More US employers to drop coverage under Obama health care overhaul

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A new study has found that large numbers of employers will stop offering health insurance after most of the provisions of the Obama administration's health care overhaul take effect in 2014.

The study by the McKinsey Company, a management consulting firm, shows that 30 percent of employers are likely to drop coverage for their workers. These workers will be forced to obtain coverage on the insurance "exchange" created under the Patient Protection and Affordable Care Act (PPACA).

The early-2011 survey of more than 1,300 employers across industries, geographies and business sizes contrasts with earlier estimates of the Congressional Budget Office, which projected that only about 7 percent of employees currently covered by employer-sponsored insurance (ESI) would have to switch to exchange policies in 2014. People would receive small government subsidies to purchase coverage.

Among those employers most informed about the health care legislation, more than 50 percent would "definitely or probably" stop offering ESI in 2014 and beyond, according to the study. At least 30 percent of employers would actually gain economically from dropping coverage for their employees, even if they offered workers equal compensation in wages or other benefits for the dropped health coverage.

As the WSWS has noted previously, provisions of the Obama-sponsored legislation will make it more profitable for companies to eliminate health care benefits. (See "Incentives in US health care bill for employers to drop coverage") While the PPACA will impose minimal fines on those employers who do not provide coverage, the penalties for doing so will be more than offset by the savings gained by eliminating coverage.

As for the workers who find themselves without insurance, under the bill they are required to obtain coverage or face fines that could eventually rise to as much as 2 percent of income for all those except the most impoverished. If individuals and families do not qualify for Medicare, Medicaid or other government programs, they will be forced to purchase coverage from private insurers who offer cut-rate plans and can raise premium costs with no meaningful government oversight.

Previous estimates have considered whether employers will maintain their coverage or drop it outright. The McKinsey survey suggests other scenarios, saying that most employers "will find value-creating options between the extremes of completely dropping employee health coverage and making no changes to the current offering." Not surprisingly, businesses make such decisions based on boosting their bottom line while the lowest-paid workers will suffer the most.

The McKinsey study outlines some of the measures corporations can implement. One is to increase the proportion of part-time workers, and they would not be required to pay even minimal fines for not providing coverage. The study notes that this is already a widespread practice in retailing and food service, which "allows the employer to avoid significant additional medical costs while still providing coverage to higher-income management and corporate employees"—i.e., paying workers poverty wages for reduced hours with no benefits, while CEOs and other upper management personnel are covered.

The study presents another creative option for businesses: restructuring into two separate companies, one comprised of management and corporate executives receiving ESI, and the other made up of low-wage employees who are not covered.

Another choice would be to set the portion of the premium to be paid by employees above 9.5 percent of household income of lower-wage workers, considered to be “affordable” under the health care bill. Employees would then be able to opt-out of coverage and receive subsidies to purchase insurance on the exchange.

Either way, businesses end up on the winning side. If employees opt out and obtain a subsidy to purchase coverage, employers will be fined, but the penalties are minimal: $3,000 for every employee not covered, or $2,000 for every employee, minus the first 30 workers, whichever is less. And even if a worker chooses to remain with the company insurance, the employer has shifted more of the premium costs to them.

Yet another option for employers is to increase the portion of the premium workers have to pay while reducing the benefits offered. Companies are already doing this in the lead-up to the full implementation the Obama health plan. (See “US companies shift bigger share of health care costs onto workers”) Such cost-saving strategies for businesses include raising deductibles and co-pays, raising the portion of the premium paid by the employee, and changing co-pays to co-insurance, which means that instead of being responsible for $20 (or another amount) for a doctor’s visit, the employee is responsible for a percentage of the bill.

The McKinsey survey also found that 85 percent of employees would remain on the job if they lost employer-sponsored insurance. While the study’s authors present this finding as somewhat of a revelation, it is not surprising given the current state of the economy. The official jobless rate stands at 9.1 percent, hourly wages are declining and the ranks of the long-term unemployed are swelling.

The vast majority of workers do not have the luxury of shopping around for a well-paid job with decent medical coverage. The study also notes that when businesses in different sectors of the economy begin to make changes in their provision of health care coverage, other employers in the same industries will follow suit.

Multi-millionaire executives, however, face no similar threat to their health care benefits, as corporations will either shell out the funds to maintain their coverage or provide other perks to compensate. This skewed state of affairs is justified at the top levels of the corporate world as the legitimate cost of attracting “talent.” The wealthy also have the option of paying out of pocket for the best care.

The McKinsey study is the latest demonstration that the Obama-backed legislation has nothing to do with reforming the health care system in the interest of ordinary Americans. Rather, it will prompt businesses to drop employee coverage, force working families into substandard plans, and funnel billions to the giant private insurance companies.