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THE HOUSE TRI-COMMITTEE HEALTH CARE BILL WILL SIGNIFICANTLY LIMIT THE COMPETITIVENESS OF FIRMS THAT OFFER RETIREE HEALTH BENEFITS

House Bill Would Likely End Creation Of Any New Retiree Health Insurance Plans, Reduce Competitiveness, and Shift Higher Costs To Current Workers

By D. Mark Wilson

The House Education and Labor Committee health care reform bill, America's Affordable Health Choices Act of 2009 (H.R. 3200), prohibits the reduction of retiree health benefits unless the reductions also apply to active workers/participants.[1] The prohibition would apply regardless of the firm's financial condition or ability to continue to provide health insurance to their active workers and/or retirees.

The House prohibition would virtually ensure that no new employer will offer retiree health benefits and that the legacy health insurance costs of many firms will continue to limit their ability to compete domestically and around the world. Moreover, the increased cost-shifting that will occur with the proposed expansion of Medicaid and the creation of a new government health plan that pays providers at Medicare reimbursement rates will be passed along to these "locked in" retiree plans, further compounding their financial burden.

The House prohibition on reducing retiree health benefits would apply to:

- About 13,000 large firms (200+ workers) that offer retiree health insurance and 26.6 million active workers in those firms, or about 23.6 percent of all large firms.[2]
- About 128,000 small firms (less than 200 workers) that offer retiree health insurance, and 1.3 million active workers, or about 2.5 percent of all small firms.[3]
- The 2.7 million retirees who were ages 55 to 64 in 2007 – 62.7 percent of whom were covered by their own employment-based plan[4] and another 21.0 percent were covered by other employment-based health insurance. (Fourteen percent did not have any health insurance.)
- These firms and workers are more likely to be in the finance, transportation, communications, and utility industries, and the employees are more likely to be higher-wage unionized workers.[5]

Locking in retiree health benefit plans, regardless of the firm's financial condition or ability to continue to provide health insurance to their active workers and/or retirees would virtually ensure that the legacy health insurance costs of many firms will result in higher prices for the goods and services the companies produce and limit their ability to compete domestically and around the world. Firms are also likely to shift the cost of being "locked in" to current workers in the form of slow wage and benefit growth, or seek to reduce other costs by outsourcing business functions.[6] Finally, creating a maintenance of effort provision will have a chilling effect on employers that might otherwise consider expanding access to retiree coverage since they would lose the flexibility to change the benefit once it has been established.

[1] Available at: http://edlabor.house.gov/documents/111/pdf/markup/FC/HR3200-AmericasAffordableHealthChoicesActof2009/MILLCA_158.pdf .

[2] Applied Economic Strategies estimate based on Small Business Administration, Office of Advocacy, firm size data for 2006 available at http://www.sba.gov/advo/research/data_uspdf.xls, and Kaiser Family Foundation, Employer Health Benefits, Annual Survey, 2008.

[3] *Id.*

[4] Applied Economic Strategies estimate based on Census Bureau data. In 2007, there were 4.8 million retirees who were ages 55 to 64; 35.4 percent were covered by their own employment-based plan, little changed from 1994; 21.0 percent were covered by other employment-based health insurance; and 14.1 did not have any health insurance. See Paul Fronstin, *The Erosion of Retiree Health Benefits and Retirement Behavior: Implications for the Disability Insurance Program*, Social Security Bulletin, Vol. 63, No. 4, 2000, Appendix Table 1.

[5] Kaiser Family Foundation, Employer Health Benefits, Annual Survey, 2008.

[6] Phillip Cryan, *Will A "Play-or-Pay" Policy For Health Care Cause Job Losses?* Institute for America's Future and the Economic Policy Institute, June 2009.