

Impacts on Employment

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INTRODUCTION

Estimates of the impact of any of the approaches to health care reform on employment are more speculative than quantitative.¹ Specific industries such as the health insurance industry may be particularly affected by changes in the health care financing structure.² Similarly, expansions of access to services and/or restrictions in health care spending may affect employment in the health care sector.

Implicit in the fact that health care is 14 percent of the Nation's economy is that large numbers of people work in the health care sector. According to one analysis, "[more than 8 million U.S. workers have jobs in the health services industry, which indicates the great economic importance of the industry. . . Its employment growth rate has been little affected by changes in the growth of the overall economy, with the result that the industry has become a primary source of new jobs during economic downturns' (28). More broadly, concern has been expressed about the impact any requirements for employers to sponsor health care coverage might have on their ability to maintain or increase current hiring levels. At the same time, public or private subsidies to individuals may make it more feasible for individuals, who

¹ Summaries of studies of the employment effects of the selected approaches to health care reform appear in appendix B. No table is provided given the nature of the available data.

² The Health Insurance Association of America estimates that in 1990 there were 1,725,380 employees, agents and service personnel operating in the health insurance industry, of whom approximately 460,000 (245,000 employees and 215,000 agents) operated solely in health insurance (26).

³ By way of example, when Medicare implemented the Prospective Payment System in the mid- 1980s, health services employment growth slowed while health insurance employment increased (28).



OTA staff



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currently remain out of the workforce in order to maintain coverage, to take a job.

IMPACTS OF SINGLE PAYER APPROACHES

A system in which government is the sole purchaser of services may have varying effects on employment. It could eliminate or otherwise modify the various functions served by private insurers in the current system, that is, underwriting health care benefits or processing claims for payment for health care services. This could lead to disemployment of insurance company and related workers who fulfill certain functions (e.g., claims processors, underwriters, insurance agents), although if private insurers continued to fulfill a claims processing function, shifts in employment could be relatively small (77). Workers engaged in direct health care services delivery or working in related employment sectors could also be affected according to one analysis (67). Some expect that such disemployment effects would be temporary and that persons displaced could be absorbed into other areas of the economy that would grow because of discretionary income made available by decreased spending on health care (67). Another analysis suggests that more health care personnel would be needed under a system of universal coverage with government as sole payer for services due to increased utilization of health care services⁴(77) (appendix B).

IMPACTS OF PLAY-OR-PAY APPROACHES

There is substantial debate about the impact on employment of an employer mandate to provide and/or contribute toward employee health insurance. If it is accepted that employers provide a *total compensation package* to employees (see chapter 4 in this report), then the argument goes that in cases where total employee compensation increases due to a new or increased fringe benefit requirement such as health insurance, employers

will adjust by reducing wages or employment, or by increasing prices to consumers (99), who are, generally, the employees of other firms or organizations. In order to estimate the impact on employment of the aforementioned type of employer mandate, studies have tended to focus on the lessons provided by the minimum wage experience (45,46,99).

The studies examining the minimum wage literature advise caution with respect to their results regarding the employment effects of a mandate for employers to provide health insurance benefits, given the age of the literature and problems with the data. However, they do indicate that the disemployment effects of an employer mandate will likely be small and will tend to cluster around those workers at or near the minimum wage where the employer cannot offset the benefit through decreased wages (46).

A valuable result of the relevant studies is the identification of important factors related to the impact of an employer mandate, that is, firm size, industry type, employees' type of employment (full- versus part-time), average employee age, and employees' tenure with employer, as well as the amount of the increase in labor costs. Estimates can vary markedly depending on the assumptions made about these factors; for example, estimates of the impact of a Play-or-Play approach on employment range from 23,000 (60) to 710,000 jobs lost (87) (appendix B).

While increased labor costs may cause employers to decrease the numbers of workers used, increase hours worked by some workers *and fail* to make new hires, or contract work out (46,98), if some employers experience a net gain as a result of the implementation of a broader employment-based insurance system, increased employee compensation or employment may result. Increased health care utilization under universal coverage could even lead to an increased need for health care workers (100), assuming universal

⁴ This Congressional Budget Office study was revised in April 1993 (81).

coverage takes place without concomitant cost constraints (appendix B).

IMPACTS OF APPROACHES EMPLOYING INDIVIDUAL VOUCHERS OR TAX CREDITS

A reform proposal that provides for individual vouchers or tax credits may modify the tax benefit to employers for providing health insurance coverage, by eliminating or capping the employer tax deduction for health insurance benefits. Yet disemployment or other adverse employment effects ensuing from such a proposal are unlikely since it requires no significant additional expenditures on the part of employers. In fact, to the extent that this leads employers to reduce payments or cease paying for employee health insurance coverage, they should experience an increase in income which, after taxes, they may not use to increase employment or pass on to current employees (and/or consumers). Note that a proposal may require that employers pass any such savings on to employees, at least for a limited period (e.g., for a single or transition year as in the Heritage Foundation proposal) (6). Then-President Bush hypothesized that a tax credit for health insurance for low-income workers may strip away one barrier to seeking employment (94). Furthermore, if reforms decrease premiums, employers may have other additional income that they may distribute in the form of increased employee compensation or reduced prices. No quantitative estimates of the employment effects of reforms based on individual vouchers or tax credits were available for this report.

IMPACTS OF MANAGED COMPETITION APPROACHES

While quantitative estimates of the potential impact on employment of the Managed Competition approach to health care reform were also not available for this report, some Managed Competition approaches include several key features that would likely affect employment. First, most

approaches would limit the tax deductibility of employer contributions to employee health insurance benefits. If this modification were to induce employers to limit their payments toward health insurance coverage, it should result in increased income to employers which, after taxes, could be used by employers to increase employment or wages. Second, some Managed Competition approaches would mandate employers to contribute toward employee health benefits. If implemented, employment effects similar to those discussed regarding the Play-or-Pay approach, above, could occur. As in the Play-or-Pay approach, the total compensation package provided to many workers would be modified by a mandate, and employers would likely attempt to alter wages and/or employment in response. Third, some Managed Competition approaches would include a global health care budget. If such budgeting is successful in controlling the rate of growth in health care costs, employment could improve to the extent that employers have additional income from decreased premiums to distribute and funds would be released to other areas of the economy stimulating growth. Fourth, most Managed Competition approaches would provide subsidies to low-income individuals for coverage that might remove current public program barriers to seeking employment.

SUMMARY

It is fairly certain that changes in the health care system will have an impact upon employment, but the nature of those impacts (e.g., lost jobs versus reduced wages versus displacement of workers to other sectors of the economy) is very uncertain. Most of the published analyses regarding the impact of competing approaches to health care reform on employment are more intuitive or speculative than quantitative. Where quantitative estimates exist, for example, regarding an employer mandate to offer and contribute toward employee health benefits, the minimum wage experience used as a basis for the estimates is not

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necessarily parallel so that even the quantitative estimates remain rather speculative. However, the impacts of the approaches to health care reform on national health care spending, their redistribu-

tive impacts in terms of financing, and the type of restructuring of the health care system involved, should provide some indications, albeit indirect ones, of their likely impacts on employment.