

Replacing group insurance: A step toward government-mandated coverage

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December 28, 2007

A debate rages among well-meaning, smart, and educated people about the best way to fund the purchase of employee health insurance in the United States. In the past, these two sides have been allies, arguing for free market health care.

Smart politicians sense a split among free market thinkers, and are glad to take advantage of it. It serves their purposes of incrementally moving America toward a government-managed mandatory universal health insurance system.

One side in the debate believes in the current system. Employers retain their free choice to: 1) provide group insurance, 2) to pay for individual insurance, or 3) to offer no insurance.

The other side wants to discard employer-based group insurance. They argue that tax-preferred group insurance is the primary reason employees feel entitled to health care, and why they have grown comfortable letting others pay for it. They want to eliminate group insurance, and substitute individual insurance that is portable and owned by employees.

Do you believe that employers should pay for employees' health insurance?

If you answered yes, do you also believe that employees are *entitled* to employer-paid health insurance? Do you believe that if employers quit offering group insurance they would, instead, pay higher wages that would lead employees to purchase *individual* insurance? The honest answer is that some employers may or they may not, unless there is a government *mandate* that employers *must* pay for health insurance.

If you answered no, then you believe that employers have a *free choice* whether or not to pay for health insurance. Since you see this as a choice, not a mandate, you might agree that it is up to an employer to choose whether to provide a group plan, or an individual plan, as best suits his or her business objectives.

Why do employers provide group insurance?

Reason 1: They *want* their employees to have health insurance. Employers need healthy employees. Health insurance helps protect the employer's interest in getting employees back on the job as quickly as possible.

Reason 2: Employers know that when they give employees cash to purchase insurance – as higher wages or a defined contribution – they may spend it on something else. As a result, fewer employees will be insured.

- One reason cited by some people for why employees do not buy individual health insurance is that their premium is not tax-deductible like group insurance. The new idea is to offer individual health insurance that *is* tax deductible, using a Section 125 Cafeteria Plan, but this is a complex solution. There is a much simpler way:
- The simple way is to make *all* health insurance premiums tax deductible for whoever pays the premium. This will provide the same deductibility for those with individual plans as those who receive them from group insurance. While this does not assure that employees will actually spend their additional money on health insurance, it does provide an incentive to do so.

Reason 3: Employers want to recruit the best possible employees. As enticements, they use employee benefits that include time off, retirement plans, and a variety of insurance benefits. Of all these benefits, employees value health insurance the most.¹ Employees see the health insurance benefit as something meaningful and important.

- The health plan design chosen by an employer reflects the employer's character. A paternal employer often chooses an expensive, traditional HMO plan. The employer that trusts his employees to do what is best for themselves offers a high deductible health plan, often with a Health Savings Account (HSA). The vast majority of employers (even with as few as five

¹ National Compensation Survey, United States Bureau of Labor Statistics, August 2007.

employees), however, will offer both plans to provide employees with choices. Reduced premiums are moving ever-greater numbers of employers toward consumer-driven group insurance products, especially as well-informed agents make it their goal to so counsel them.

Reason 4: Employers want to retain employees, and they know that the health benefit is often a key. Employees who prefer a cash payment rather than group insurance are more likely to move from job to job; whereas those who participate in group insurance are more likely to stay with an employer.

Those who oppose group insurance often look at this from the employee's perspective. They view group insurance as "golden handcuffs" that restricts individual freedom, denying their right to work for a different employer. Employers, however, also have rights. They see employee retention as a vital element of a profitable business. Group health insurance is one way to build and maintain a quality workforce, as a key tool to reduce turnover.

- Employers understand how the health benefit affects employees and their dependents. They know that if they employ the spouse that feels responsible to provide health insurance for the family, that employee will remain with them over the long term. The spouse that is not responsible for health insurance has a different motivation: They want the greatest possible pay. These are the employees that will change jobs for a small pay increase.
- Successful employers know that high employee turnover is like a cancer that will eventually eat away at and destroy their business.

Reason 5: Many employers feel a *moral* obligation to provide health benefits to employees. Benefits help create a sense of family or community between employer and employees. This directly affects employee morale, and is critical to a business' success.

Should United States employers eliminate group insurance and move toward individual insurance?

Will all individuals that receive a cash payment in lieu of group insurance use the money to buy insurance? Of course not. Why would putting more money in a person's pocket incent them to buy health insurance, even if it is tax deductible? Without mandating that

everyone *must* own health insurance, these individuals could spend their "found" money on something else.

- More than 9 million of the uninsured earn in excess of \$50,000 a year. Clearly, they see other priorities as more important than health insurance.²
- More than 22 million of the uninsured are younger than 35, and many can afford insurance, but chose not to purchase it.³

Individual health insurance premiums are age-based. Younger people have fewer claims than older people do. This is why a young person pays \$150 a month, and an older person pays \$450 a month for the same insurance plan. Will employers discriminate against younger employees by paying them one-third as much as an older employee? No. The employer will pay the same defined contribution to all employees, regardless of age or need. The young person will receive more money than he or she needs, and the older person will receive less than he or she needs. This will result in a higher uninsurance rate among older people.

To solve this "crisis," the government will respond by mandating a single premium amount – community rating – regardless of age. Community rating creates a new problem: Many more young people will drop coverage, as their premium doubles from \$150 to \$300 a month.

Community rating, especially when combined with guarantee issue, will drive insurance premiums higher for younger people. The resulting spike in uninsurance rates will provide politicians with more incentive to move to government-mandated universal health insurance.

What result is predictable if we eliminate group health insurance?

The idea of individuals being more responsible for their own health insurance is good, but doing it by dropping group insurance is fraught with unintended consequences.

Some employers will just quit paying a benefit. Some will substitute a pay increase. Others will pay a flat amount into an insurance fund. When employers do choose to fund individual health insurance, they will treat single employees and those with dependents the

² *The Uninsured in America*, Blue Cross, Blue Shield Foundation, 2005.

³ *Ibid.*

same, and that will hurt families. Family uninsurance rates will rise.

Today, more than \$700 billion of the nation's health care bill is paid by private insurance, and hundreds of billions of that comes from employer-provided group insurance. If group insurance is eliminated, that revenue could be lost. Again, the uninsured rate will soar and political leaders will respond. Government-mandated universal health insurance system will follow.

The fact is that the free market health care system will collapse without some form of employer support. Those that favor government-managed mandatory universal health insurance know they must destroy group insurance. They know that incremental change toward community rating, guarantee issue, and mandated coverage are the door openers to complete this task. Instead of eliminating group insurance, there needs to be a movement toward increase consumer choice and control of health purchases, and employer-provided group insurance should play a pivotal role in this process.

The debate should not be about who pays the premium (individuals or employers), but about what the premium purchases – plan design. Employers may purchase consumer-directed, group insurance health plans, or, if they choose, help fund individual health plans. The wise health insurance agent will do all he or she can to point employers toward consumer-directed insurance plans.

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