Policy Memorandum

EPI

ECONOMIC POLICY INSTITUTE • JULY 22, 2009 • POLICY MEMORANDUM #145

TRI-COMMITTEE BILL SCORES BIG FOR SMALL BUSINESS

BY JOSH BIVENS, ELISE GOULD, AND ALEXANDER HERTEL-FERNANDEZ

Three committees in the House of Representatives recently collaborated on drafting a single bill aimed at comprehensive national health reform. This Tri-Committee bill dramatically expands insurance coverage by:

- creating a new national insurance marketplace (or "exchange") with competition both between private insurers and between private insurers and a new public insurance option;
- new regulations for insurance companies in the exchange; and
- a requirement that all but the smallest employers offer affordable coverage to their workers or pay to provide subsidies for the national exchange.

Initial estimates from the Congressional Budget Office show the bill covering over 97% of legal residents by 2019. Opponents of this bill (and of health reform in general) often claim to be taking up the cause of "small business," which they contend would be irreparably harmed by health reform; Republican House Majority Leader John Boehner, for example, has labeled the bill a "massive small business tax" and "small business job killer."

In reality, small businesses are one of the most ill-served interest groups by today's health system *status quo,* and would reap huge gains if the Tri-Comm reform bill became law. The Economic Policy Institute (EPI), drawing on results from a micro-simulation model of the Lewin Group, has previously found that small business enjoys tremendous gains under a plan quite similar to that passed by the House Tri-Comm. The gains are likely even greater under the Tri-Comm bill as it is even more generous to small business.

The Health Care for America (HCA) plan, authored by Jacob Hacker as part of EPI's *Agenda for Shared Prosperity*, requires employers to either provide health insurance to their workforce or pay a fee to defray the costs of enrolling them in a new national insurance exchange—in short, it is a "pay-or-play" plan, just like the House Tri-Comm bill. Independent estimates of HCA from the Lewin Group find that the largest savings for businesses would accrue to those small employers already covering their employees. For example, firms with fewer than 10 employees stand to save $3,502 per worker annually under HCA.

Given that the Tri-Comm bill was released less than a week ago, precise new micro-simulation estimates of its impact on small businesses are not available. However, there are strong reasons to believe that such savings will only be *greater* under the Tri-Comm bill than what Lewin estimated for HCA.

This policy memo outlines the key similarities of the House health reform bill and the Health Care for America plan and discusses why small business should expect these large benefits from the House bill, based on previous findings about HCA.

TABLE 1

Comparison of the Health Care for America plan and the Tri-Comm health reform bill

Component	House health bill	Health Care for America Plan
Health insurance exchange	New national exchange that would *initially* be open only to individuals and small employers. Subsidies for individuals and households up to 400% of poverty. Competition between regulated private plans and a new public plan option.	New national exchange that would be open to all individuals. Subsidies for individuals and households up to 400% of poverty. Competition between regulated private plans and a new public plan option.
Individual responsibility	All individuals are required to carry health insurance.	All individuals are required to carry health insurance.
Large and mid-size employer responsibility	Employers with annual payroll greater than $250,000 must offer basic coverage and pay for 75% of worker single plans and 62.5% of family plans. If employers choose not to offer, they must pay a percent of their payroll varying from 2 to 8%. Full 8% contribution kicks in at payrolls of $400,000 or more.	All employers must offer basic coverage and pay for 75% of worker single plans and 66% of family plans. If employers choose not to offer, they must pay 6% of their payroll.
Small employer responsibility	Employers with payroll less than $250,000 are exempted from pay-or-play requirement. Credits are available to pay for 50% of all health insurance costs for small businesses. These credits begin phasing out for firms larger than 10 workers (ending completely at 25 workers) and at an average employee salary of $20,000 or more, phasing out completely at $40,000.	Same pay-or-play requirement as large and mid-size employers.
Public insurance option	Medicare rates plus 5% bonus for physicians and Medicare rates for hospitals. Public plan can negotiate drug prices.	Medicare rates for physicians and hospitals. Public plan can negotiate drug prices.

SOURCE: EPI analysis.

Key components of the Tri-Committee bill and Health Care for America

Both plans are quite similar in structure—both rely on a "pay-or-play" (or hybrid) financing structure that requires all (or almost all) employers to either provide coverage themselves or pay a contribution to defray the costs of enrolling their workers in a new national insurance exchange. **Table 1** compares the key components of each proposal.

In terms of any new mandates placed on small businesses, the most relevant component of either plan is the pay-or-play mandate structure. Under the Health Care for America plan, all employers regardless of size must offer quality, affordable coverage to their own workers or pay 6% of payroll to defray the costs of enrolling them in a new national insurance exchange. Under the House Tri-Comm bill, the contribution for non-insuring firms is actually zero for many small firms (those with payrolls under $250,000), and phases in only gradually to 8% by the time firm payroll reaches $400,000. For any firm with a payroll of *less* than $400,000, the employer requirement of the House Tri-Comm bill is actually either equal to or smaller than that required of HCA.

Furthermore, the Tri-Comm bill includes credits for small business to defray the cost of providing coverage to their own employees if they choose. These credits cover 50% of all health insurance costs, and begin phasing out as the number of employees exceeds 10 and/or average employee wages exceed $20,000. These credits give small businesses a subsidized option that allows them to avoid paying any payroll-based contribution at all; an option that is not present in the HCA plan. In short, on the costs side of the ledger for many small businesses, the House Tri-Comm bill actually asks *less* of them than the HCA proposal did.

On the benefit side of reform's ledger for small businesses, the crucial sources of *savings* under HCA are fully present in the House bill. In both plans the gains to small businesses come from giving them options for meeting their coverage obligations that are far superior to what they can get from today's insurance market *status quo*. One option is paying the payroll-based contribution, which provides a firm cap on the health costs these firms will be exposed to over time. In the Tri-Comm bill, small businesses are additionally afforded the benefits of economies of scale and lower administrative and loading costs through the new national insurance exchange. In today's insurance marketplace, administrative costs alone can be almost 10 times higher for small firms than for very large firms. Furthermore, small businesses (like all others) benefit from a new, robust public insurance plan, which lowers prices by introducing competition into insurance markets. This new public insurance plan option is present in both HCA and the Tri-Comm bill.

Summary of the effects of the Health Care for America plan

In a companion Issue Brief, EPI has documented the savings for small businesses through the HCA plan. Drawing on the Lewin groups scoring of HCA, based on their in-house micro-simulation model, it is found that firms with fewer than 10 employees who currently offer health insurance stand to gain the most—$3,502 per worker each year. On average, all offering firms stand to gain $809 per worker each year.

Given that all of the benefits flowing to small business in the HCA plan are included in the Tri-Comm bill, and that most small employers actually have *less* asked of them and are offered *more* assistance under the Tri-Comm bill, it seems clear that these savings identified in the HCA plan will be very similar to what should be provided by the Tri-Comm bill. In short, the House health bill looks to hold important savings for employers and workers alike, most of all for small businesses. For more information on why comprehensive national health reform is especially beneficial for small firms, read the related EPI Issue Brief (#258), *Health Care Reform: Big Benefits for Small Businesses*.