RESEARCH UPDATE

TWENTY-FOUR HOUR COVERAGE:

Mandating Medical Coverage for California Employees

SUMMARY:

Most "24-hour coverage" proposals start with the proposition—explicitly or implicitly—that all employees would be provided medical benefits for nonoccupational injuries and illnesses. This study documents for the first time the size and structure of current health and disability benefit systems and projects the impact of mandating medical coverage for all California employees and their non-working dependents.

The economic consequences of mandating medical coverage:

▼ Employment-based group medical costs in California would increase between $6.0 billion and $16.7 billion in 1994, depending on the specifics of the program. The additional costs would be limited to $6.0 billion only if policymakers mandate no change in coverage for unemployed dependents and if all potential savings are fully realized.

▼ The projected increase of $16.7 billion would bring the total cost of employment-based group medical coverage in California to $50.1 billion. That would represent about 14 percent of payroll, a 50 percent increase over current expenditures.

▼ Mandated medical coverage would eliminate current cross subsidies among employers, so the impact would vary by industry and employer size. For example, large employers and industries such as Mining, Manufacturing and Government that already tend to cover employees would be least affected. Small employers and industries dominated by small firms and part-time workers (e.g. Agriculture, Retail Trade and Services), where coverage is less common, would see the biggest increases.

BACKGROUND

An earlier Institute report (March 1993) examined the issues, opportunities and problems surrounding "24-hour coverage," a variety of proposals to merge medical care and disability benefits with state-mandated workers' compensation.

In that initial report the Institute concluded that a lack of reliable, quantitative data—information that policymakers and interest groups could use to evaluate differing and disparate proposals—hampered constructive debate on 24-hour coverage. Lack of comparable data, the report noted, distorted and limited discussion of alternative solutions to the problems confronting both the health care and workers' compensation systems.

The Institute contracted with William M. Mercer, Inc., the world's largest benefit consulting organization, to compile information from independent sources and develop an integrated, employment benefit database including both occupational and nonoccupational benefits. The Mercer study, completed in November 1993, encompasses detailed information on the broad spectrum of medical and disability benefits in California, including employer-sponsored medical benefits, private medical insurance, public medical assistance, workers' compensation, individual and group disability coverage, state disability insurance and other similar programs available to California employees.

The database makes it possible to evaluate economic consequences of proposals to merge or integrate employee benefits—and, by changing the assumptions—to reevaluate the cost of alternative proposals. This report, the second in a continuing series on 24-hour coverage, summarizes the initial output from the database: The economic impact of mandating medical coverage for all California employees.

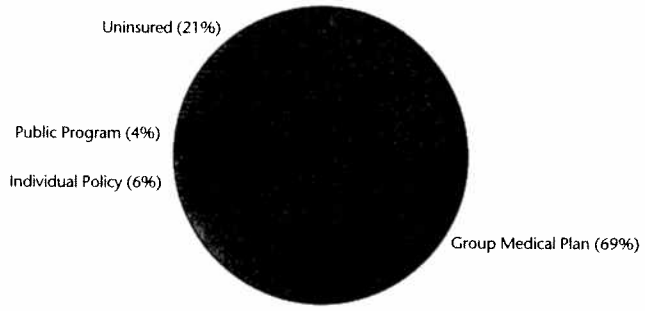
FINDINGS

The first financial model analyzed assumes that any merged benefit system would provide medical care for nonoccupational injuries and illnesses to all California workers, a proposition advocated by most 24-hour coverage proponents. Absent some level of basic medical coverage for every employee, there would be nothing to integrate. Although integrated coverage could be offered independently, either by employer largesse or through a collective bargaining agreement, voluntary programs create problems of "portability," i.e., what happens to coverage when a worker leaves employment? Thus, the initial analysis assumed that mandated medical insurance is the basic building block for 24-hour coverage and that documentation of current system costs and quantification of the additional cost of mandated nonoccupational medical benefits is the necessary first step in evaluating 24-hour coverage proposals.

Current Medical Coverage: California's working population will total 12.5 million in 1994. Nearly 70 percent, 8.6 million workers, will have medical benefits provided through an employer-sponsored plan. Six percent of the workers will buy individual insurance policies, 4 percent will receive treatment through public assistance, and 21 percent will have no medical coverage.

Chart 1

Medical Coverage of California Work Force

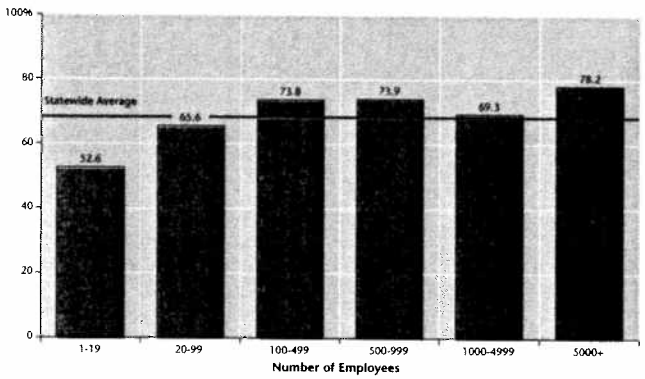


The percentage of employees without medical coverage nearly matches the "uninsured" portion of California's total population (22 percent), both working and unemployed. When it comes to medical benefits, working Californians are not much better off than the general population.

Group Population: Coverage under employer-sponsored plans varies by employer size and is most prevalent among the largest firms, those with at least 5,000 workers. The proportion of

Chart 2

1994 Group Medical Coverage by Employer Size

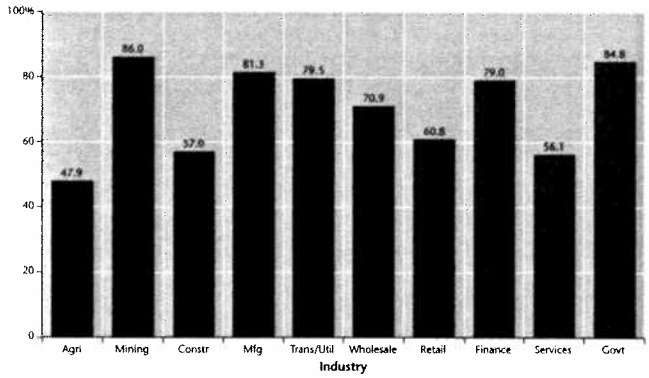


larger firms providing coverage is half again the percentage covered by businesses with fewer than 20 employees.

The percentage of workers protected by employer group plans also differs by type of industry. Coverage is most common—about eight of every ten workers—in five sectors: Mining, Manufacturing, Transportation, Finance and Government. In contrast, only 56 percent of employees in the Service sector—the largest single category—have employer-sponsored medical care, and less than half of all workers in the Agricultural sector receive employer-provided coverage.

Chart 3

Employer-Sponsored Medical Coverage by Industry



Full-time employees are more likely to be included in an employer medical plan. Three of every four full-time workers (those working at least 35 hours per week) are covered, compared to only 51 percent of part-time workers.

Current Costs: The projected 1994 cost of employer-sponsored medical plans covering California employees and their dependents totals $33.4 billion. This amount includes employer payments and employee premiums for individual policies, but omits other out-of-pocket costs of employees, e.g., deductibles, coinsurance and copayments, so the actual cost is even more.

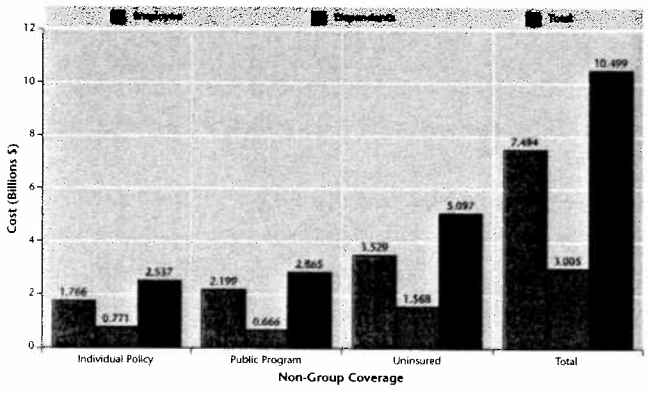
More than 80 percent of these costs ($27.6 billion), are paid on behalf of employees and their nonworking dependents. The balance, $5.8 billion, provides benefits to dependents who work for businesses other than the sponsoring employer—an example of the subsidies that occur under medical coverage as currently structured.

In the current system, large employers (those with more than 5,000 employees) tend to subsidize other employers. For example, large firms sponsor medical coverage for 3.8 million individuals, but only 3.2 million are their employees and their non-working dependents. The remaining 600,000 beneficiaries are dependents employed by another business, frequently a firm that does not offer medical coverage or whose benefits are less generous. During 1994, upwards of one million California workers will fall into this category, with the subsidies usually flowing to Retail and Service employers.

Medical costs of workers and their dependents who are not covered by an employer-sponsored plan will reach almost $10.5 billion in 1994. Nearly half of this total represents costs of the "uninsured," i.e., employees who either choose not to buy a medical insurance policy or who are ineligible for taxpayer-supported public programs. These expenses ($5.097 billion) are written off by providers and absorbed by other payers through higher charges to paying patients—another form of subsidy.

Chart 4

1994 Non-Group Medical Costs



Other research studies have shown that uninsured individuals typically pay 50-60 percent of their medical costs out-of-pocket.

Cost Impact of Employer Mandates: Mandated medical coverage for all California employees and

their non-working dependents could cost as much as $50.1 billion, $16.7 billion more than the cost of existing employer-sponsored group medical plans. The $50.1 billion estimate, equivalent to 13.9 percent of payroll, reflects the following assumptions:

❑ All employers would be required to provide group medical coverage to all employees, including part-time workers.

❑ The average monthly charges—$242 for single employees and $532 for family coverage—are based on the projected cost of current benefits.

❑ The distribution of newly-covered employees and dependents among medical plans—health maintenance organizations, preferred provider organizations, fee-for-service plans, etc.—would be similar to the current distribution.

❑ Employees who currently buy individual medical policies are generally better health risks and would remain so in a mandated system. The study assumed half the differential between average individual costs and average group costs is due to a healthier population and half is due to benefit differences. Accordingly, the study estimated premiums for people who buy individual policies would be 8 to 9 percent below premiums for other workers in the same industry, location and size category.

❑ Employees receiving treatment from tax-supported public programs are worse health risks and would continue to be so. Although introduction of managed care techniques under a mandated system could temper some of the expense, premiums for these employees were estimated at 25 percent more than current fee-for-service charges, based on the current cost differential with public programs.

❑ Uninsured employees will receive the same level of services as other similar employees. Arguably, a case could be made that mandated coverage will increase the demand for treatment from previously uninsured individuals. Because the effects are conjectural and may be restricted to a transitional period, the potential "extra demand" costs have been ignored.

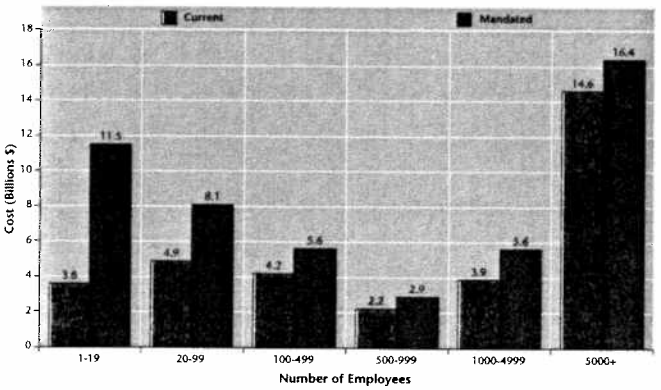
❑ Medical expenses now borne by taxpayers and individual employees, both insured and uninsured, would transfer to employers and, subject to cost-sharing arrangements, to their workers.

If policymakers mandate no change in coverage for unemployed dependents, the additional expense would be reduced to $11.7 billion, for a total statewide cost of $45.1 billion.

Range of Impacts: The financial impact of mandatory employer-sponsored medical care would vary by industry and employer size. For example, firms with more than 5,000 employees, which already tend to offer coverage, would see a 12 percent cost increase. On the other end of the spectrum, costs for small businesses (fewer than 20 employees) would increase 220 percent—from the projected $3.6 billion to $11.5 billion.

Chart 5

Current vs. Mandated Coverage Costs by Employer Size

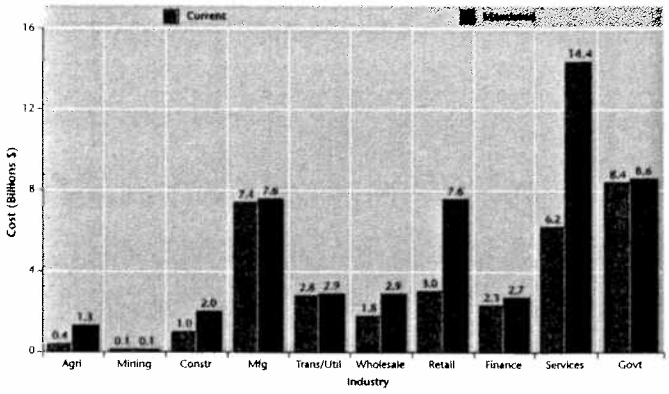


Similar dramatic increases would occur in industries dominated by small firms and those employing large numbers of part-time workers, employers that typically offer less medical coverage than in other industries. Costs would increase 225 percent in the Agricultural sector, 153 percent in the Retail Trade sector and 132 percent in Service industries. On the other hand, there would be little or no

increase in sectors such as Mining, Manufacturing and Government, where coverage is already common.

Chart 6

Current vs. Mandated Coverage Costs by Industry



Costs to workers likewise will vary, depending upon the premium-sharing arrangements allowed by policymakers and the level of deductible, coinsurance and copayments selected. Employees of businesses that do not offer coverage today may be required to contribute for the first time. On the other hand, employees who have been buying individual insurance policies with after-tax dollars will save $1.8 billion in premiums. Employees also may pay indirectly as employers may adjust wages or reduce hiring to offset the additional costs.

Mitigating Factors: The projected cost increase of mandated medical insurance could be offset by other considerations. Today employers and their employees fund public medical assistance through income and other taxes. Since workers no longer would have to rely on these programs, an estimated $2.8 billion could be saved—but only if the funds were not transferred to other public programs and taxes were reduced commensurately.

Secondly, medical providers currently write off almost $5.1 billion a year in bad debt for uninsured medical expenses, resulting in higher prices to other consumers. As the insured population increases, these transfers may decline as the source of payment will no longer be an issue. The savings could reduce the additional expense of extending medical coverage—but, again, only to the extent medical care prices are reduced.

If these potential savings are realized, and if dependents who are currently not covered are excluded from the mandate, the net additional increase could be as low as $6 billion and the total statewide cost would be $40 billion—20 percent more than the current expense of employee medical coverage.

Future Applications: The database allows for the first time, reliable measurement of the economic consequences of proposed changes to health and disability programs or, for 24-hour coverage, a combination of changes. Subsequent analyses will examine:

- ❑ Merging all employee medical coverage—the medical component of workers' compensation with employer-provided group insurance—into a single uniform program.

- ❑ The potential for extending managed care principles to medical treatment of occupational and nonoccupational injuries and illnesses alike.

- ❑ Combining employment-based disability benefits—workers' compensation, group disability and state disability insurance.

Cost implications are important, but so too are the public policy issues and the choices they present. The Institute-Mercer database will permit analysis of these issues by offering detailed information on the types and costs of benefits provided California employees, modeling capability for a variety of benefit merger options, and identification of the key assumptions influencing modeling results so future research needs may be defined.

The Institute will include analysis of the ultimate 24-hour package—medical and disability benefits for all injuries and illnesses, regardless of cause—in future research agendas.

Inquiries on the database may be addressed to Thomas Parry, Ph.D., Research Director, California Workers' Compensation Institute, 120 Montgomery, Suite 1300, San Francisco, CA 94104.

Copies of the complete report describing the database and the assumptions made to determine the financial impact of mandated employer

coverage in California are available from the Institute at a cost of $50 each.

Technical Notes

The analysis of employment-based medical coverage draws upon information contained in a database built by William M. Mercer, Inc., and jointly funded by Mercer and the California Workers' Compensation Institute.

The database includes detailed information on employees and associated payroll for 915 different employer categories, segregated by size of firm, industry classification and location within California. The number of employees and payroll figures were developed from data provided by the Labor Market Division of the California Employment Development Department and the U.S. Small Business Administration. The employment information in turn was projected to 1994 by using growth rate estimates of the Business Forecast Group at the University of California at Los Angeles.

The database also includes information describing employer-sponsored medical benefit programs, individual insurance policy benefits, public medical assistance, and the medical expenses of the uninsured applicable to California employees and their dependents. The data identify the percentage of employees covered by employer-sponsored medical plans, individual insurance, public assistance, and those who are uninsured, and projected 1994 costs associated with each type of coverage.

Percentage distributions of employees covered by each program are based on studies conducted by the University of California School of Public Health and by the Employee Benefits Research Institute. Per capita costs are derived from numerous California and national health care surveys and supplemented by California cost data supplied by several insurers and managed care organizations.

To define the costs of the current workers' compensation system, the database includes information on insured and self-insured employers compiled by the California Workers' Compensation Insurance Rating Bureau and the State Office of Self-Insurance Plans. The workers' compensation database uses payroll as the basis for aggregating workers' compensation costs and includes medical, disability and expense estimates for each of the 915 employer categories.

The database also includes coverage and cost data for group disability plans, including state disability insurance, supplemental short-term disability, long-term disability and sick leave. Costs for all benefits except state disability insurance were taken from U.S. Department of Labor employee benefit surveys, with benefit costs reported as a percentage of payroll for employers in various industry and size groups. Department of Labor data were used to determine the percentage of employers with various types of group disability coverage.

California Workers' Compensation Institute *is a private, nonprofit organization working to improve the California workers' compensation system by providing research, education and information. Members of the Institute are insurers that write 94 percent of California workers' compensation premium and private, self-insured employers. The Institute's Board of Directors appointed a Benefit Integration Select Committee to conduct a study and analysis of the merged-benefit issue. Members represent national multi-line insurers, California specialty workers' compensation insurers and national insurers that write both health and property/casualty lines.*

William M. Mercer, Incorporated, *is the world's largest human resources consulting organization, providing advice on all aspects of the employer-employee relationship. Mercer maintains offices in San Francisco, San Jose, Los Angeles, Orange and Irvine, California, among its 100 locations in 19 countries. The Mercer team responsible for the Institute-funded study includes consultants and actuaries specializing in both health care and workers' compensation.*

CWCI Research Update is published by the California Workers' Compensation Institute, 120 Montgomery Street, Suite 1300, San Francisco, CA 94104 (415) 981-2107.