Skip all front matter: Jump to Page 1

Delaying the Employer Mandate

Small Change in the Short Term, Big Cost in the Long Run

By Carter C. Price and Evan Saltzman

Key Findings

A one-year delay in the implementation of the Affordable Care Act's (ACA's) employer mandate will not have a substantial effect on insurance coverage.

- Only 300,000 fewer people, or 0.2% of the population, will have access to affordable insurance in 2014 because of the delay.
- About 1,000 fewer firms, or 0.02%, will offer coverage in 2014 given the delay.

The employer mandate will affect relatively few firms and employees.

- We estimate that only about 0.4% of firms, employing approximately 1.6% of workers, will pay a penalty for not offering health insurance at all.
- Based on current employer health plan contribution rates, we estimate that 1.1% of firms will pay some penalty for offering unaffordable coverage to a total of less than 1% of the workforce.

The delay in implementation of the employer mandate will lead to less revenue to offset the costs of the ACA.

- We estimate that the one-year delay in enforcement amounts to $11 billion dollars less in revenue for the federal government—$7 billion less in penalties that would be assessed on firms that do not offer insurance and $4 billion less from fines of employers that offer unaffordable care.
- A full repeal of the employer mandate, not merely a one-year delay, would result in the loss of approximately $149 billion in federal revenue over the next ten years.

In July 2013, the Obama administration announced that it would delay enforcement of the Affordable Care Act's (ACA's) penalty on large employers (those with 50 or more workers) that do not offer affordable health insurance coverage to their employees.[1] Originally slated to take effect on January 1, 2014, the so-called employer mandate will instead take effect at the beginning of 2015. The goals of the mandate are to discourage firms from discontinuing health insurance and to encourage firms that do not currently provide affordable health insurance for some or all of their workers to begin offering coverage. Most Americans currently get their health insurance through their employer, so the employer mandate is intended to provide some stability to the health insurance market as the other parts of the ACA are phased in. Given the complexity of the issues surrounding the implementation of health care reform, we felt an objective, analytically rigorous review of the impact of the one-year delay of the employer mandate would help inform debate on the issue.

Who Will Be Affected?

The employer mandate penalty will only affect firms with 50 or more workers that do not offer affordable health insurance (affordable is defined under the law as an employee needing to contribute less than 9.5 percent of his or her family income towards the single plan premium). Firms that do not offer affordable health insurance will be required to pay $2,000 for each worker, excluding the first thirty employees, if at least one worker purchases federally-subsidized health insurance through an individual insurance exchange. Firms that do offer health insurance but that do not make that coverage affordable (under the law) for all of their full-time workers will be required to pay the lesser of (1) $2,000 for each worker excluding the first thirty employees or (2) $3,000 for each worker who takes advantage of federal subsidies on an individual exchange.

Methodology

Our analysis builds on a 2010 RAND study that examined the effect of the ACA on employers, including a detailed analysis of the employer mandate.[2] Similar to the 2010 study, we used the RAND COMPARE microsimulation model to assess the impact of the employer mandate. The COMPARE model allows for the fact that firms may choose the kind of insurance they offer, if any, based on the aggregate utility to their workers and accounting for any penalty payments or tax benefits (a full description of the methodology used in the COMPARE model can be found in Eibner et al., 2010). Our present analysis leverages a refined version of COMPARE that incorporates more-recent input data; key model upgrades; and legislative, executive, and judicial adjustments to the ACA. In particular, the current version of COMPARE uses the 2008 Survey of Income and Program Participation (SIPP),[3] updating the previous version, which used the 2001 SIPP. We have also modeled the effects of recent changes to the law, such as the 2012 Supreme Court ruling. For example, our analysis assumes that 27 states will choose not to expand Medicaid in response to the Supreme Court ruling, as estimated by the Kaiser Family Foundation.[4]

Table 1: Effect of Employer Mandate on Firms and Workers (2014)

	COMPARE Estimates (2014)	
	Employer Mandate Enforced	Employer Mandate Delayed 1 Year
Firms		
Large firms not offering insurance	23,000	24,000
Large firms with at least 1 employee with an unaffordable offer	65,000	65,000
Percentage that are penalized for not offering insurance	0.38%	0.40%
Percentage that are penalized for having at least 1 employee with an unaffordable offer	1.09%	1.09%
Workforce		
Employed at non-offering large firms	2,300,000	2,600,000
Large-firm employees with an unaffordable offer receiving subsidies	1,200,000	1,200,000
Percentage who work for firms penalized for not offering insurance	1.6%	1.8%
Percentage of large-firm workforce with an unaffordable offer receiving subsidies	0.8%	0.8%

It is important to note that less than 5 percent of firms have more than 50 employees, but more than 70 percent of workers work for firms with more than 50 employees.[5] Furthermore, more than 95 percent of firms with 50 or more workers already offer health insurance (although not necessarily affordable insurance as defined by the ACA) to their employees.[6] In other words, most firms will be unaffected by the mandate, and although most people are employed by firms that could be affected, they themselves would not be because their firm offers insurance that is affordable (under the ACA) to them.

Effects on the Rate of Coverage Will Be Small

Using RAND's COMPARE microsimulation model, we looked at the implications of the delay of the employer mandate by one year on firms and workers (see Table 1). We estimate that only about 0.4 percent of firms, employing approximately 1.6 percent of workers, will pay a penalty for not offering health insurance at all. However, some additional large firms will pay penalties because the insurance they offer is not affordable as defined in the ACA—that is, because the premium share paid by some portion of their employees exceeds 9.5 percent of their income (our analysis assumes that these firms will not respond to the penalty by increasing their own contributions to the premium to make them affordable). Based on current employer health plan contribution rates, we estimate that 1.1 percent of firms will pay some penalty for offering unaffordable coverage to a total of less than 1 percent of the workforce—though these numbers are much less certain because firms may take steps such as changing their contribution rates or reducing worker hours to avoid these penalties. (We modeled the decision to offer insurance or not but did not model firms' potential decisions to adjust the insurance contribution rate or to reduce worker hours to avoid penalties.)

Further, we found that a delay in implementing the employer mandate will produce neither a significant change in overall insurance coverage (300,000 fewer people, or 0.2 percent, will have access to insurance from their employer, and nearly all of these will get insurance from another source) nor a substantial drop in employer rates of offering coverage (1,000 fewer firms, or 0.02 percent, will offer coverage given the delay). And because any shifts in the sources of insurance coverage resulting from the employer mandate will be small, the delay will not lead to large increases in the number of people receiving subsidies or Medicaid.

Table 2: Effect of Employer Mandate on Federal Government Revenue (2014–2023)

Year	Employer Mandate Enforced			Employer Mandate Delayed 1 Year		
	Penalties Paid by Non-Offering Firms (billions)	Penalties Paid by Firms with Unaffordable Offers (billions)	Total Revenue (billions)	Penalties Paid by Non-offering Firms (billions)	Penalties Paid by Firms with Unaffordable Offers (billions)	Total Revenue (billions)
2014	$7.1	$3.7	$10.8	$0.0	$0.0	$0.0
2015	$7.5	$3.8	$11.3	$7.6	$3.8	$11.4
2016	$8.1	$3.7	$11.8	$8.0	$3.7	$11.7
2017	$8.5	$3.8	$12.3	$8.5	$3.8	$12.3
2018	$9.0	$4.0	$13.0	$9.0	$4.1	$13.0
2019	$9.4	$4.6	$14.0	$9.4	$4.6	$14.0
2020	$9.4	$5.0	$14.4	$9.4	$5.0	$14.4
2021	$14.2	$5.3	$19.5	$14.2	$5.3	$19.5
2022	$15.0	$5.5	$20.5	$15.0	$5.5	$20.5
2023	$16.0	$5.7	$21.6	$16.0	$5.7	$21.6
Total	$104.2	$45.0	$149.2	$97.1	$41.1	$138.5

NOTE: Totals may not add up due to rounding.

Why are the changes so minimal? The employer mandate only impacts a very small percentage of firms to begin with. Fewer than 5 percent of firms have fifty or more employees; of these firms, more than 95 percent already offer their employees health coverage. Hence, the "stick" of the employer mandate is not necessary to compel most firms with 50 or more employees to offer health coverage. The existing "carrot"—the tax-advantaged treatment of employer-sponsored health insurance—is already a sufficient motivation to incentivize firms to offer health coverage to their employees.

Postponing the Employer Mandate Does Come at a Cost

Does that mean that delaying—or even eliminating—the employer mandate is without a substantive effect? Not quite. In addition to being an inducement for employers to offer affordable heath care coverage, the employer mandate is one of the many revenue sources intended to pay for the ACA's other provisions. As shown in Table 2, we estimate that the one-year delay in enforcement amounts to $11 billion less in revenue for the federal government—$7 billion less in penalties that would be assessed on firms that do not offer insurance and $4 billion less from fines of employers that offer unaffordable care. Note that, were the mandate put into place in 2013 as originally planned, these values could be lower because some firms may alter their workers' hours to avoid the penalties associated with the employer mandate, and some firms currently offering unaffordable coverage may adjust the employee contribution rates of their insurance plans to avoid the penalties. In the context of the full cost of the ACA, a one-year drop in revenues of $11 billion is relatively small (less than 1 percent of the ten-year total for revenue increases and spending reductions that are used to pay for the other components of the law).

We also used the COMPARE model to estimate the cost of a full repeal of the employer mandate, not merely a one-year delay, finding that such an action would result in the loss of approximately $149 billion in federal revenue over the next ten years. With a one-year delay, the COMPARE model estimates that the federal government would still raise $138 billion in revenue from the employer mandate between 2015 and 2023; the Congressional Budget Office estimates that the employer mandate will raise a cumulative $140 billion over the same period, nearly identical to the independently generated results from COMPARE and approximately 10 percent of the ACA's costs over the next ten years.[7] So while the employer mandate is not likely to have a large impact on firm behavior or coverage, postponing for a significant length of time or entirely repealing the employer mandate may lead to a loss of revenue that had been intended to offset the costs of expanding coverage under the ACA.

CONCLUSION

In conclusion, postponing the employer mandate for one year won't have a large effect on insurance coverage or firm offer rates. However, a one-year delay in implementation of the mandate will result in a 6-percent reduction (or $11 billion) in federal inflows from employer penalties. A full repeal of the employer mandate would cause revenue to fall by $149 billion over the next ten years, providing substantially less money to pay for other components of the law. If there are concerns about the burden the employer mandate is placing on businesses, federal policymakers should assess whether there are other revenue sources to replace it. If the mandate does come into effect in 2015, employers that currently offer insurance coverage will need to ensure that the options they provide to their workers are affordable for all of their workers to avoid paying penalties under the employer mandate. Some of these firms may also decide to change worker hours to keep the number of full-time equivalent workers below the threshold dictated by the ACA or adopt another avoidance strategy. Firms that don't offer insurance will have to weigh the associated penalties against the costs of offering it. The bottom line is that the delay in the employer mandate for one year will have relatively few consequences, primarily resulting in a relatively small one-year drop in revenue; however, a complete elimination of the mandate will have a large cumulative net cost, potentially removing a nontrivial revenue source that in turn funds the coverage provisions in the ACA.

NOTES

[1] Valerie Jarrett, "We're Listening to Businesses about the Health Care Law," The White House Blog, July 2, 2013. As of July 5, 2013: http://www.whitehouse.gov/blog/2013/07/02/we-re-listening-businesses-about-health-care-law

[2] Christine Eibner, Federico Girosi, Carter C. Price, Amado Cordova, Peter S. Hussey, Alice Beckman, and Elizabeth A. McGlynn, *Establishing State Health Insurance Exchanges: Implications for Health Insurance Enrollment, Spending, and Small Businesses,* Santa Monica, Calif.: RAND Corporation, TR-825-DOL, 2010. As of July 2, 2013: http://www.rand.org/pubs/technical_reports/TR825.html

[3] United States Census Bureau, "Survey of Income and Program Participation," webpage, June 6, 2013. As of July 10, 2013: http://www.census.gov/sipp/

[4] Kaiser Family Foundation, "Status of State Action on the Medicaid Expansion Decision," webpage, July 1, 2013. As of July 19, 2013: http://kff.org/medicaid/state-indicator/state-activity-around-expanding-medicaid-under-the-affordable-care-act/

[5] United States Census Bureau, "Statistics of U.S. Businesses," webpage, April 22, 2013. As of July 5, 2013: http://www.census.gov/econ/susb/

[6] Kaiser Family Foundation, "2012 Employer Health Benefits Survey," webpage, September 11, 2012. As of July 5th, 2013: http://kff.org/private-insurance/report/employer-health-benefits-2012-annual-survey/

[7] Congressional Budget Office, "Effects on Health Insurance and the Federal Budget for the Insurance Coverage Provisions in the Affordable Care Act—May 2013 Baseline," May 14, 2013. As of July 5, 2013: http://www.cbo.gov/sites/default/files/cbofiles/attachments/44190_EffectsAffordableCareActHealthInsuranceCoverage_2.pdf

ABOUT THIS REPORT

Support for this report and for RAND Health's Comprehensive Assessment of Reform Efforts (COMPARE) initiative is provided by RAND's corporate endowment and through contributions from individual donors, corporations, foundations, and other organizations.

The research was conducted in RAND Health, a division of the RAND Corporation. A profile of RAND Health, abstracts of its publications, and ordering information can be found at www.rand.org/health.

www.rand.org

RR-411 (2013)