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Modeling Employer Participation in Adult Health Care Coverage Expansion in San Mateo County

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I. Introduction

The San Mateo County Blue Ribbon Task Force recommended coverage for uninsured adults below 400 percent of the federal poverty level (FPL) living in San Mateo, estimated at 36,000-44,000 individuals. The Task Force further recommended that the program be funded through shared responsibility between the public, individuals and employers. Public funds would come from a mix of new state revenues and redirection of existing revenues. Individuals would pay a share of cost on a sliding scale based on income. This report addresses options for employer participation and assesses the potential revenue that may be generated.

The health access expansion is taking place at a time of declining job-based coverage in the state and the nation. The share of individuals with employer sponsored coverage in California fell by five percent points between 2000 and 2006.[1] A policy of shared responsibility between the public, the participants and employers serves the dual function of raising revenue for the program and avoiding the creation of an incentive for employers with lower wage workforces to drop coverage once the new program becomes available.

Kronland and Leyton 2007 provided the Blue Ribbon Commission a detailed legal analysis of options for employer participation. We focus on models consistent with three of the policy optioned outlined in their report:

- payroll tax with a credit for health spending;
- mitigation fee and credit for health spending; and
- employer health spending requirement.

[1] Current Population Survey, March Supplement 2000-2006.

Each of these options would require action by other political bodies along with the San Mateo Board of Supervisors. A payroll tax would require a two-thirds vote of the electorate.[2] A fee would likely require authorization through state law. Such a fee would need to have a reasonable relationship to the "burden" the fee addresses or the "benefit" to the firms paying the fee.

An employer health spending requirement would set a minimum standard for employers on health care spending, in the same way that local governments may set a higher minimum wage. Employers are required to spend a minimum amount on health services for their employees, broadly defined. Since this uses the County's police powers, the County would have jurisdiction only over unincorporated areas. The requirement could be extended to incorporated areas through a Joint Powers Authority with each city that chose to be included.

Table 1: Summary of Policy Frameworks

Option	Comment
Payroll tax	Two-thirds vote of the electorate for dedicated tax. Authority to implement in unincorporated areas not definitive.
Mitigation fee	Authorization by state legislature; fee must have a reasonable relationship to "burden" or "benefit."
Minimum Health Spending Requirement	Joint Powers Authority approved by participating cities.

Employee Retirement Insurance Security Act (ERISA) preempts state and local laws that require the modification or adoption of employee benefit plans.[3] To avoid ERISA preemption Kronland and Leyton recommend that employers have an option for compliance that does not involve setting up their own ERISA plan or increasing their spending on an existing plan and that employers receive a sufficient benefit from that non-ERISA option such that it is a realistic one.

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[2] There is some question about the Counties ability to levy a payroll tax on employers in incorporated areas of the County. Health and Safety Code Section 1445 conveys taxing authority to Counties to meet the obligations of Section 17000 of the Health and Safety Code. If the Task Force wishes to consider the option of a payroll tax or similar tax upon employers based on the authority conferred by Section 1445, the legal analysts recommend further research be conducted in this area.

[3] The San Francisco Health Care Security Ordinance has been challenged in U.S. district court by the Golden Gate Restaurant Association on federal preemption grounds. (say something more)

II. Population

The San Mateo County Blue Ribbon Task Force defined the target population as adults below 400 percent of the federal poverty level (FPL) living in San Mateo, estimated at 36,000-44,000 individuals.

Any program for employer participation will have to take into account the disjunction between where people live and work. The Blue Ribbon recommendation is to provide coverage to people who live in San Mateo County. In order to determine potential revenue and participation in the program, we must first estimate what share of the uninsured workers who live in San Mateo County also work in the County, and conversely, how many of the uninsured workers employed in San Mateo County live outside of the County.

Using the 2000 Census, we estimate that 71 percent of private sector employees who live in San Mateo County also work in the County, while 59 percent of private sector employees who work in the County are also residents (Table 2). Commuters to San Francisco and San Mateo County account for nearly one-third of those who live in the County and work outside, while commuters from those two counties account for one-quarter of those who live outside San Mateo and commute in.

Table 2: Distribution of Private Sector Employees with Incomes Below 400% FPL Living or Working in San Mateo by Place of Residence and Work

	Live in San Mateo, where do they work?	Work in San Mateo, where do they live?
San Mateo	60.9%	57.8%
San Francisco	18.4%	14.8%
Santa Clara	13.0%	10.2%
Alameda	3.6%	8.3%
Other	3.9%	8.9%
Total	100%	100%

Source: Census (2000), IPUMS 5% Sample, Weighted Estimates

According to the Quarterly Census of Employment and Wages, there were 306,000 private sector employees between 19 and 64 in San Mateo County in 2006. Using the California Health Interview Survey, we estimate that 40,000 of those workers do not have health insurance, 35,000 of whom are in families with incomes under 400% FPL. Using data from the table above, we estimate that 20,400 of those workers live in San Mateo County (Table 3). This is the population we use for our estimates.

Table 3: Uninsured San Mateo Employees by Business Size and Percent of FPL

Firm Size	Private Sector Employees	Uninsured	Uninsured below 400% FPL	Live and work in San Mateo
1 to 19	70,000	14,000	13,000	7,400
20 to 99	94,000	14,000	12,000	7,000
100+	142,000	12,000	10,000	6,000
Total	306,000	40,000	35,000	20,400

Source: EDD (2006), QCEW (2006), CHIS (2005), Census (2000).

III Modeling Assumptions

Each of the models presented below is premised on the assumption that employers are required to meet the minimum standard or contribute on all employees who:

- Earn less than $3,333 per month ($40,000 a year).
- Work eight or more hours a week.
- Are not eligible for Medi-Cal, Tri Care/Champus or Medicare.
- Are not receiving health care services through another employer.

Any employer requirement will need to be directed as closely as possible at the target group, in this case, workers under 400% of FPL. In order to protect worker's privacy and avoid the potential for discrimination (or perception of discrimination) in hiring, we recommend that any criteria for covered workers be based on earnings in that firm, not family income. Since the Federal Poverty Level is based on family income, the earnings level should be set to correspond as closely as possible with a family income of 400% of FPL.

Table 4 shows the distribution of uninsured private sector employees by salary and FPL. This information is useful to set the value at which wages would be capped on payment into the program. Employers would be required to contribute only for those uninsured workers earning below this maximum. Since employers' contribution depend on wages, while access to the Health Program depends on FPL, setting a cap on wages generates 'exclusion' and 'inclusion' errors: First, if the wage cap is set very high, then it is more likely that a large number of uninsured workers above 400% FPL would have contributions made on their behalf to the program ('inclusion error'). Second, if the wage rate is set very low, a large number of workers below 400% FPL are likely to be excluded ('exclusion error').

We find that if covered workers are defined as workers earning less than $40,000 a year, 2.8 percent of the workers under 400 percent of FPL would be excluded (1.1 percent below 250 percent FPL and 1.7 percent between 250 percent and 400 percent FPL), while 10 percent of the covered workers would be in families with incomes below 400 percent FPL, (Table 4). If the cap

is lowered to $35,000 a year, an additional 3.2 percent of eligible workers are excluded, while the inclusion error drops by only 1 percent point to 9 percent of workers who are not eligible. For this reason, we use $40,000 as the cut off.

Table 4: Distribution of Uninsured Private Sector Employees in California by Wage and FPL

Individual Annual Wage	Family Income below 250% FPL	Family Income between 250 and 400% FPL	Family income above 400% FPL	Total
above $40,000	**1.1%**	**1.7%**	7.7%	10.5%
$35,000 to $40,000	1.0%	2.2%	**1.0%**	4.1%
$30,000 to $35,000	2.3%	2.1%	**0.7%**	5.1%
$25,000 to $30,000	3.8%	2.9%	**1.9%**	8.6%
$20,000 to $25,000	8.4%	1.9%	**1.2%**	11.5%
less than $20,000	46.5%	8.5%	**5.2%**	60.1%
Total	63.0%	19.2%	17.7%	100.0%

Source: 2006 Current Population Survey

IV. Models for Employer Participation

In this section we provide revenue projections for three program options. Each of these options could be used equally with a payroll tax and credit for health spending, a mitigation fee, or a health care spending requirement.

Option 1: The San Francisco Model

- Large Employers of 100+ workers are required to spend 75% of the average County spending for single coverage prorated by hour ($1.76) per employee on health services;[4]
- Medium Employers of 20-99 workers are required to spend 50% of the average County spending for single coverage prorated by hour ($1.17) an hour on health services;
- Firms under 20 workers are exempt.

This option follows the requirements of the San Francisco Health Care Security Ordinance. Taking into account the exemption of small businesses with fewer than 20 employees, firms employing 13,000 of the 24,000 uninsured who live and work in San Mateo County would be

[4] According to the 2007 California Employer Benefits Survey, the average California firm providing health benefits currently covers 80 percent of the cost of individual premiums.

covered under the policy. With full participation by employers and individuals, this option would generate $35 million a year for the program from employers (Table 5).

Table 5: Projected Revenue for Option 1: San Francisco Model

Firm Size	Uninsured Below 400% FPL	Avg. Work Hours	Hourly Contribution	Annual Revenue
1 to 19	7,400	36.7	NA	0
20 to 99	7,000	37.3	$1.17	$15,600,000
100+	6,000	35.8	$1.76	$19,500,000
Total	20,400			$35,100,000

Source: 1EDD (2006), QCEW (2006), and CHIS (2005). Numbers may not add due to rounding.

Option 2: $1.25 per hour, no employer size exemption

- All firms required to spend 55% of the average county spending for single coverage prorated by hour ($1.25) per employee on health services.

This option mirrors the current hourly health spending requirement in the Quality Standards Program at the San Francisco International Airport, San Mateo County's largest employer. Option 2 applies to all firms, so would increase the number of employees potentially covered to the full 20,400, and the total revenue from employers to $47.8 million (Table 6).

Table 6: Projected Revenue for Option 2: $1.25 per Hour, All Employers

Firm Size	Uninsured Below 400% FPL	Avg. Work Hours	Hourly Contribution	Annual Revenue
1 to 19	7,400	36.7	$1.25	$17,300,000
20 to 99	7,000	37.3	$1.25	$16,700,000
100+	6,000	35.8	$1.25	$13,800,000
Total	20,400			$47,800,000

Source: EDD (2006), QCEW (2006), and CHIS (2005). Numbers may not add due to rounding.

Option 3: 7.5% of payroll

- All firms required to spend a minimum of 7.5% of payroll per individual on health services

Using a percentage of payroll follows the methodology in the proposed state health care legislation. In this model, required health spending would be indexed to wages. Wages generally grow at a slower pace than health premiums. Total revenue from employers with full participation would be $26.8 million.

Table 7: Projected Revenue for Option 3: 7.5% per Hour, All Employers

Firm Size	Uninsured Below 400% FPL	Avg. Monthly Salary	Annual Revenue
1 to 19	7,400	$1,450	$9,600,000
20 to 99	7,000	$1,502	$9,500,000
100+	6,000	$1,410	$7,700,000
Total	20,400		$26,800,000

Source: EDD (2006), QCEW (2006), and CHIS (2005). Numbers may not add due to rounding.

V. Other Revenue Sources

Additional sources of revenue would include individual payments and potential collaborative agreements with surrounding Counties.

Collaborations with Other Counties

San Francisco's current policy is to provide Health Reimbursement Accounts for workers who do not live in the County and are not eligible for the local program. San Mateo could seek a reciprocity agreement with San Francisco so that funds collected from employers would be transferred to the county of residence and workers would be eligible to enroll in the health program of their county of residence at the discounted rate. As shown in Table 2, 18% of working San Mateo residents in families under 400 percent FPL work in San Francisco. With full participation by San Francisco employers, this would result in $9.6 million in additional annual revenue for the County program.

Individual Contributions

For this analysis we assume that individuals whose employers pay into the program receive a 75% discount on the individual fee. We assume individual fees on the following schedule:

Table 8: Individual Contribution Rate

Family Income as a Percent of the Federal Poverty Level	Quarterly Contribution	
	Full	Discounted
0 to 100%	$0	$0
101 to 200%	$60	$15
201 to 300%	$150	$37.5
301 to 400%	$300	$75

Table 9 shows expected employee contributions to the fund from uninsured private sector employees who are below 400 percent FPL, live in San Mateo and work in either San Mateo or San Francisco.

Table 9: Employee Contributions

FPL	Contribution with 75% discount ($/quarter)	Number of discount eligible uninsured workers	Annual Revenues
0 to 100	0	7,000	0
101 to 200	$15	11,000	$ 700,000
201 to 300	$37.5	5,000	$ 700,000
301 to 400	$75	3,000	$ 800,000
Total		26,000	$2,200,000

Note: Assumes full employer participation. Numbers may not add up due to rounding.

Table 10 provides an estimate of contributions to the fund from uninsured people who are below 400 percent FPL, live in San Mateo, and do not work for an employer that would contribute to the program, and are therefore not eligible for the discounted rate.

Table 10. Individual Contributions

FPL	Contribution ($/quarter)	No. people	Annual Revenues
0 to 100	$0	4,000	$0
101 to 200	$60	5,000	$1,300,000
201 to 300	$150	2,000	$1,400,000
301 to 400	$300	2,000	$1,800,000
Total		13,000	$4,500,000

Note: Assumes full participation. Numbers may not add up due to rounding.

If businesses with fewer than 20 employees are excluded from the employer requirement as in option 1, then the number of workers eligible for the discount falls and those who pay in full rises. The total collected from individuals would rise to $9.2 million, compared to $6.7 million for options 2 and 3 (Table 8).

Summary Revenue Projections

The models we analyzed have the potential to bring in between $43 and $64 million a year into the Adult Health Care Expansion Program (Table 12). Given the commute patterns of County residents and workers, joint agreements with adjacent Counties would increase program viability.

Table 12: Comparison of Total Annual Revenues by Option (in millions)

	Model 1: San Francisco	Model 2: $1.25/hour	Model 3: 7.5% payroll
Employer	35.1	47.8	26.8
Individual	9.2	6.7	6.7
Other Counties	9.6	9.6	9.6
Total	53.9	64.1	43.1

Source: EDD (2006), QCEW (2006), and CHIS (2005).

VI. Final Considerations

Program Participation

The projections are based on full enrollment. To the degree that employers and individuals chose not to participate in the program both the revenues and expenses would be lower than projected.

Crowd-out of Employer Coverage

The estimates presented do not take into account crowd-out—employers and employees dropping private coverage and shifting to the County Health Program. We find that of the 95,000 private sector employees who live and work in San Mateo County and have incomes under 400% FPL an estimated 55,000 have health coverage on the job.

An employer spending requirement would significantly reduce the incentive for employers to drop coverage, while providing a low-cost health care option for firms that do not currently provide coverage to their workers. It would also serve to stabilize job-based health coverage in the County at a time when the share of workers with job-based health insurance has fallen 5.2 percentage points in the State since 2007.[5] We are not able to assess how the different options would effect crowd-out. In general, the more the health spending requirement matches current spending, the less likely employers are to drop coverage. In California, the average employer spends close to 8% of payroll on health care and 11.2% on those workers who have job-based coverage.[6]

Changes in Employment Practices

The estimates also assume that San Mateo employers will not measurably alter employment practices in response to the spending requirement. We anticipate an impact on business costs equivalent to a similarly sized increase in the minimum wage. Research on state and local minimum wage increases has found no measurable impact on employment from similarly sized increases. Employer offer is lowest in non-mobile industries, such as retail, construction and hospitality.[7] San Mateo's neighbor to the north, San Francisco, already has a similar requirement, which further reduces the risk of business relocation.

Health Cost Increases

The long term viability of any program will depend on how well revenues keep up with program costs. Option 3 would effectively index the employer requirement to wage inflation. Health

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[5] Current Population Survey, March Supplement

[6] Graham-Squire, Dave, Ken Jacobs and Arindrajit Dube, California Healthcare: Firm Spending and Worker Coverage, UC Berkeley Center for Labor Research and Education, Policy Brief, March 2007, http://laborcenter.berkeley.edu/healthcare/firm_spending07.pdf.

[7] California Health Interview Survey 2005

inflation has significantly exceeded wage inflation over the last decade.[8] The San Francisco legislation indexes the employer share to the average spending by the ten largest California Counties on single coverage, and so more closely tracks health care costs.

[8] Robert Wood Johnson Foundation's State Coverage Initiatives, September, 2006