California Workers' Compensation Institute

BULLETIN

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The cost of employer-sponsored group medical plans would increase as much as $16.7 billion by extending coverage to all California employees and their dependents, according to a study completed by William M. Mercer, Inc. for the Institute.

Mandating medical coverage could push total costs to %50.1 billion in 1994, a 50 percent increase from the current $33.4 billion –- 13.9 percent of payroll versus 9.3 percent currently.

The added costs represent medical expenses now paid by workers' –- premiums for individual medical policies –- or expenses absorbed by the system for uninsured and by taxpayers for public medical assistance. Mandating health coverage would shift these costs to California employers and, depending upon premium-sharing arrangements, to workers.

The Mercer study is part of the Institute's continuing research on "24-hour coverage" encompassing evaluation of various proposals to merge health care and workers' compensation benefits in a single program. Under 24-hour coverage –- the subject of pilot projects in California, Oregon and other states –- workers would be entitled to medical and disability benefits for any injury or illness, regardless of cause.

"The California debate on 24-hour coverage, universal health care and other changes in employment-based benefit programs has suffered from the lack of comprehensive, timely and comparable data," said Institute's president Edward C. Woodward. "Using the Mercer model, it's now possible to measure –- before the fact –- the economic consequences of change to these programs.

The financial impact of mandated medical coverage, the first step to integrating benefits, would vary by industry and firm size. Costs would increase 220 percent for small businesses (fewer than 20 employees). But the largest firms (5000-plus employees), that today are more likely to offer coverage, would see their costs rise 12 percent. Similarly, increases would be most dramatic in industries dominated by small firms and those employing part-time workers. Some examples: Agriculture, +225 percent; Retail Trade, +153 percent; and Services, +152 percent.

The study found that large employers subsidize smaller ones by providing health insurance to employee spouses or other dependents who work for firms that offer few or no benefits. For example, medical plans of the largest employers (5000-plus workers) cover 3.8 million people. Yet only 3.2 million beneficiaries are employees and their non-working dependents –- the other 600,000 are dependents who work for someone else.

The Mercer study relies on an economic model derived from a database eight months in development. The database includes more than 600,000 pieces of information –- employee population, payroll, and details on group medical care, private and public health plans, workers' compensation, state disability insurance and other benefit programs -- for 915 employer categories segregated by firm size, industry classification and location within California. Data was supplied by the state Employment Development Department, U.S. Small Business Administration, the UCLA Business Forecast Group and other public sources. Other findings from the database:

- California's working population will total 12.5 million in 1994. Of that number, 8.6 million –- 69 percent –- will be covered by an employer-sponsored medical plan.

- Another 700,000 employees (6 percent of the work force) will buy individual medical policies and 500,000 (4 percent) will get medical treatment from taxpayer-funded public programs. The remaining 2.7 million (21 percent) will be uninsured for health benefits.

- The average monthly cost of group medical insurance in 1994 will be $242 for single employees, %532 for family coverage.

- The $16.7 billion additional costs could be reduced to a net increase as low as $6 billion, depending upon the scope of coverage and the degree to which savings could be realized.

Overall costs would be $5 billion less if mandated coverage excluded non-working dependents. Additional savings also could result if demand for taxpayer-funded treatment diminished and health care costs omitted the unrecovered expenses of treatment for uninsured workers -- but only if taxes and health care prices were lowered.

A *Research Update* summarizing results of the Mercer phase of the 24-hour coverage research is available to download in the Research section of our website. Please click here http://www.cwci.org/document.php?file=189.pdf to view the report.

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