Title

2003 California Establishment Survey: Preliminary Results on Employer Based Healthcare Reform

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2003 CALIFORNIA ESTABLISHMENT SURVEY: PRELIMINARY RESULTS ON EMPLOYER BASED HEALTHCARE REFORM

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INFORMATION ABOUT THE CALIFORNIA ESTABLISHMENT SURVEY

The Institute for Labor and Employment (ILE) at University of California has conducted preliminary analysis of the proposed employer health insurance reform (Senate Bill 2) using the 2003 California Establishment Survey (CES). The CES was designed by Prof. Michael Reich, professor of Economics at UC Berkeley, and conducted during the summer of 2003 by the UC Berkeley Survey Research Center. The CES included questions on human resource policies, pay rates, training, the composition of the workforce, and benefits.

An initial sample of the CES comprised of 766 establishments along with sample weights to account for non response and stratification. Ultimately, the sample size is expected to reach over 1000. The sample only included non-agricultural private sector establishments with 5 or more employees. Business respondents included owners (9%), mangers (27%), personnel department officials (39%), and "Others" (25%). For more information on the CES, see Appendix 1.

SUMMARY OF FINDINGS

Initial results from the California Establishment Survey (CES) suggest that **64% of business respondents support a healthcare reform that requires that employers either provide health insurance, or pay a fee into a state fund to cover the uninsured.** 59% of business respondents who currently do not offer health insurance to workers also support such a healthcare reform.

We find that **90% of firms that currently do not offer health benefits are in markets where their competitors do not provide such benefits either.** This suggests that businesses most impacted by the proposed reform would be unlikely to face idiosyncratic increases in costs that would worsen their competitive position.

We have also used the CES data to estimate the increases in costs that various businesses will face from the implementation of Senate Bill 2 (SB2). The median covered California business (i.e., with 20 or more employees) will see an annual increase in costs of $1,343 per worker it newly insures. **This represents a 0.2% increase in overall operating costs.** 23% of covered businesses would see a rise in operating costs of more than 1%. **0.1% of covered businesses, or 0.01% of all California businesses, will see a rise in operating costs of no greater than 4%.**

EMPLOYER PREFERENCE OVER PROPOSED EMPLOYER BASED HEALTHCARE REFORM

The CES included a set of questions on health care benefits and asked business respondents about support for a reform of employer-based health insurance. The exact phrasing was as follows:

"Suppose all employers were required to either offer health insurance or pay into a fund that would provide health insurance for uninsured workers. Would you be strongly in favor, somewhat in favor, somewhat opposed, or strongly opposed to such requirements?"

Table 1: Employer Preferences on the Proposed Reform of Employer-Based Health Insurance

Currently Offering Insurance:	**NO**	**YES**	***ALL***
Strongly in favor	17%	28%	*26%*
Somewhat in favor	42%	37%	*38%*
Somewhat opposed	13%	11%	*12%*
Strongly opposed	28%	23%	*24%*
Overall Support	**59%**	**65%**	*64%*
Standard Error of Estimate	9.1%	3.8%	*3.6%*

We find that 64% of all business respondents either strongly or somewhat favor the proposed requirement.[1] Amongst those businesses that currently do not offer any health insurance, the overall support level was 59%.

COMPETITIVE PRESSURES AND EMPLOYER HEALTH BENEFITS OFFERS

The CES also asked business respondents whether an establishment's competitors offered health insurance. The exact phrasing was as follows:

"Do most of your business competitors offer health insurance to their employees?

We find that **90% of establishments that did not offer insurance said their competitors did not either**. These are establishments that are most likely to be affected by the proposed healthcare reform. Our results indicate that any additional costs incurred by these businesses are unlikely to be *idiosyncratic,* since their competitors will likely face similar cost increases. As a result, the proposed reform is unlikely to alter the competitive position of affected businesses.

HOW SB 2 WOULD AFFECT COSTS OF DIFFERENT BUSINESSES

Using the CES data, we estimate how the increase in health care expenditure as part of SB 2 affects various businesses. For a discussion of our estimation methodology, see Appendix 2.

SB 2 excludes employers with less than 20 employees. An establishment is *covered* by SB 2 if it belongs to a firm that employs 20 or more workers in the state of California. **Covered**

[1] Throughout this report, we use "establishment" and "business" interchangeably. An establishment refers to a particular worksite, and a firm may have multiple establishments.

businesses represent 12% of all businesses in California.[2] It is instructive to first look at the changes in costs at the *median* establishment covered by SB 2. We have assumed that as the bill indicates, employers with between 20 and 50 workers will receive a 20% tax subsidy to partly defray the increase in costs.

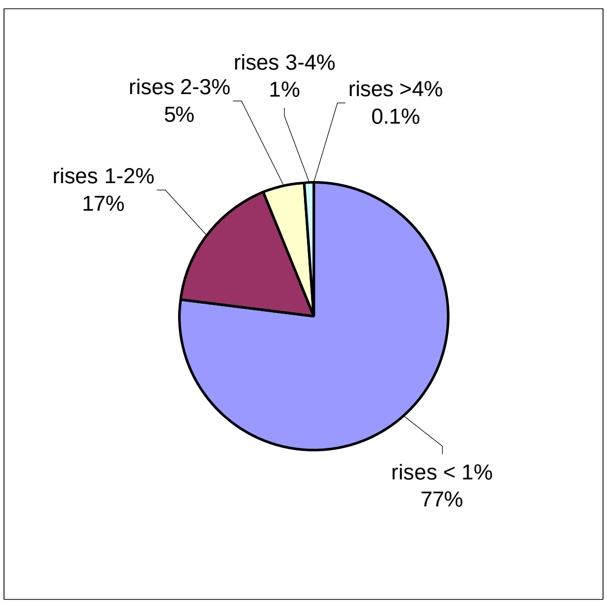
Table 2: Effect of SB 2 on the Median Covered Establishment

Annual After Tax Increase in Business Costs per Newly Insured Worker	$1,343
Percent Increase in Business Operating Costs	0.2%

We find that the median covered business will incur an annual *after-tax* cost increase of $1,343 per *newly insured* worker. For this median covered business, this represents a 0.2% increase in overall operating expenditures.

We also explore the *range* of cost increases that various businesses can expect from SB 2. Figure 1 reports the distribution of covered businesses by the percent increase in overall operating costs.

Figure 1: Distribution of Cost Increase for *Covered* Businesses

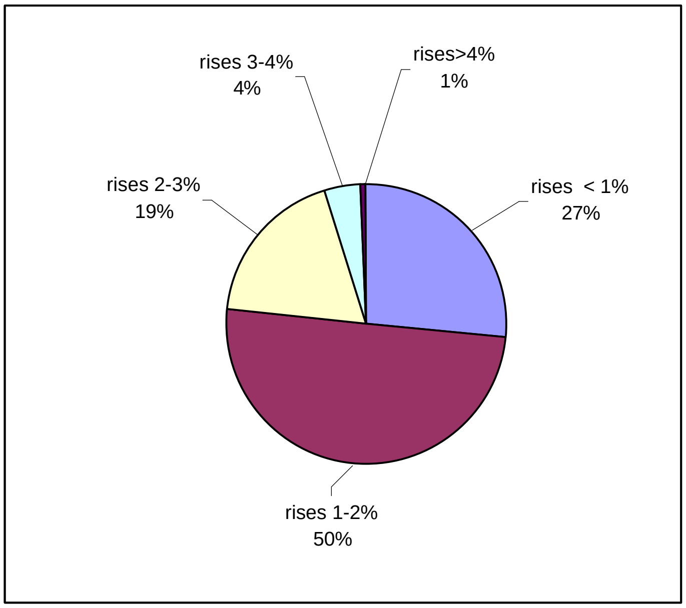


We find that 0.1% of covered businesses would see an increase in operating costs of 4% or greater. 23% of businesses would see an increase in operating costs of more than 1%. Since covered businesses represent 12% of all California businesses, **0.01% of California businesses would see an increase in operating costs of 4% or greater.**

[2] 2001 Size of Business Data, EDD Labor Market Information Division

To put a sharper focus on businesses most impacted by SB 2, we also report the cost impact for covered businesses *where the newly insured represents at least 50% of the workforce*. This subset represents 21% of all covered establishments, and is the segment facing the greatest increase in costs as part of SB 2.

Figure 2: Distribution of Cost Increases: *Covered* Businesses where the Newly Insured Represent at Least 50% of Workforce



Looking at covered businesses where the newly insured comprises of 50% or more of the workforce, we see that 77% would see an increase in costs of less than 2%, and 99% of these businesses would see operating costs increase by less than 4%.

APPENDIX 1: CALIFORNIA ESTABLISHMENT SURVEY – SAMPLING ISSUES AND COST ESTIMATES

The CES used a stratified random sample based on the Dun and Bradstreet (D&B) database of establishments for California. Only business and non-profit establishments with five or more employees were included. Government agencies, public schools or universities, and agriculture, forestry, and fishing industries were excluded from the sampling frame. Survey respondents included owners (9%), mangers (27%), personnel department officials (39%), and "Others" (25%). The current sample comprises of 766 establishments, interviewed during summer of 2003. It should be noted that the survey process is ongoing, and the final sample may include over 1000 establishments. Since the vast majority of the establishments are already included, and weights were assigned to account for non-response, the preliminary findings are likely to be robust.

These estimates are only for non-agricultural private sector establishments with 5 or more individuals. About 9.7 million workers in CA fall in this category. EDD data suggests that 6% of all employees work in establishments with less than 5 persons. Even if we assume all of these individuals are uninsured (clearly an overstatement), *our sample represents at least 86% of all private sector workers who are currently not receiving health insurance from their employer and would be covered by SB2*. As a point of comparison, we compute health insurance coverage rates for the CES and the CPS. Whereas 62% of workers in the CES receive health insurance from their employer, 54% of private sector, non-self-employed, employees were found to be covered by own-employer provided health insurance in the March 2002 CPS. This divergence is likely due to both an under-reporting in CPS and the exclusion of establishments under 5 employees in the CES.

APPENDIX 2: ESTIMATING EMPLOYER COSTS IN THE CES

Assumptions about the SB 2

We have estimated the number of uninsured that SB 2 will cover under the current policy configuration. Specifically, we have assumed the following about SB2:

- Individual coverage for workers at firms with 20 or more employees
- Family coverage for workers at firms with 200 or more employees
- Eligibility restriction: workers are eligible if they: (1) have worked for more than 3 months at the firm, *and* (2) work for more than 100 hours a month at the firm, *and* (3) are not self employed.
- Employers are assumed to be paying 80% of the total insurance premium for individual and family plans (when applicable) for workers covered under SB 2.
- Employers with between 20 and 49 employees are assumed to receive a 20% tax subsidy.

Supplementary Data Sources

The CES has questions about health insurance offer, eligibility, and take-up rates, as well as distribution of wages inside the firm, establishment and firm size, and information about labor costs as a fraction of total costs. Missing from the CES is information about premium costs, cost sharing, information about dependents, as well as tenure information. Therefore, we supplement the CES with (1) average premium costs from the 2003 KFF California Employers' Health Benefits Survey (more on this below); (2) information about current dependents and predicted dependents from the 2002 March CPS (matched by industry and firm size.) – overall the number of dependents per insured worker is expected to fall from 0.85 to 0.70; and (3) information about cost sharing between employees and employers from the 2002 March Current Population Survey (also matched by industry and firm size). Furthermore, we utilize the March 2002 CPS (latest available) to estimate the waiting period impact. Although the CPS does not ask how long an individual has worked for their current employer, this information is estimated based on: (1) the number of employers s/he has worked for in the past year (not at the same time), and (2) information about stretches of unemployment in the preceding year. Overall, it is found that about 88% of uninsured workers would meet the 3-month waiting period criteria.

The CES is particularly useful for evaluating how SB 2 affects different private-sector establishments, and assess the impact on total operating costs, something other datasets are unable to do.

Imputing Health Care Premiums

As mentioned above, neither the CPS nor the CES has information about premium costs. For this reason, we use the *average* premiums of employer health plans (individual and family separately) as estimated from the KFF. The two problems this introduces are: 1) the kinds of plans employers may provide the "marginal" workers (those currently not covered by an employer health benefits plan) may be different than what they provide workers currently covered; and (2) the "marginal" workers may be different in terms of how much they cost to insure. Here we consider the nature of possible biases.

First of all, health care plans and premiums vary by firm. However, firms that currently cover more employees and dependents typically also are offering "better" plans that cost more. This implies that: (1) the *increase* in cost from insuring more workers is *less* than what is suggested by using average costs, and (2) the *decrease* in costs from reduced dependent coverage is more than what is suggested by using average costs. Moreover, firms may choose less costly plans for those they do not currently cover but will be required to as part of SB 2. For these reasons, restricting the cost of insuring these marginal workers to be the same as the average cost currently paid by employers will likely *overestimate* the cost increase to employers.

Secondly, insurance rates vary by age. If the currently uninsured are older, or have very young children, employers' costs of providing them with the same mix of insurance would be greater than the current average. It is reassuring to find that the average age of an uninsured worker (eligible under SB 2) is 36, while the average age of an insured worker is 40. Furthermore, for both uninsured and insured workers, the mean number of children under six years of age is 0.25. If anything, those currently uninsured may be "cheaper" than those who are currently insured.

Here we reproduce the premiums (sum of employer and employee contributions) from the KFF Survey. We also use the aggregate number of dependents in family plans (from the CPS) to impute the cost of an added dependent. On average, a dependent is cheaper because the costs of covering children (a sizeable fraction of dependents) are on average less than those of adults.

Table: Baseline Health Premiums

	Individual Plan	Family Plan	Marginal Cost of Added Dependent
Average Premium Cost for Employer-Based Plans	$2,845	$7,471	$2,085

It is important to note that these are *pre-tax* expenditures. Employer health contributions are tax-deductible like any business costs. Currently, the maximum federal corporate income tax rate is 39%. Although it is progressive (with respect to business income), all businesses with corporate income of $75,000 or more face a federal tax rate of 34% or greater. The state income tax is a flat 8.84% for most businesses, and 10.84% for financial institutions. Therefore, we make assume an aggregate 40% tax rate in our estimations – in other words, the employer contributions are discounted by 40%.

Estimation Methodology

For firms with between 20 and 200 employees, we calculate the number of eligible workers based on hours of work and tenure eligibility requirements. We assume employers pay 80%

of the individual premium ($2845); the *after-tax* employer contribution is $1365. For employers with 20 to 50 workers, there is a further 20% tax write-off – producing an after-tax employer contribution of $1,092. However, some of these workers who are currently not insured through their own employers are dependents of spouses. These individuals do not represent net added costs to employers but rather shifts in costs between employers. To account for this, we adjust the expected number of dependents per insured worker using CPS data as described before.

For firms with 200 or more workers, the methodology is similar, except we also add the expected number of dependents per insured worker (from the CPS), and the cost of insuring an additional dependent, to the calculation.

Finally, to calculate the increase in total operating costs, we divide the *after-tax* additional health benefits costs by overall operating costs for each establishment.