

BACKGROUND

Issues Office

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THE PRESIDENT'S HEALTH CARE REFORM: HELPING SMALL BUSINESS AVOID THE "PAY-AND-PAY" OF CLINTON'S "PAY-OR-PLAY"

"[M]y plan will preserve what works and reform what doesn't. We stand at a crossroads. We can move forward dramatically to reform our market-based system or we can force ourselves to swallow a cure worse than the disease."

-- President George Bush
State of the Union Address
January 28, 1992

Levelling the Playing Field for Small Businesses

- o Until now, small businesses have been at a competitive disadvantage in the insurance marketplace. The President's health care reform plan would increase working Americans' access to affordable care by helping small businesses to buy coverage for their employees. Small businesses would be given the buying power of larger groups, allowing them to pool risks and share costs.
 - Each of these new groups of small businesses would be called a Health Insurance Network (HIN).
 - The President's proposal would exempt insurance sold through HINs from costly state-imposed mandates and excessive state premium taxes.
- o The President's plan ensures that States will develop packages of basic benefits, and will guarantee that similar businesses buying similar insurance policies pay comparable premiums. No longer will small employers find that one sick employee or one employee with a sick child can make insurance unaffordable.

Shortcomings of Play-or-Pay

- o **Play-or-Pay:** The play-or-pay approach -- advocated by Bill Clinton -- would require employers to provide private insurance for workers and dependents, or pay a payroll tax of 7 to 9 percent of wages to fund public insurance for their workers and dependents.

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- o **Play-or-pay would put Americans Out of Work:** An Office of Management and Budget study concluded that a Clinton-style play-or-pay health care plan would cause as many as 700,000 jobs to be lost. An independent study by CONSAD Research Corporation showed that 9.1 million jobs would be put at risk as employers inevitably would shift the burden of such mandated costs to their employees lowering wages or costing jobs.
 - A recent survey by the National Federation of Independent Business concluded that if play-or-pay became law, "between one and two million small business jobs would evaporate," ("Small Business Jobs, Growth Would Decline Under Play-or-Pay Health Plan," NFIB, 8/7/92).
- o **Play-or-Pay Would Cut the Wages of Working Americans:** Workers employed in businesses that could afford to meet new health care mandates would still be hurt by play-or-pay. The cost of mandates will force employers to cut wages to offset mandated costs.
 - To the extent that play-or-pay is a tax on wages, as well requiring a payroll tax, it gives lie to Clinton's claim that he would not tax working Americans.
 - The 7 to 9 percent payroll tax required by play-or-pay would result in a pay cut of \$1,680 a year for the average 30-year old male high school graduate, currently earning \$24,000 a year in wages, and a pay cut of \$1,260 a year for the average 30 year old male high school dropout, currently earning \$18,000 a year in wages, ("The President's Comprehensive Health Reform Program," Office of Management and Budget, 2/6/92).
- o **Play-or-Pay Would Force Many Small Businesses to Close:** Many businesses that have low profitability and are engaged in highly competitive markets may fail as a result of the payroll tax increases needed under play-or-pay. Small business would suffer disproportionately.
 - As reported by the Office of Management and Budget, "for workers in small firms, private health insurance would quickly become a thing of the past under play-or-pay. At a 7 percent tax, 81 percent of the workers in firms with 25 workers or less would be enrolled in government-run health insurance," ("The President's Comprehensive Health Reform Program," Office of Management and Budget, 2/6/92).

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- According to the National Federation of Independent Business, if small businesses were forced to pay as much as \$150 a month per employee for health coverage, more than one-fourth would opt to close their doors, ("Small Business Jobs, Growth Would Decline Under Play-or-Pay Health Plan," NFIB, 8/7/92).
- o Play-or-Pay Would Force Millions of Americans to Accept Government-run Health Insurance: Upon enactment, 59 million privately-insured Americans would fall into the public plan as employers chose the artificially-cheap government plan. Play-or-pay would quickly lead to most Americans being in a government-run health plan.
 - With a 7 percent payroll tax, 52 million currently insured workers and dependents with employer-based plans would be forced to change coverage. Another 14 million Americans would be forced to give up their private insurance and would be forced into a "one size fits all" public insurance plan, ("The President's Comprehensive Health Reform Program," Office of Management and Budget, 2/6/92).
 - A recent study for the Labor Department by the Urban Institute demonstrated that employers will have strong incentives to shift their workers to coverage under government-run health insurance as a result of play-or-pay. With a 7 percent payroll tax, the Urban Institute concluded, 144 million Americans (or 58 percent of the population) would be covered under public insurance. Sixty-six million Americans with private coverage would eventually be shifted to the new public plan.
- o Payroll Taxes Would Continue to Grow as Membership in the Government-run Plan Continued to Expand: Play-or-pay is not self-financing and would increase costs for government over and above the new payroll tax receipts. A federal subsidy would be needed in addition to the 7 to 9 percent payroll tax to fund the gap between payroll tax receipts and actual costs, since health care costs will likely increase much more rapidly than wages.
 - This gap likely will grow rapidly. As a preliminary CBO estimate for H.R. 4250 (play-or-pay legislation now pending in Congress) has shown, the unfunded deficit component of play-or-pay would increase from \$9 billion in the first year of implementation to \$70 billion in the fourth year.

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- o Play-or-Pay Would Lead to Rationing of Care: Play-or-pay is structurally unsound and would cascade into a form of national health insurance.
 - Bill Clinton has proposed that a new health care commission be created to oversee the administration of his play-or-pay plan. The activities of this new "commission," and the imperative of maintaining some solvency in government-run insurance would lead inevitably to rationing of care. For those Americans forced to switch from private insurance to government-run insurance, the implications for the quality and availability of their care would be devastating.
 - Other sources have recognized the implications of Clinton's proposed health plan, and the potential that it would require "global budgeting" -- the precursor of rationing. As USA Today described Clinton's plan (in endorsing it), "Clinton would simply cap costs. Every year, government would decide what the nation can afford to spend on health care. Then state boards would decide how to live within the limits. The methods could range from capping fees doctors could charge to rationing care," (emphasis added; USA Today, 9/3/92).
- o Canada's System of Rationing -- A Glimpse Into the Future Under Clinton: The Canadian health care system, typical of a government-run national health care system, suffers from basic structural flaws that would be replicated in the U.S.: inconsistent quality of care, rationing of sophisticated care, and waiting lists for some basic treatments.
 - Patients must endure long lines and wait for surgery and access to advanced technology. High quality care is rationed by limiting physician access to new, life-saving technologies. In British Columbia, for example, it takes an average of 6 months to get a coronary bypass, 3.5 months to get a tonsillectomy, 4 months to get a hysterectomy. For speedy and quality care, many Canadians simply go to the United States, ("The President's Comprehensive Health Reform Program," Office of Management and Budget, 2/6/92).
 - Neither providers nor consumers have incentives for efficiency or to control costs. In some provinces, costs under Canada's National Health Care System are growing faster than in the United States.
 - Instead of making their own choices, consumers in Canada are forced to rely on government bureaucrats to make their health care choices. Many choose to come to the United States.