

Blue Perspective



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Association**

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BCBSA Supports Employer Role in Health Care

Healthcare Reform Should Build on the Employer-Based System

Issue: Over 160 million Americans – 62 percent of the nonelderly population – receive health coverage through their employer. Several healthcare reform proposals would eliminate the role of the employer in providing coverage and convert the employer-based system into an individual choice market where individuals purchase coverage on their own.

Position: BCBSA supports building on the employer-based system to improve quality, rein in costs and expand coverage to all Americans. Elimination of the employer-based system for a market where individuals purchase coverage on their own would create serious, unintended consequences. It would:

- Divert attention from addressing the cost and quality of care;
- Increase the number of uninsured;
- Force employees to lose coverage they like;
- Increase health costs and stifle innovation and quality of care;
- Diminish pooling and cross subsidies; and
- Create need for a massive bureaucracy to replace the role of employers.

Reforms should be targeted to help the 17 percent of Americans who are uninsured – and not require massive changes for the majority of people who already have coverage and are very satisfied.

BCBSA has a five-point plan – *The Pathway to Covering America* – that seeks to improve quality, rein in costs and expand coverage to all Americans without unnecessarily disrupting how most Americans buy their health coverage today. (More information on the *Pathway* proposal can be found by visiting www.bcbs.com/pathwayreport.)

BCBSA's *Pathway* proposal builds on a strengthened employer-based system of health coverage. Over 160 million people have health coverage through their employer and are, generally, very satisfied with their coverage. Ninety-nine percent of large employers (200 or more employees) offer coverage, and 59 percent of small firms (3-199 employees) offer coverage.

The following serious, unintended consequences would occur if the employer-based system were converted into an individual choice market:

Divert Attention from Addressing Cost and Quality of Care: Healthcare reform should focus on helping those employers and individuals who cannot afford coverage and addressing the 30 percent of care that is ineffective, inappropriate or redundant. Focusing on changing how 160 million Americans purchase

coverage will create a diversion from the real problem – incentives in the delivery system to provide more services, not necessarily the right services.

Increase the Uninsured: The percentage of Americans without insurance would increase because:

- *Government subsidies would not fully replace the level of employer subsidies:* Employers substantially subsidize their employees, regardless of income. The federal government is unlikely to be able to replicate, and keep up with, this level of subsidy in the future. The average employer subsidy for employee coverage is 84 percent whereas an individual earning a modified adjusted gross income of \$33,000 under one of the leading legislative proposals to move to an individual choice market would receive a premium subsidy of only 27.6 percent. Furthermore, under this proposal, individuals earning over \$41,600 receive no premium subsidy.

In addition, relying on the federal government for funding would likely mean that the standard tax deduction would not increase at the level commensurate with what employers have historically contributed. Most individual choice proposals index the standard deduction to the consumer price index. This means the deduction would quickly fall well below employer contributions; annual healthcare cost increases have consistently outpaced inflation by approximately 4 to 11 percentage points since 2000.

- *“Sticker shock” would deter enrollment:* Replacing the current level of employer contributions with lower government contributions would result in a significant decrease in the number of Americans purchasing insurance. Many workers will be hesitant to spend their earnings for significant premium contributions. Surveys indicate that employers who contribute more than 90 percent of an insurance premium have an 88 percent take-up rate among workers. Employers that pay only 63 percent or less of the premium see a take-up rate of only 68 percent. (Kaiser/HRET Employer Survey, 2005 and 2006)
- *Employer role critical to employee take-up:* Beyond financial contributions, employers simplify the entire purchasing process and create strong incentives for employees to have coverage, leading to increased insurance take-up rates. Employers shop for products on behalf of their workers, simplify their product choices, offer enrollment support and most importantly, encourage workers to join. A recent EBRI survey revealed that as many as 40 percent of workers said they might choose to go without insurance if their employer increased their salary in lieu of subsidizing health insurance. (EBRI Health Confidence Survey, 2007)

Force Employees to Lose Coverage They Like: Most employees are very satisfied with their employer-sponsored coverage. Approaches that convert the employer system into an individual market would drastically change the way the vast majority of Americans obtain their health coverage (i.e., employer sponsored coverage) to address the 17 percent of nonelderly Americans who are uninsured. Reforms should be targeted to help the 17 percent of Americans who are uninsured – and not require massive changes for the 62 percent of nonelderly people who already have coverage through their employer. Eliminating employer-based coverage and relying on new state entities to replace the role of support services employers have provided would represent a huge change in responsibilities for purchasing coverage. Employees would have to shop for coverage on their own, sorting through complicated information. Ending employer-based coverage would remove a trusted source of help in selecting coverage and obtaining information. One of the foremost characteristics that people will use to judge any new system is the ease of enrollment and confidence in coverage that meets their needs.

Increase Health Costs and Stifle Innovation and Quality of Care: Breaking the health insurance link from employment and moving everyone to an individual system would not reduce costs. In fact, it most likely would increase costs and have a negative effect on many of the most promising quality improvement initiatives.

The employer community has been aggressive in moving decisively to develop innovative ways to improve quality, reduce costs and keep employees healthy. In comparison to government-run programs, employers have proven that they are the catalyst to bring about positive changes. As sophisticated buyers with significant purchasing leverage, employers are demanding that insurers deliver innovative products and services that address the quality and efficiency deficiencies in the healthcare system. Employer groups have helped spur the development of novel programs to:

- *Engage consumers and providers through quality and cost transparency initiatives:* In a BCBSA survey of national employers, 41 percent cited quality and cost transparency as the most important network initiative for meeting employee healthcare needs. As a result of employer demand, the Blues have developed the Blue Distinction Centers for Specialty CareSM. This program identifies quality providers of bariatric surgery, cardiac care, transplants, and complex and rare cancers across the nation. For example, a heart transplant patient at a Blue Distinction Center is, on average, 33 percent more likely to survive than someone who goes elsewhere.
- *Reward top performing physicians:* Seventy-five percent of every healthcare dollar is used to provide care to those with chronic illnesses. Recognizing this critical issue, an employer coalition called Bridges to Excellence (BTE) developed a pay for performance diabetes management program. Towers Perrin estimates savings up to \$1,059 per patient when all program measures are met. From 1997 to 2003, the program doubled the rate of patients with acceptable blood sugar and low-density lipoprotein levels.

Diminish Pooling and Cross Subsidies: The employer-based system offers a stable way of assuring that employees with different characteristics cross subsidize each other – older and younger workers, sicker and healthier workers. This is critical because inclusion of young, healthy workers in the insurance pool is necessary to assure proper cross subsidization of older, sicker workers. Substitution of the employer-based system with an individual system would put this stable source of cross subsidies at risk by necessitating highly visible and political decisions about the level of cross subsidization (i.e., how much more should a young and healthy family pay than the actual value of their care to help subsidize older or sicker workers). A mandate to purchase coverage does not fully address the problem of making sure the young and healthy participate. Many states mandate auto insurance and still face double digit uninsured rates.

Create Need for a Massive Bureaucracy to Replace the Role of Employers: Moving to an individual market also would mean that the government would assume responsibility for regulation of coverage provided to over 160 million people – coverage for which employers provide oversight on behalf of their employees. The states currently regulate and oversee the individual market (which is currently only about 6.8 percent of the nonelderly insured market) – a highly resource-intensive responsibility. Whereas employers now protect nearly two-thirds of the insured population against fraudulent and misleading activities, this now would become the role of the government. Experience has shown that increased government regulation results in the unintended consequence of higher premiums and less choice.

Some proposals change the employer-based system into an individual choice system literally “overnight” by eliminating the tax benefits of employer sponsored benefits. Other proposals would put in place changes that would not result in immediate elimination of the employer role, but would make it impossible for the employer-based system to continue over time. For example, allowing workers that have coverage at the workplace to buy coverage on their own in the individual market would result in a shift of younger and healthier workers to the individual market, would remove the existing cross subsidies and increase employer premiums. Over time, this would erode employer coverage until it is no longer a viable option.

The Blue Cross and Blue Shield Association is a national federation of 39 independent, community-based and locally operated Blue Cross and Blue Shield companies that collectively provide healthcare coverage for more than 100 million individuals – nearly one-in-three of all Americans. For more information on the Blue Cross and Blue Shield Association and its member companies, please visit www.BCBS.com.