

# Exchange Subsidies and the Individual Mandate

*Eugene Steuerle*

Richard B. Fisher Institute Fellow  
The Urban Institute

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# Our Four Tranche Universal Health Care System: Can it Work?

- 1)Employer Sponsored Insurance (ESI)
- 2)Exchange Subsidies
- 3)Medicaid
- 4)Medicare

# Focus on the Combined Subsidy & Penalty (“Mandate”) System

## Continuing Issues:

Fairness—Equal Treatment of Equals

Adjustments in Labor Market

Other Behavioral Adjustments

Administration & Enforcement

# At Equal Employer Cost, How Much Does Employee Gain or Lose?

## Exchange

- Higher cash wages
- No health insurance costs
- More employer Social Security tax
- Employer penalty

## Employer Plan

- Lower cash wages
- Health insurance costs
- Less employer Social Security tax
- No employer penalty

## Interactions

- More or less EITC
- More or less Food Stamps and other benefits (not modeled)
- Penalty not subject to tax

## Equal Employer Costs: One Earner

	<b>Family A - PPACA Exchange</b>	<b>Family B - ESI</b>
Cash Wages	\$ 60,000	\$ 48,990
Health Insurance	\$ -	\$ 14,100
Employer-Paid Taxes	\$ 4,590	\$ 3,748
Employer Penalty (no ESI)	\$ 2,247	\$ -
<b>Total Compensation Package</b>	<b>\$ 66,837</b>	<b>\$ 66,837</b>

Source: C. E. Steuerle and S. Rennane, Urban Institute 2010. Assumes a premium value of \$14,100 and estimated cost share of \$5,000 for a family of four in 2016. Based on CBO calculations of the Patient Protection and Affordable Care Act. Updated employer penalty, premium and cost share subsidy information for Reconciliation Bill from the Kaiser Family Foundation. All costs, including the value of the penalty, are calculated in 2016 dollars. Assumes one earner for the family.

## Equal Employer Costs: Two Earners/Two Potential Penalties

	<b>Family A - PPACA Exchange</b>	<b>Family B - ESI</b>
Cash Wages	\$ 60,000	\$ 51,077
Health Insurance	\$ -	\$ 14,100
Employer-Paid Taxes	\$ 4,590	\$ 3,907
Employer Penalties (two)	\$ 4,494	\$ -
<b>Total Compensation Package</b>	<b>\$ 69,084</b>	<b>\$ 69,084</b>

Source: C. E. Steuerle and S. Rennane, Urban Institute 2010. Assumes a premium value of \$14,100 and estimated cost share of \$5,000 for a family of four in 2016. Based on CBO calculations of the Patient Protection and Affordable Care Act. Updated employer penalty, premium and cost share subsidy information for Reconciliation Bill from the Kaiser Family Foundation. All costs, including the value of the penalty, are calculated in 2016 dollars. Assumes both earners' employers either do provide ESI or do not, resulting in two penalties if neither employer provides ESI.

# Net Gain/Loss under PPACA Exchange

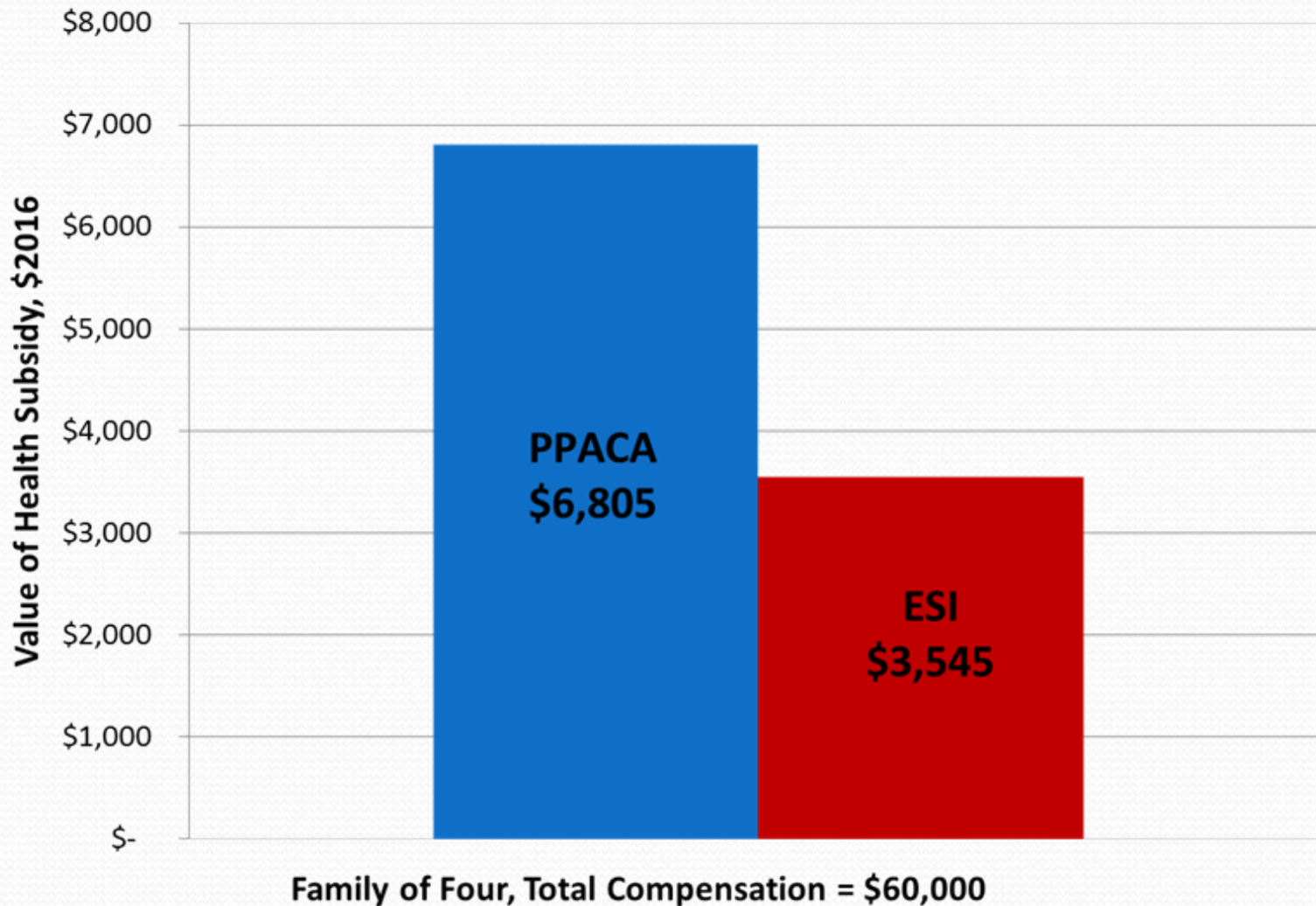
## (One Earner, Family of Four—2016)

<b>Compensation in Cash &amp; Employer-provided Insurance (approximate)</b>	<b>\$ 42,000</b>	<b>\$ 60,000</b>	<b>\$ 78,000</b>	<b>\$ 96,000</b>
Value of Subsidy under PPACA	\$ 12,512	\$ 6,805	\$ 4,221	\$ 2,322
Value of Tax Subsidy under Employer-Provided Plan	\$ 5,536	\$ 3,545	\$ 3,545	\$ 3,545
<b>Net Gain/Loss from Exchange</b>	<b>\$ 6,976</b>	<b>\$ 3,261</b>	<b>\$676</b>	<b>\$(1,222)</b>

Source: C. E. Steuerle and S. Rennane, Urban Institute 2010. Assumes a premium value of \$14,100 and estimated cost share of \$5,000 for a family of four in 2016. Based on CBO calculations of the Patient Protection and Affordable Care Act. Updated employer penalty, premium and cost share subsidy information for Reconciliation Bill from the Kaiser Family Foundation. All costs, including the value of the penalty, are calculated in 2016 dollars. Assumes one earner for the family.

# Net Gain/Loss under PPACA Exchange

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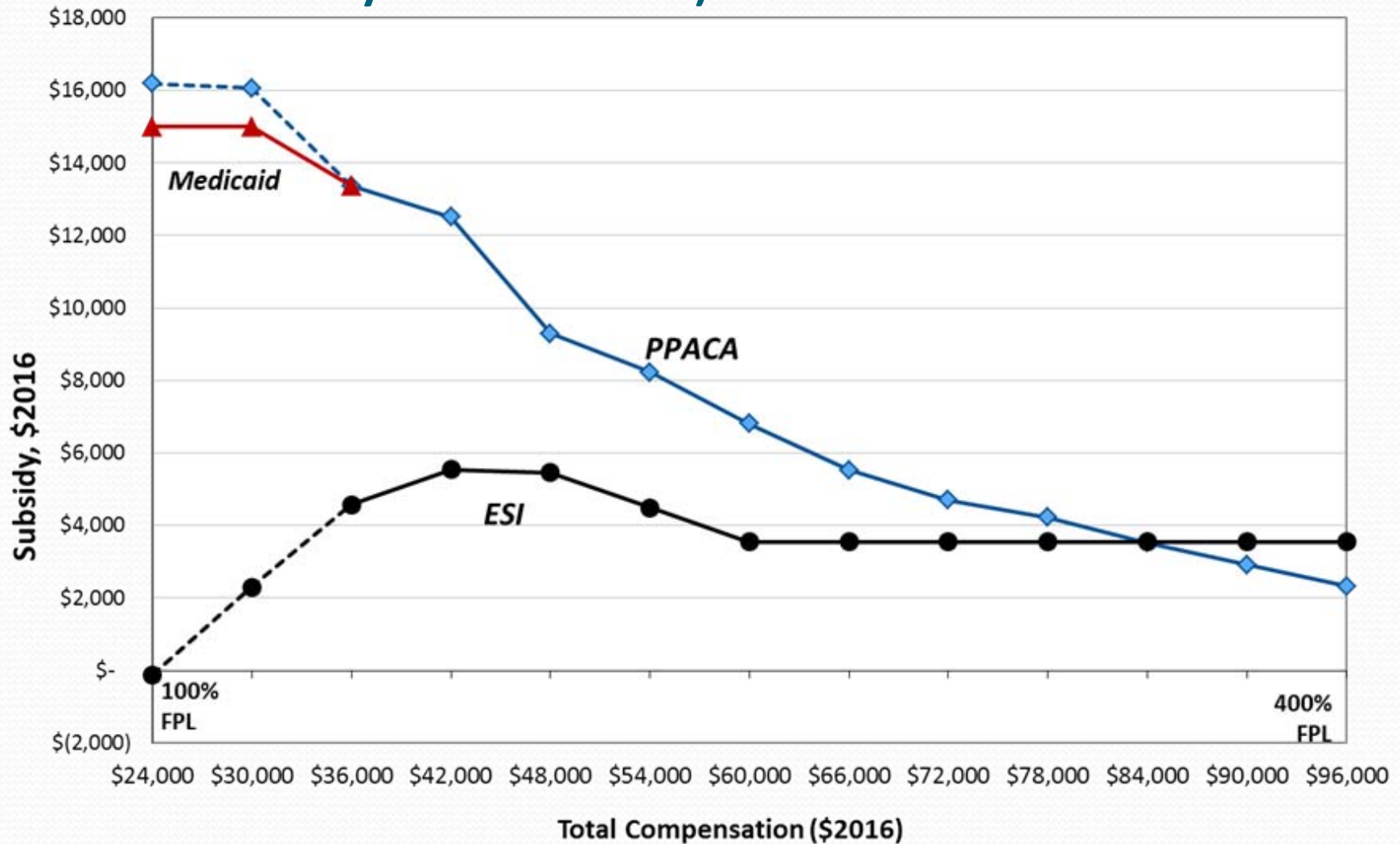


Source: C. Eugene Steuerle and Stephanie Rennane, Urban Institute 2010. Authors calculations based on data from CBO and the Patient Protection and Affordable Care Act. Net Gain/Loss is net of the employer penalty for not providing health insurance. Assumes one earner in the family.



# Net Gain/Loss under PPACA Exchange

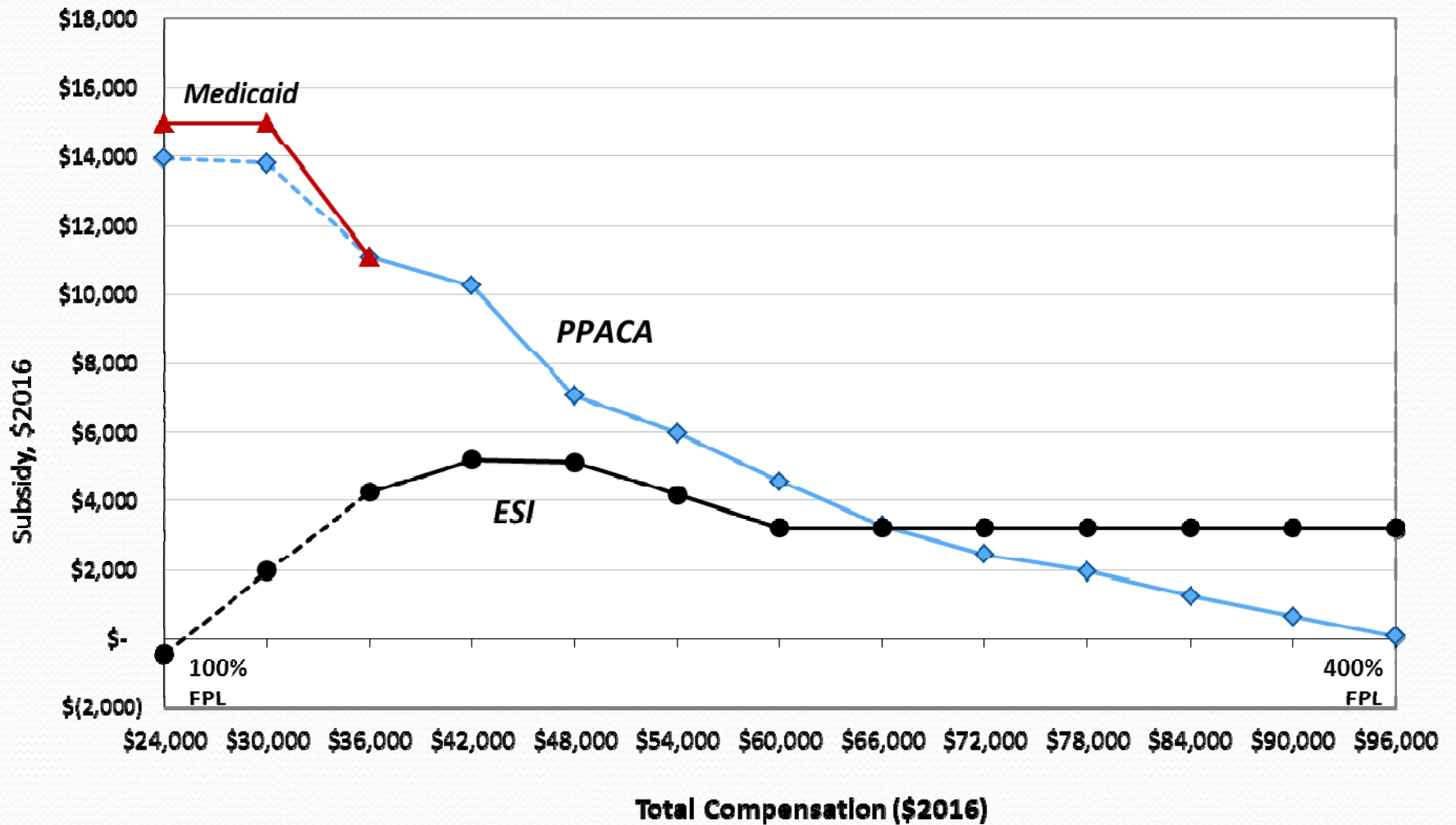
## (One Earner Family of Four—2016)



Source: C. E. Steuerle and S. Rennane, the Urban Institute, 2010. Assumes a premium value of \$14,100 and estimated cost share of \$5,000 for a family of four in 2016. Based on CBO calculations of the Patient Protection and Affordable Care Act. Updated employer penalty, premium and cost share subsidy information for Reconciliation Bill from the Kaiser Family Foundation. Medicaid estimate based on data from the CBO March baseline. All costs, including the value of the penalty, are calculated in 2016 dollars. 100% FPL is estimated to be \$24,000 for a family of 4 in 2016.

# Net Gain/Loss under PPACA Exchange

## (Two-Earner Family of Four—2016)



Source: C. E. Steuerle and S. Rennane, the Urban Institute, 2010. Assumes a premium value of \$14,100 and estimated cost share of \$5,000 for a family of four in 2016. Based on CBO calculations of the Patient Protection and Affordable Care Act. Updated employer penalty, premium and cost share subsidy information for Reconciliation Bill from the Kaiser Family Foundation. Medicaid estimate based on data from the CBO March baseline. All costs, including the value of the penalty, are calculated in 2016 dollars. 100% FPL is estimated to be \$24,000 for a family of 4 in 2016. Assumes both earners' employers either do provide ESI or do not, resulting in two penalties if neither employer provides ESI.

# Medicaid: Expand or Contract?

- Health reform: new Medicaid subsidies/penalties for states
- Still, elected officials in six states talk about abandoning it
- New hospital & provider incentives to choose between the exchange and Medicaid
  - Lower fees under Medicaid vs. lesser coverage under Exchange
- Recession: states already cutting back on fees/items covered

# Administration & Enforcement

- **General rule: giving people choices of tax subsidies = bad tax policy**
- **Many employers and employees must make alternative calculations**
  - True under existing law
  - But comparison now very complicated
  - Affected greatly by an unknown future

# Assessment/Audit Issues

- 2016 subsidy based on 2014 tax return
- Yet adjustments for:
  - Marriage/divorce
  - Births/deaths
  - Salary changes
  - Job changes
  - Regional changes
- Large new tax and welfare system
- Limited audit capabilities

# Some Suggestions

## Modest

- IRS should report on problems of administration & enforcement for alternative subsidies
- Congress should ask:
  - Firms to report on gains/losses from dropping ESI
  - States to report on gains/losses from Medicaid changes

## Major

- Adhere to principle of equal justice
  - Before: employer-provided insurance favored
  - Now: employer-provided insurance disfavored, at least for firms with average or below-average wages

## Become an Actuary

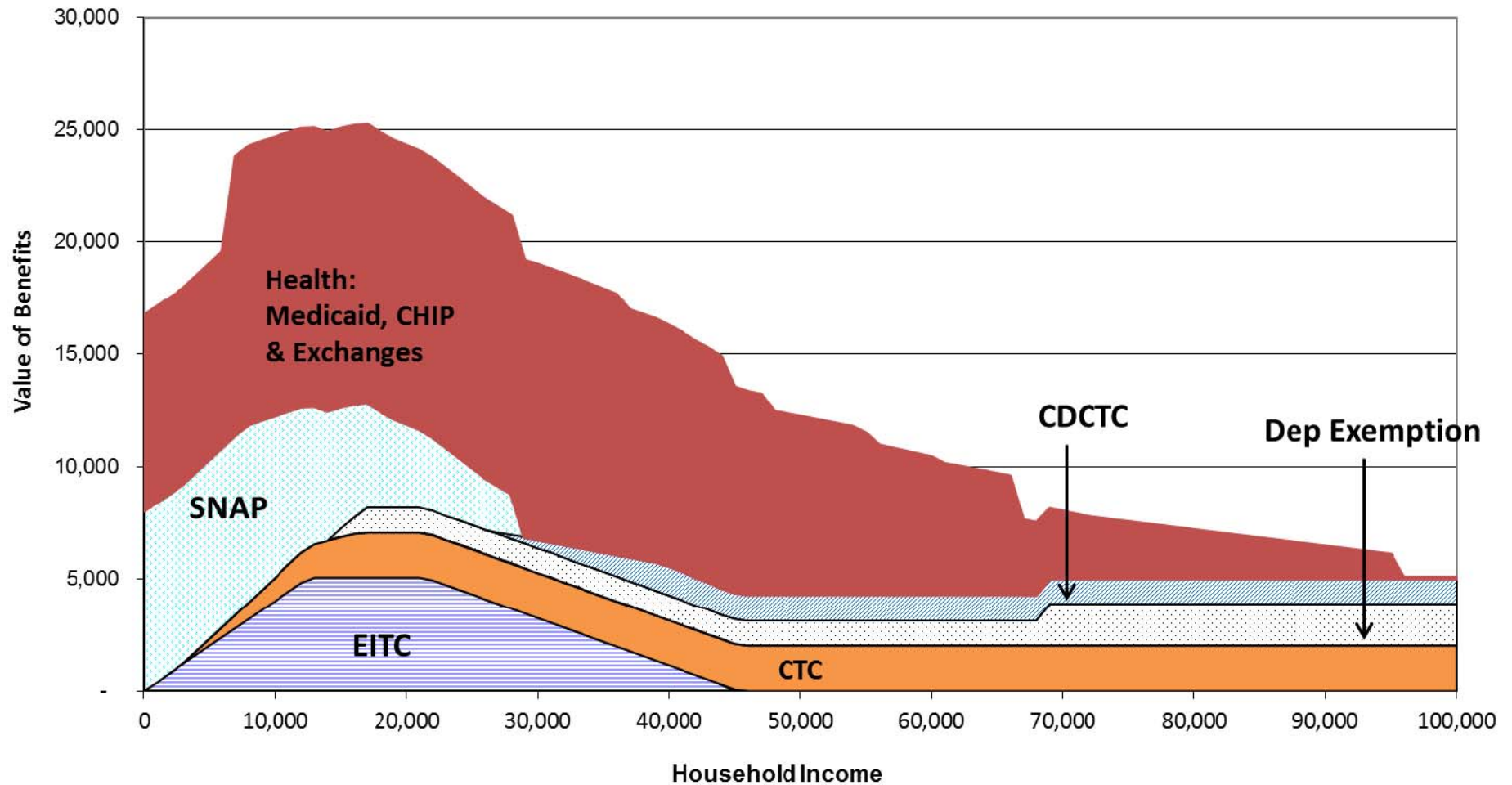
- The Actuarial Full Employment Act of 2010

# The Continuing Dominance of Health Care

- 2005-2010: health care costs grow by more than per capita growth in GDP
- 2005-2020: per capita health costs projected to grow by 40% of per capita GDP growth
- Leads to:
  - Little or no wage growth for moderate-income workers
  - Increasing dominance of entire social welfare system

# The New Universal Benefit System for Families with Children

(Family of 4, Household Income \$0 - \$100,000)

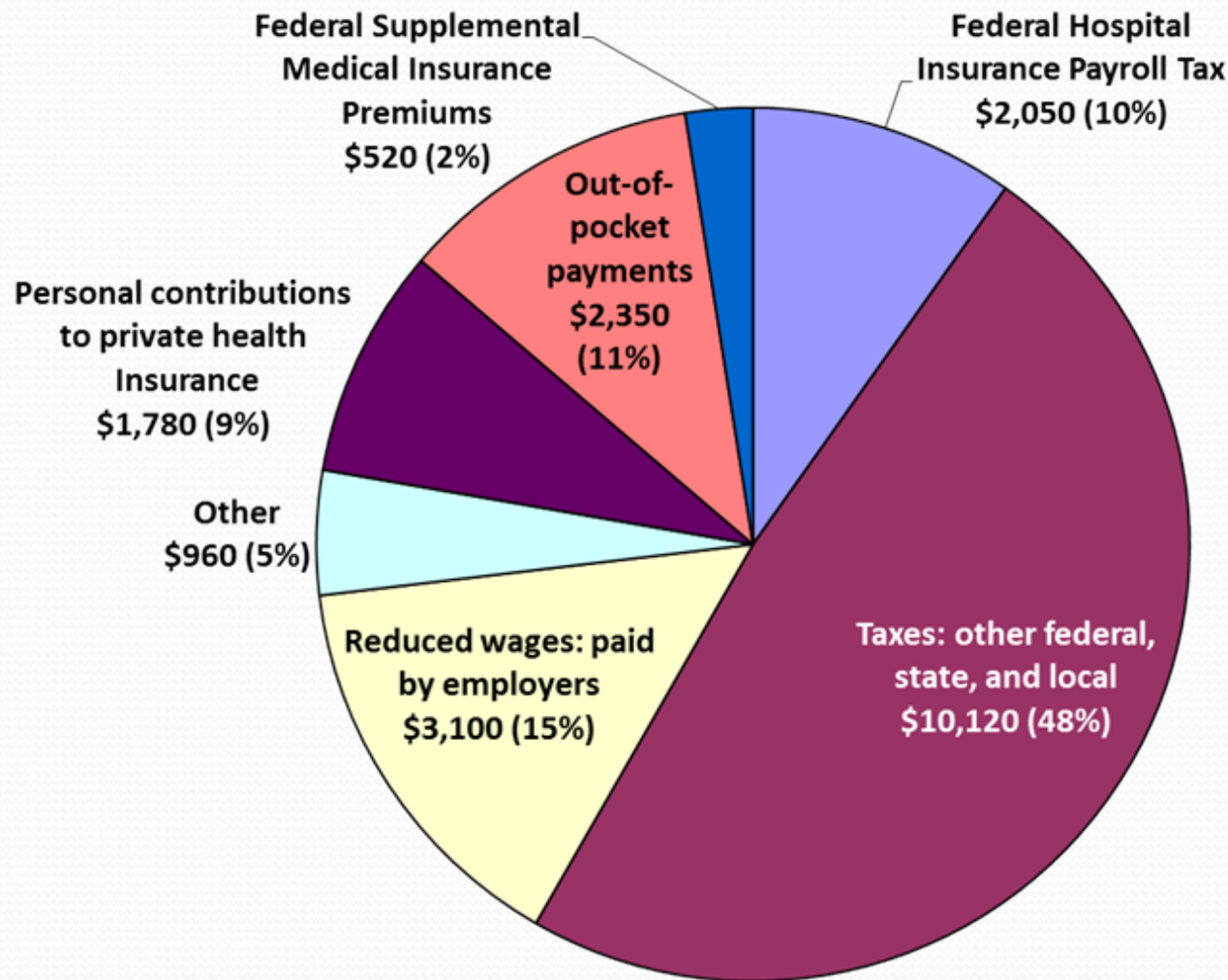


Source: C. E. Steuerle and S. Rennane, the Urban Institute, 2010. Based on earlier work with Adam Carasso. Notes: Transfer programs are based on Pennsylvania, which is the median TANF benefit state. We assume child ages are 2 and 5, and that the family spends the maximum of \$6,000 on child care. Assumes a premium value of \$14,100 and estimated cost share of \$5,000 for a family of four in 2016. Based on CBO calculations of the Patient Protection and Affordable Care Act. Updated employer penalty, premium and cost share subsidy information for Reconciliation Bill from the Kaiser Family Foundation. Medicaid estimate based on data from the CBO March baseline. Assumes one earner for the family.



# Estimated U.S. Health Expenditures per Household

(Total = \$20,880; through Government Taxes = \$12,170)



# Logic of Individual “Mandates”

- Budget Logic
  - System too expensive to fully subsidize
    - \$21,000 per household
  - More universal insurance available through sticks, not just carrots
    - Drives up the relative advantage of insurance
- Social Insurance logic
  - Almost all of us keep Medicaid as a “back-up” insurance policy
  - “Free riders” unfairly tax those who insure

# Not really a “Mandate”

- Don't have to buy insurance
- Penalty or tax for not doing so
- Tax relatively modest relative to potential benefit

## Individual Mandate: Easy Compromise Available

- No need for a separate “tax”
- Could simply deny other government benefits:
  - Child credit
  - Itemized deductions
- Removes “Constitutional” objections
- Removes “conservative” objections

# Concluding Thought: Health Reform Only Begun

- **Many kinks in 4 tranche system**
- **Health cost dominates budget growth**
- **Budget policy will assert control over health policy**
  - **For better or worse**
- **“Individual mandate” should not be a major issue**
  - **Easy compromises available if wanted**