

Model Fair Share Health Care Act

Background:

- **Fewer Employers Provide Health Care for Their Workers.** Employer-based health insurance is the backbone of the U.S. health care system, but has been slowly eroding. If this trend continues, greater numbers of Americans are likely to be uninsured or without affordable coverage. Between 2001 and 2004, the number of uninsured people in the U.S. rose by nearly 5 million to 46 million people, with nearly the entire increase accounted for by a decline in employer-sponsored health insurance coverage. Only 60 percent of firms offered health insurance to employees in 2005, compared to 69 percent of firms in 2000. Although large firms have historically provided nearly universal coverage, a study by the Commonwealth Fund reports that more than one-quarter of workers in companies with 500 or more workers do not receive employer-based coverage. Workers and their families increasingly must turn to taxpayer-funded programs like Medicaid and SCHIP to get health care as job-based health coverage declines and employers shift ever-growing health costs onto employees.
- **State Spending on Medicaid is Growing.** As employer-provided coverage has declined, Medicaid has helped prevent workers from becoming uninsured. In fact, the number of uninsured would be worse if not for the increase in the number of individuals covered through public programs like Medicaid and the State Children's Health Insurance Program. In addition, while Medicaid per capita costs have increased much slower than premiums for private-sector health insurance, Medicaid is getting hit with the same health care cost hikes that are affecting the entire health care system, as well as increases in long term care costs for the elderly and disabled. As a result, Medicaid is the second largest expense for most states, accounting for around 22 percent of state budgets, on average. States' spending on the program is expected to grow almost 12 percent this year, four times faster than the increase in states' general fund spending. With states struggling under these cost pressures, it's time for employers to pay their fair share for their workers' health care.
- **Workers, Taxpayers, and Other Businesses Are Forced to Pick Up \$113 Billion Tab for Health Care When Profitable Companies Don't Pay Their Fair Share.**
 - **Taxpayers pay \$21 Billion:** The Commonwealth Fund study found that public programs -- and consequently taxpayers -- were forced to pick up \$8 billion in covering workers who lack employer coverage. And charity care and bad debt cost taxpayers \$13 billion each year.
 - **Workers Pay \$61 Billion:** Workers who lack job-based coverage pay \$58 billion in out of pocket expenses and \$3 billion in private individual insurance premiums. Workers and their families who currently have private coverage are forced to pay higher premiums in order to cover the costs of workers without adequate health care. A recent study by Families USA found health insurance premiums for families who have employer-sponsored coverage, on average, are \$922 higher due to the cost of health care for uninsured.
 - **Other Businesses Pay \$31 Billion:** Businesses that provide health care are forced to spend an estimated \$31 billion to cover cost-shifting businesses' workers through dependent

coverage. That's in addition to the estimated \$150 billion they spend on their own workers' health care costs. [Sources: *A Shared Responsibility: U.S. Employers and the Provision of Health Insurance to Employees*, Sara R. Collins, PhD, Karen Davis, PhD, and Alice Ho, Inquiry, Spring 2005, 42 (1): 6-15 (Commonwealth Fund) and *Paying a Premium: The Added Cost of Care for the Uninsured (Families USA)*.]

The Solution:

The Model Fair Share Health Care Fund Act will prevent large employers from shifting their costs onto workers, taxpayers, and other businesses and will:

- ❑ Help alleviate the financial pressures facing states as they struggle to contain Medicaid costs
- ❑ Reduce the bill taxpayers pay to cover profitable employers' business costs
- ❑ Level the playing field between companies providing good jobs and benefits to their workers and those that don't.

The Model Fair Share Health Care Fund Act:

- 1.) **Requires large corporations to report what they are spending on health care costs** for their employees so the legislature can determine what the average large employer in the state spends; and
- 2.) **Requires large employers to pay their fair share for health care**, defined as the same percentage as the average large employer in their state pays, or pay the difference into a state Fair Share Health Care Fund that is used to provide coverage to uninsured workers. Under this bill, non-profits would pay a lower percentage of their payroll. [Alternative: The bill could be drafted to include a set percentage—for instance, 11.3% (the national average)-- that serves as the minimum percentage large employers must spend on health costs, rather than the average of what is paid by other large employers in the state.]

The Maryland State Legislature overwhelmingly passed a similar bill – HB 1284/SB 790, the Fair Share Health Care Fund Act – during the 2004-2005 session, but it was vetoed by Governor Ehrlich. The Maryland bill requires corporations with 10,000 or more employees to pay eight percent (8%) of payroll toward health care. Legislators in Maryland are organizing to override the veto when the session reconvenes in January.

Important Considerations During Bill Drafting:

1. Choose a Payroll Percentage That Works for Your State

Each state should base the percentage of payroll required by the bill on the average payroll percentage employers in the state contribute for health care. Why? If the payroll percentage is set too low – or lower than the average paid by employers in the state – the bill could have the unintended consequence of undermining the quality and breadth of coverage provided by other large employers in the state. New Jersey, one of the many states considering the Fair Share model, found that the average New Jersey employer pays 15% of payroll toward health care costs, and has set the payroll percentage required by the bill at that level.

For reasons specific to Maryland, eight percent — the national average of total compensation dedicated to health care benefits — was chosen as the percentage used for the bill. We strongly encourage legislators to use state-specific percentages based on the national average of total wages and salaries dedicated to health care benefits instead. Around the country, employers (both public and private) spend 10.7 % of wages and salaries on health care, according to an analysis of June 2005 data from the Bureau of Labor Statistics. And private firms with 500+ workers spend 11.3% of wages and salaries on health care benefits.

2. Choose the Definition of Large Employers in a Way That Works for Your State

While Maryland legislators chose to apply the legislation to companies with 10,000 employees in the state (which impacted 5 companies, only one of which failed to meet the 8% payroll percentage). Each state should look at a cut-off that fits its needs.

3. Choose How the Fair Share Health Care Fund is Used to Provide Coverage for Workers and Their Families in Way That Works for Your State

Each state must decide how to use the Fair Share Health Care Fund for workers whose employer either doesn't pay enough toward health care or doesn't provide any health care benefits at all. One approach is to have the governor or a commission make recommendations on coverage options based on certain criteria and available to those workers and others.

Companion Legislation: The Model Health Care Disclosure Act

The Model Health Care Disclosure Act could serve as a companion to this bill, or as a stand-alone bill. It will allow states to determine which employers are shifting their responsibility to provide health care coverage for their employees onto state taxpayers. The bill requires the state to collect and disclose the names of the employers of applicants for publicly funded health care programs like Medicaid and SCHIP, as well as any person requesting uncompensated care in a hospital. In addition, the state must disclose the total cost to the State of providing public health care benefits for the employees and enrolled dependents of each named employer.

***For more information:
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