of the effects of an employer mandate, the Clinton Administration's proposal creates four premium categories: single adults, single adult families, couples with no children, and couples with children. The employer's contribution for each worker in each category is 80 percent of the premium divided by an adjustment factor. The adjustment factor is the number of workers in each category divided by the number of families of that type in each category in the alliance. Thus, the actual costs to the employer for family coverage are lower than the costs to employers who provide such coverage now. In fact, this methodology results in a subsidy for one-worker couples paid by two-worker couples. That is, the sum of the contributions (employer plus family) of two-worker couples will exceed the premiums for their premium category, while the sum of the contributions of one-worker families will be less than the premiums for their premium category. It is important to note that, as shown in table 1, the adjustment factor, and therefore the employer contribution, varies dramatically from state to state.

The Clinton Administration's proposal also caps the costs employers must pay as a percentage of payroll. At most, employers are required to pay 7.9 percent of payroll, although the amount may be as low as 3.5 percent for firms with fewer than 25 workers and average wages of less than $12,000.

Using the assumption that wages or other benefits do not adjust, so that any cost increases or savings due to the mandate are borne by the employer, we find that the Clinton Administration's proposal would create between 631,000 and 661,000 net new jobs (see tables 2, 3, and 4), depending on the premiums. Approximately 600,000 jobs would be lost from those employers who face new costs, and approximately 1.3 million new jobs would be created by those employers who experience lower costs as a result of the mandate.

The assumption that wages or other benefits would not change after a mandate is enacted, or announced, is highly unrealistic. It represents an upper bound on change in the employment that would result from an employer mandate. At the other extreme is the assumption that wages adjust, upward or downward, to completely absorb the costs of an employer mandate. In this case, the employers' costs are unchanged and their demand for labor would be unchanged, except for those workers at or near the minimum wage. Those workers' wages could fall to the minimum wage but no further, so employers of minimum wage workers would face higher costs as a result of the mandate. **Using the assumption that wages adjust completely except for those workers near the minimum wage, we estimate that an employer mandate would cause about 158,000 jobs to be lost.** This estimate would be larger if higher premiums were used in the simulation.

Using the national average premiums estimated by the Clinton Administration, a reasonable range for the impact of the employer mandate on jobs is between 661,000 net jobs created and 158,000 jobs lost. Higher premiums would reduce the number of jobs created at one extreme and increase the number of jobs lost at the other extreme, but it is unlikely that the range would exceed one-half of 1 percent of the work force in either direction.

It is important to note, however, that an employer mandate results in a redistribution of income. Higher income workers are more likely to have coverage currently than lower income workers. Many of these workers will find that their wages or other benefits increase as a result of the mandate. Conversely, those workers who do not now receive health insurance through their employer tend to be lower-income workers. These lower income workers will find that their real wages will fall or their jobs will become less secure, or both, as a result of the mandate. Many of these workers will find they now have a health insurance benefit that they did not have before, but 30 million of those who do not now get coverage from their employer have coverage from a spouse's plan or presently purchase coverage as individuals. While the benefit package under the Administration's proposal may be more generous than the plans these individuals now have, it is unclear if they will feel they are better off as a result of this reform.

Table 1
Number of Workers per Unit Adjustment Factor:
Determination of Employer per Worker Contribution, by State, 1991
EBRI Tabulations of the March 1992 Current Population Survey (CPS)

	Couples with no children	Couples with children
National Total	1.43	1.53
State		
Alabama	1.31	1.53
Alaska	1.45	1.40
Arizona	1.34	1.45
Arkansas	1.33	1.62
California	1.37	1.44
Colorado	1.41	1.48
Connecticut	1.65	1.59
Delaware	1.48	1.59
District of Columbia	1.49	1.53
Florida	1.32	1.55
Georgia	1.39	1.60
Hawaii	1.68	1.62
Idaho	1.29	1.52
Illinois	1.55	1.54
Indiana	1.42	1.58
Iowa	1.49	1.68
Kansas	1.50	1.58
Kentucky	1.28	1.34
Louisiana	1.29	1.50
Maine	1.41	1.54
Maryland	1.63	1.61
Massachusetts	1.56	1.49
Michigan	1.43	1.49
Minnesota	1.54	1.68
Mississippi	1.23	1.56
Missouri	1.48	1.67
Montana	1.32	1.55
Nebraska	1.45	1.73
Nevada	1.48	1.52
New Hampshire	1.61	1.54
New Jersey	1.67	1.49
New Mexico	1.25	1.48
New York	1.46	1.45
North Carolina	1.43	1.60
North Dakota	1.33	1.68
Ohio	1.40	1.52
Oklahoma	1.41	1.43
Oregon	1.34	1.53
Pennsylvania	1.48	1.47
Rhode Island	1.57	1.47
South Carolina	1.46	1.63
South Dakota	1.36	1.73
Tennessee	1.40	1.59
Texas	1.36	1.54
Utah	1.49	1.56
Vermont	1.49	1.65
Virginia	1.58	1.65
Washington	1.28	1.51
West Virginia	1.16	1.35
Wisconsin	1.53	1.74
Wyoming	1.25	1.57

The following tables compare the job loss or gain estimates resulting from an employer mandate using a variety of assumptions. The tables demonstrate the sensitivity of these estimates to assumptions used. Each column represents the results of simulations using a particular set of assumptions:

Column (1): These estimates assume a family premium of $5,900 and an individual premium of $2,400. All families composed of more than one person pay the family premium. It is assumed that employers contribute 90 percent of these premiums. It is assumed that wages and other compensation do not change with the implementation of the employer mandate.

Column (2): These estimates assume a family premium of $5,900 and an individual premium of $2,400. All families composed of more than one person pay the family premium. Employers contribute an amount equal to 80 percent of the premium divided by an adjustment factor. This adjustment factor is equal to the number of workers in families with two adults divided by the number of families with two adults. Employer contributions are capped at 3.5 percent of payroll for **individuals**[†] employed by employers with fewer than 25 employees and having wages of less than $24,000, increasing to 7.9 percent for employers with more than 75 employees. It is assumed that wages and other compensation do not change with the implementation of the employer mandate.

Column (3): These estimates assume premiums to be $1,800 per single adult, $3,630 for a single adult with children, $3,600 for a couple with no children, and $4,200 for two adults with children. All families composed of more than one person pay the family premium. Employers contribute an amount equal to 80 percent of the premium divided an adjustment factor. This adjustment factor is equal to the number of workers in families with two adults divided by the number of families with two adults. Employer contributions are capped at 3.5 percent of payroll for **individuals**[†] employed by employers with fewer than 25 employees and having wages of less than $24,000, increasing to 7.9 percent for employers with more than 75 employees. It is assumed that wages and other compensation do not change with the implementation of the employer mandate.

Column (4): All assumptions are identical to Column (3) except that wages are assumed to adjust to completely eliminate the change in total compensation, except for workers close to the minimum wage. For these workers, wages are assumed to fall to the minimum wage, and employers will bear any additional costs due to the mandate.

[†] Note the difference between this estimation assumption and the Clinton proposal, which uses average payroll of the employer, rather than the individual's wages and has a sliding scale for the premium cap that is 3.5 percent for employers with average wages of less than $12,000 up to 7.9 percent for small employers with salaries of over $24,000.

Table 2
Estimates of Job Losses (-) or Gains due to an Employer Mandate Using Various Assumptions
on Costs to Employers, Caps on Employer Contributions, and Changes in Wages,
By Employer Size

Number of Employees	(1) High Premiums Current Methodology	(2) High Premiums Clinton Methodology	(3) Clinton Premiums Clinton Methodology	(4) Clinton Premiums Wages Adjust
Under 10	-677,938	13,253	16,975	-36,618
10 to 24	-431,349	53,068	55,793	-24,485
25–99	-507,764	153,547	157,634	-30,125
100–499	-397,714	89,662	94,954	-22,088
500–999	-145,630	52,568	54,510	-6,841
1,000+	-821,772	269,092	281,646	-48,109
Total	-2,982,166	631,190	661,512	-168,265

Source: EBRI simulations using the March 1993 Supplement to the Current Population Survey
(CPS). Employer Contributions are derived from the National Medical Expenditure Survey,
adjusted for inflation, and imputed to the CPS.

Table 3
Estimates of Job Losses (-) or Gains due to an Employer Mandate Using Various Assumptions
on Costs to Employers, Caps on Employer Contributions, and Changes in Wages,
By Average Hours Worked Per Week

Average Hours Per Week	(1) High Premiums Current Methodology	(2) High Premiums Clinton Methodology	(3) Clinton Premiums Clinton Methodology	(4) Clinton Premiums Wages Adjust
10–20 hrs	-68,160	18,052	21,179	-29,495
20–30 hrs	-913,249	61,478	64,236	-51,974
30–35 hrs	-404,856	35,094	37,098	-26,474
Full Time	-1,595,900	516,566	538,999	-60,322
Total	-2,982,166	631,190	661,512	-168,265

Source: EBRI simulations using the March, 1993 Supplement to the Current Population Survey
(CPS). Employer contributions are derived from the National Medical Expenditure Survey,
adjusted for inflation, and imputed to the CPS.

Table 4
Estimates of Job Losses (-) or Gains due to an Employer Mandate Using Various Assumptions on Costs to Employers, Caps on Employer Contributions, and Changes in Wages, By Family Income

Total Family Income	(1) High Premiums Current Methodology	(2) High Premiums Clinton Methodology	(3) Clinton Premiums Clinton Methodology	(4) Clinton Premiums Wages Adjust
Under $5,000	-592	-43	-43	-22
$5,000–10,000	-195,773	4,568	4,654	-11,649
$10,000–15,000	-383,758	49,820	50,149	-21,776
$15,000–20,000	-323,126	94,219	94,835	-16,352
$20,000–30,000	-543,634	169,641	172,564	-34,366
$30,000–50,000	-790,316	262,313	268,435	-42,448
$50,000–100,000	-656,840	73,821	89,387	-36,460
$100,000 or more	-88,127	-23,148	-18,468	-5,192
Total	-2,982,166	631,190	661,512	-168,265

Source: EBRI simulations using the March, 1993 Supplement to the Current Population Survey (CPS). Employer contributions are derived from the National Medical Expenditure Survey, adjusted for inflation, and imputed to the CPS.