

# The Cost of California's Health Insurance Act of 2003

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## Executive Summary

California's recently passed Health Insurance Act of 2003 (HIA) is an extremely costly mandate on employers to provide health coverage for all of their employees. HIA applies to all businesses with more than 20 employees and requires employers to either provide private health coverage or pay into a state fund providing insurance for the working uninsured. This study estimates that HIA will cost California employers nearly \$11.4 billion dollars.

Where possible, employers will react to HIA by shifting costs onto workers in the form of lower wages. In the case of the least skilled workers, however, wage shifting is simply not an option. Current Population Survey (CPS) data show that due to the California minimum wage, employers will be unable to shift the cost of the mandate onto 550,000 employees. These employees are at risk of losing their jobs, either through labor force cuts or competition from more experienced workers attracted by the new benefits. Either way, the least skilled workers could find themselves out of the labor force.

The study reveals that nearly 25% of the 6.7 million uninsured Californians are children. Nearly every one of these uninsured children currently qualifies for nearly-free medical coverage from the state government. An increase in government outreach to the families of these children would virtually eliminate the problem of uninsured children—without causing unintended consequences for low-wage workers.

A large number of the uninsured do not work at all, or do not work enough to qualify for HIA coverage. As a result, over 65% of uninsured Californians more than 4.4 million people will remain uninsured. In addition, HIA mandates

coverage for a large number of employees who already have health care (including individuals who have chosen to purchase private insurance and people with government-provided insurance). Only a minority of individuals affected by HIA will receive new coverage. This creates extreme waste, whereby only 40 cents of every dollar of increased HIA expense actually goes to providing coverage to the currently uninsured.

HIA contains a poorly targeted poverty subsidy for individuals with high family incomes. The legislation specifies that individuals with wages below 200% of their respective federal poverty level (a family of three for family coverage, individual for all others) cannot pay more than 5% of their wages for health coverage. The subsidy is based on individual earnings and not family income which is a more accurate predictor of poverty. As a result nearly 160,000 individuals with a family income over \$100,000 and over 700,000 individuals with a family income of \$50,000 will receive this subsidy for the poor. In total, over 43% of subsidy recipients will have family incomes over 200% of their respective poverty level.

The estimates of coverage and their associated costs contained in this study, are significantly higher than other publicly released estimates because other estimates ignore several categories of individuals. These groups include employees currently receiving government insurance or choosing to pay for their own non-employer based case—groups specifically covered under HIA. Excluding these large categories of people, and assuming that all employer-provided insurance will meet the rich mandated benefits of the “play” portion of HIA creates a false representation of the cost and impact of this mandate.

## 1. Overview

California's recently passed Health Insurance Act of 2003 (HIA) mandates employer-provided health insurance for employees at firms with more than 20 employees. The bill creates a "pay or play" system whereby companies are required to either offer health insurance to employees or contribute to a state fund providing health insurance for the working uninsured.

This legislation dramatically alters California's labor market. While supporters of HIA claim that the exemption of companies with fewer than 20 employees limits the mandate's impact (over 87% of businesses in California have fewer than 20 employees), in reality the bill applies to nearly 80% of all workers. Furthermore, the distortions to the labor market resulting from increased costs will be felt by all companies due to the effect on the relative value of compensation in the labor market.

HIA also institutes an *individual* mandate for coverage, whereby individuals working at firms with more than 20 employees are required to have personal health insurance. HIA requires employers to provide coverage for individuals already receiving benefits through government-sponsored insurance programs such as Medicaid, Medicare, and Champus/Tricare (Champus). The bill vastly expands its reach by including over one million individuals who currently receive coverage through only these programs and creates a massive cost shift from these government programs to private businesses. This is particularly damaging because these programs are at least partially, and often fully, funded by federal dollars (and do not trigger changes in employer practices).

## 2. HIA Provisions

Under the legislation, employers are required to either provide health care or pay into a state fund. In the event that an employer chooses to

"play" (and offer health insurance), they must offer the minimum benefit as specified by the Knox-Keene act of 1975. This coverage must also include a prescription drug benefit plan. Currently, many employers offer a supplement to employees who qualify for government insurance. Under HIA, the provision of this supplement does not count as "playing," so employers must provide full health coverage to recipients regardless of their insurance status or desire for coverage.<sup>1</sup>

In the event that an employer chooses to "pay," the employer is responsible for paying 80% of a fee established by the Managed Risk Medical Insurance Board (MRMIB). Employers with 20-49 employees will only be responsible for individual coverage if a tax credit is passed accounting for 20% of the net cost of providing insurance (otherwise they are exempt). Firms with 50-199 employees are responsible for providing individual coverage even without the tax credit, while. Large employers (200+ employees) are required to pay for family coverage for all employees and applicable dependents.

Employees only qualify as enrollees (those eligible for mandated benefits) if they work 100 hours a month for three months. Those who meet this work requirement, and are employed at firms of an appropriate size, are required to pay 20% of the cost of coverage. HIA allows employers to deduct this payment from their employees' paychecks.

Employees receiving individual coverage, whose wages are less than 200% of the individual poverty line, or \$17,180, enrollee contributions are capped at 5% of their wages. For individuals receiving family coverage, enrollee contributions are capped at 5% of wages for employees earning less than \$29,260, the 200% of the poverty line for a family of three. As it is written, HIA counts only individual earnings in making this poverty determination rather than, family income or full-time equivalent earnings at various wage rates.<sup>2</sup>

<b>Table 1 Insurance Coverage in California, by provider</b>		
Type of Coverage	# of Individuals	% of Population
Private Insurance Only	19,443,513	56.38%
Government Insurance Only	5,827,327	16.90%
Private and Government Insurance	2,499,178	7.25%
Uninsured	6,718,425	19.48%

Employees who qualify for full medical insurance through government programs and are currently working at least 100 hours per month are classified as enrollees and are mandated to pay for coverage under HIA. Enrollees may voluntarily provide MRMIB with the information necessary to determine eligibility for Medi-Cal or the Healthy Families Program (HFP). In the event that an enrollee is determined to be eligible for these benefits, or is currently receiving these benefits, their enrollee contribution is refunded.<sup>3</sup> The employer contribution, however, is not refunded and is instead used to pay the state’s contribution under the matching funds portion of Medicaid.<sup>4</sup> In the event that the enrollee is receiving Medicare or Champus coverage, the enrollee is also provided coverage either through the employer’s private plan or through a contribution to the state fund. Any supplements to government insurance programs would have to be offered in addition to this mandated coverage.

### 3. Insurance Coverage in California

According to data from the Current Population Survey<sup>5</sup> (CPS), which is administered by the Bureau of Labor Statistics and the Census Bureau, California has a population of 34.4 million.<sup>6</sup> Over 80% of this population currently

has health insurance through their employer, private coverage, government coverage, or some combination of the three. Table 1 shows a breakdown of insurance coverage by provider.

Over 56% of Californians currently have insurance solely through their employers or private coverage. Nearly 6 million Californians receive their medical insurance coverage solely through Medicare, Medicaid, or Champus.

### 4. Uninsured Californians

Over 1.4 million of the adult uninsured and 2.8 million of all uninsured people reported working 0 hours per week in 2001. This includes over 1.6 million uninsured who are not in the labor force and over 460,000 who report being unemployed. Almost 500,000 more of the working uninsured fail to qualify for coverage under HIA because of inadequate work effort. In addition, over 900,000 of the 2.3 million who report working 40 hours per week would not receive benefits from HIA due to tenure or firm size requirements. Of those who work 52 weeks a year, over half will not receive insurance because of firm size or their number of hours worked.

Supporters of HIA often claim that the average uninsured Californian is a part of a family living below the poverty line. In reality, according to the

<b>Table 2 Labor Force Attachment of the Uninsured</b>			
Total	Not in Labor Force	Unemployed	Less than 25 hours per week
6,718,425	1,628,080	462,528	492,852

Table 3		California's Uninsured	
Average Age	Average Income	%Male	%High School Graduates
30	\$42,214	52%	48%

CPS, the average family income for uninsured people is over \$42,000 a year. Furthermore, over 900,000 uninsured individuals have a family income of more than \$75,000 and over 550,000 individuals have a family income in excess of \$100,000 per year. Individuals with these incomes can afford coverage, and their lack of insurance may be an expression of their desire for coverage and not the affordability of coverage.

Only 48% of the uninsured have a high school diploma, compared to nearly 60% of the insured population. The uninsured are also disproportionately male, with 52% of the uninsured and only 49% of the insured being male.

The primary motivation for providing insurance through the labor market results from the favorable tax treatment of fringe benefits such as health care. The benefits of this treatment vary, depending on the respective marginal tax rates of recipients. Obviously, people with higher income tax burdens enjoy greater benefits. According to CPS data, the vast majority of the uninsured are either in the lowest tax bracket or pay no income taxes. Since uninsured people do not receive a significant benefit from employer-provided coverage, the lack of insurance at these levels may simply reveal a preference for cash wages over fringe benefits.

The descriptive statistics above show the multitude of reasons why the labor market is an inefficient mechanism for addressing the problem of uninsured Californians. On the whole, the uninsured have weak labor force attachment and fail to qualify for coverage under HIA. These individuals are also unable to take advantage of the tax benefit normally associated with employer-provided insurance.

## 5. HIA Coverage

Estimates of coverage for HIA are taken from the CPS. Firm size categories for the CPS, however, do not correspond with the coverage limits in HIA. This report uses data from the Labor Market Information division of the California Employment Development Department, to estimate the distribution of firms.<sup>7</sup>

For each household in the CPS, we defined “Health Insurance Units,” or HIUs. These HIUs follow the conventional eligibility criteria by including the covered person, as well as his or her spouse, children or stepchildren under age 18, unmarried children or stepchildren under 23 who were full time students, and disabled children or stepchildren of any age. Other family members—such as siblings, parents, grandparents, or grandchildren—were not included as part of this health insurance unit. These family members could be covered, however, as part of another HIU within the household. To assess the impact of HIA’s family provisions, we used these HIUs to assign coverage. In order to avoid double counting, in the event that two working parents qualified for family coverage, only one family policy was estimated. The definition of HIU excludes domestic partners, who are also covered by the HIA. This tends to understate the true cost of HIA to employers.

Californians receive insurance coverage through some combination of three sources—their employer, the government, and private non-employer insurance. For the purposes of analysis, Californians were broken down into numerous categories based upon the type of coverage and level of employer contribution they received. A full listing of these categories is contained in

**Table 4** Health Insurance Act Coverage, by current insurance status

Type of Coverage	Total California	Total Covered by Mandate (50+) Employees	Total Covered by Mandate (20+) Employees
Employer Based, Employer Pays All Premiums	5,308,965	3,525,228	3,738,927
Employer Based, Employer Pays Some Premiums	10,653,045	8,041,280	8,411,148
Employer Based, Employer Pays No Premiums	811,471	418,238	453,111
Employer Based, No Premium Information	486,686	222,317	239,921
Private, non-employer coverage	2,183,346	524,359	580,844
Private and Government Combination Only	737,511	37,362	40,837
Medicaid Only	3,560,217	641,239	693,160
Medicare Only	1,118,576	29,984	32,905
Champus Only	377,797	269,663	269,663
Government Combination Only	770,737	24,430	28,227
Employer Based and Government, All Premiums	599,530	164,382	170,767
Employer Based and Government, Some Premiums	911,510	379,202	389,760
Employer Based and Government, No Premiums	233,199	27,599	29,714
Employer Based and Government, No Premium Information	17,428	2,643	2,643
Uninsured	6,718,425	1,952,726	2,294,519
<b>Total</b>	<b>34,488,443</b>	<b>16,260,652</b>	<b>17,376,146</b>

Appendix A. Table 4 provides a summary of these results.

While proponents of HIA frequently state that it is designed to provide coverage to employees whose employers provide no insurance, a more careful reading of the legislation shows that the actual coverage is significantly broader.

In total, over 17 million Californians are

covered by HIA requirements. Only 3.7 million of these individuals currently have health insurance that is fully funded by their employers. Assuming that all of these are employers providing acceptable levels of coverage that qualify as “playing,” it can be said with certainty that this category, and only this category, is entirely unaffected by the HIA mandate.<sup>8</sup>

Over 9 million Californians covered by HIA currently receive employer-provided health coverage but pay a portion of the premium, with over 400,000 of these individuals paying the entire cost of coverage. Many of these workers will require additional coverage to meet HIA's minimum standards of both cost and quality of coverage.

Previously uninsured individuals make up a minority of those employees who are affected by this legislation. Under HIA, only 2.3 million individuals who previously had no insurance receive new coverage. This means that over 65% of currently uninsured individuals will still have no health coverage as a result of HIA. Even if one excludes employees who previously received limited benefits (coverage below the level acceptable to be considered "playing"), employees without insurance account for only 52% of those affected by the legislation.

Over 1.6 million individuals who currently have non-employer health coverage will receive additional coverage as a result of the legislation. These individuals include the nearly 600,000 working Californians who choose to purchase private coverage and over 1 million Californians currently receiving coverage through government programs.

Some individuals who were covered by employer plans did not answer the cost-sharing question. We assume the employer paid all of the premiums. A number of dependents were covered by more than one employer plan. For these dependents, we assign them to the category where the employer is paying the greatest fraction of premiums. For example, if a child is covered under one employer plan where all premiums are paid, and another where some of the premiums are paid, we assign this child to the plan where all of the premiums are paid. Both of these assumptions will tend to understate the true cost of HIA to employers.

## 6. Estimated Cost of Coverage

The imputed value of employer contributions, contained in the CPS, was utilized to estimate the cost of providing coverage in California.<sup>9</sup> In 2001, the median contribution for employers paying the entire premium amount was \$5,101 for family coverage and \$3,154 for individual coverage. These estimates are slightly higher than national figures, which were \$4,917 for family coverage and \$2,693 for individual coverage. The estimate for single coverage is slightly higher than the Kaiser Foundation's 2002 estimate of \$2,845 for single coverage but significantly lower than Kaiser's estimate for family coverage, \$7,471.

In the case where employees currently receive employer-based coverage and pay no premium, the estimated change in cost is \$0. But, where employees pay a portion of their premium, it would be unrealistic to assume the employer currently pays at least 80% of the cost. Doing so dramatically underestimates the actual cost of meeting the "play" portion of the HIA mandate. To determine the cost of coverage when employers only pay a portion of the premium, the difference between the imputed value of the employer contribution and 80% of the estimated cost of coverage was calculated (in cases where the imputed value of the employer contribution was higher, the estimated increased cost was \$0). This estimated increase in cost does not include the increased costs employers face to bring their current plans (including cases where the employer pays the entire premium) up to the minimum level of coverage to be considered "playing."

In the case of no current employer-based coverage (either uninsured or government insurance only) or cases where the employer does not contribute to their employees' premiums, 80% of the median imputed value of current employer contributions is used to estimate the cost for these employers to either "pay" or "play" under the HIA mandate.



For any employee, the imputed employer contribution refers either to a single or family health plan. To impute the contribution for cases where HIA mandates a different kind of coverage (i.e., family instead of single), we scaled the contribution proportionally in relation to full costs. That is, when we observed a single plan, we multiplied the employer contribution by 1.61 (the ratio of family coverage to single coverage) to compute the employer contribution for the family health plan. When we observed a family plan, we

divided the employer contribution by 1.61 to compute the employer contribution for the single plan.

## 7. HIA Costs

It is estimated that HIA will cost employers between \$9.9 and \$11.4 billion. The difference between these two figures is based on whether or not an additional tax credit is passed for firms with between 20 and 49 employees. This credit, which would account for 20% of the net

**Table 5** Health Insurance Act Cost, by current insurance status

Type of Coverage	Total cost of mandate on employers, firm size 50+	Total cost of mandate on employers, firm size 20-49, includes tax credit	Total cost of mandate on employers, firm size 20+, tax credit for 20-49 firms
Employer Based, Employer Pays All Premiums	—	—	—
Employer Based, Employer Pays Some Premiums	\$3,267,988,886	\$297,077,935	\$3,565,066,821
Employer Based, Employer Pays No Premiums	\$735,494,928	\$89,305,127	\$824,800,055
Employer Based, No Premium Information	—	—	—
Private, non-employer, coverage	\$938,278,239	\$121,036,889	\$1,059,315,127
Private and Government Combination Only	\$56,550,511	\$7,014,496	\$63,565,007
Medicaid Only	\$568,436,030	\$107,108,825	\$675,544,855
Medicare Only	\$58,500,447	\$5,896,213	\$64,396,660
Champus Only	\$306,847,159	—	\$306,847,159
Government Combination Only	\$17,011,414	\$7,664,472	\$24,675,886
Employer Based and Government, All Premiums	—	—	—
Employer Based and Government, Some Premiums	\$175,213,277	\$4,939,387	\$180,152,664
Employer Based and Government, No Premiums	\$30,128,475	\$4,269,254	\$34,397,729
Employer Based and Government, No Premium Information	—	—	—
Uninsured	\$3,801,835,394	\$757,563,512	\$4,559,398,906
<b>Total</b>	<b>\$9,956,284,760</b>	<b>\$1,401,876,110</b>	<b>\$11,358,160,870</b>

cost to these employers, expands the coverage of HIA to all businesses with more than 20 employees. In the absence of this credit, only businesses with more than 50 employees are included in the cost estimate (\$9.9 billion). Table 5 provides a breakdown of the cost by current coverage category.

Even in the case where the largest number of uninsured receive new coverage (when firms with 20+ employees are included), this coverage breaks down to nearly \$5,000 per newly covered individual. Over 60% of the costs associated with this bill involve providing insurance to individuals who already have it. For every dollar spent under HIA, only 40 cents benefit the uninsured.

**8. Government Insurance**

The estimates of coverage above are significantly higher than other publicly released estimates. The largest source of difference is the inclusion of individuals who currently receive their insurance solely through government programs. HIA requires that companies now bear the burden of providing insurance to these individuals.

Currently, nearly 6 million Californians receive full insurance through Medicare, Medicaid, and Champus. Of these, over 1 million are affected by the HIA mandate due to their work effort, tenure, or the size of the firm where they work.

Enrollees are given the option of providing the necessary information to MRMIB in order to determine eligibility of either Medi-Cal or HFP. Eligible enrollees will be enrolled in these Medicaid programs and refunded their 20% enrollee contribution. Employer contributions

will be used to pay the state’s portion of the matching funds for Medicaid. As a result, HIA amounts to a new \$710 million tax on employers to fund Medicaid.

In addition to Medicaid recipients, enrollees who qualify for Medicare and Champus will now receive additional coverage from their employer. Since that these programs are funded solely through federal dollars, the state government will see no cost savings. Private businesses, however, will spend nearly \$400 million in duplicate coverage to Medicare and Champus recipients.

Currently, many Medicare-and Champus-eligible employees receive supplemental coverage through their employer. An example of such coverage is a prescription drug benefit provided to a working Medicare recipient by their employers in lieu of the health plan offered to non-Medicare employees. Medicare recipients therefore receive their full Medicare benefit and additional prescription drug coverage. Under HIA, the provision of the supplemental benefits will not qualify an employer as “playing.” Instead, employers will be forced to spend \$400 million to provide coverage to individuals who already have insurance. As a result, few employers will retain incentives to continue to provide supplemental coverage.

**9. Children and Medicaid**

A large portion of the uninsured in California are children. CPS data shows that over 1.6 million, or 24%, of the 6.7 million uninsured individuals in California are children under the age of 19. Nearly every one of these children is eligible for one of the five safety net medical programs currently offered by the state and federal government.

<b>Table 6   Uninsured Children In California, by eligibility for government insurance</b>		
<b>Category</b>	<b>Number</b>	<b>Percent</b>
Eligible for Government Insurance	1,631,090	99.7%
Not Eligible	4,548	0.3%

In California, extremely low-cost government insurance is available for families making up to 300% of the poverty line. If the government expanded its efforts to enroll eligible children into these effective and full-coverage programs, it could virtually eliminate the problem of uninsured children in California without costly mandates.

## 10. HIA's Poverty Definition

Importantly, HIA contains a subsidy for poor and low-income families. This subsidy caps the maximum enrollee contribution at 5% of wages when wages are below 200% of the federal poverty line (based on a family of three when employees are making a contribution for family coverage and the individual level when making a contribution for individual coverage).

HIA defines wages as individual earnings, not family income. This creates an extremely poorly targeted subsidy that provides a significant benefit to families with incomes well above 200% of their respective poverty line.

CPS data shows that over 2.8 million individuals will qualify for this subsidy based on their individual earnings. Based on family income (a more accurate indicator of poverty status), only 980,000 individuals qualify for the subsidy. Basing the subsidy on family income will be difficult, since employers cannot ask their employees about their income level.

Currently, the subsidy does not even take into account the full-time full-year equivalent income, but rather simple earnings. This means that employees working less than full-time will qualify based on their total earnings. If the subsidy were targeted to even this minimum standard, only 2.5 million people would receive it.

Table 7 shows that nearly 160,000 individuals receiving this subsidy have over \$100,000 in family income and over 700,000 have a family income greater than \$50,000. In total, over 43% of subsidy recipients have a family income that is greater than 200% of

their respective poverty level.

Due to the high level of confusion regarding the implementation of this subsidy, these numbers are not factored into the total cost discussed above. It is clear, however, that the inefficient construction of this subsidy will lead to even larger amounts of waste under HIA.

## 11. Effect on Employment

The results above are a static estimate of the costs resulting from HIA. They do not consider any behavioral responses from either employers or employees as a result of the mandate. In reality, we would expect a host of responses, particularly from employers adjusting to the new business environment.

While there has not been a great deal of literature on the effect of mandated benefits, some studies do reveal potential responses to a mandate of this nature. Gruber (1994) estimated the effect of mandated maternity benefits on labor markets.<sup>10</sup> It revealed that employers will attempt to shift the cost of mandates onto employees whenever possible. It can be expected that the response of employers will be similar under HIA.

Employers of low-wage workers, however, will be unable to shift the full burden of HIA costs onto their employees. CPS data shows that wage shifting is constrained for nearly 550,000 employees due to the California minimum wage of \$6.75 per hour. Operating under this constraint, employers are faced with a situation analogous to a wage hike. They must accept lower profits, raise prices, or alter employment levels and skill levels to respond to the increased costs.

In studying the effect of increases in mandated wage levels, Neumark (1995) found that current employees were often displaced by higher-skill individuals attracted by higher wages.<sup>11</sup> Lang (1995) found wage hikes shift “employment towards teenagers and students ... [T]he competition from [these] higher quality workers makes low-skill workers worse off.”<sup>12</sup>

**Table 7** Who Benefits from HIA's inefficient poverty trigger

Type of Coverage	People eligible for 5% subsidy			People with family income over			
	Based on family income relative to poverty threshold for family size	Based on FTFY equivalent	Based on individual earnings	\$100,000 who get subsidy	\$75,000 who get subsidy	\$50,000 who get subsidy	200% of poverty who get subsidy
Employer Based, Employer Pays All Premiums	128,413	310,224	363,651	25,323	57,399	112,533	180,088
Employer Based, Employer Pays Some Premiums	197,286	764,820	855,015	70,017	140,948	280,774	498,613
Employer Based, Employer Pays No Premiums	23,886	71,626	86,572	3,902	12,308	20,828	45,009
Employer Based, No Premium Information	17,139	43,123	47,228	1,899	3,795	17,745	23,236
Private, non-employer coverage	104,436	173,135	209,135	15,530	15,530	44,253	66,909
Private and Government Combination Only	1,618	17,538	17,538	—	—	2,060	15,920
Medicaid Only	80,097	156,772	174,985	1,140	1,140	12,758	29,288
Medicare Only	5,988	14,554	18,904	—	—	973	12,043
Champus Only	14,611	39,198	28,007	—	3,438	11,522	19,922
Government Combination Only	1,191	5,551	10,539	2,244	2,244	5,551	5,551
Employer Based and Government, All Premiums	7,350	26,086	29,124	—	—	4,116	12,963
Employer Based and Government, Some Premiums	17,240	47,160	68,828	3,565	8,315	13,982	30,168
Employer Based and Government, No Premiums	1,316	7,851	7,851	982	982	4,420	6,535
Uninsured	381,991	795,589	915,575	34,418	79,761	180,437	285,986
<b>Total</b>	<b>982,562</b>	<b>2,473,227</b>	<b>2,832,952</b>	<b>159,020</b>	<b>325,860</b>	<b>711,952</b>	<b>1,232,231</b>

Other studies have found that the price increase resulting from a minimum wage results in a regressive implicit sales tax. MaCurdy and MacIntyre (2001) states “when minimum wage increases are paid for by higher prices ... prices rise in a way that implies a burden more regressive [i.e., taking a larger fraction from the poor] than a sales tax.”<sup>13</sup>

It is clear that further work is needed to estimate the effect of HIA on low-skill employment in California. The above-cited research shows some possible results that could negatively affect the very people HIA attempts to help.

## Conclusion

Overall, HIA represents an extremely costly and inefficient attempt to provide health coverage to the uninsured in California. In total, HIA will cost upwards of \$11.3 billion dollars. Under HIA, over 65% of the uninsured will not receive coverage. In total, only 40 cents of every dollar spent as a result of the mandate will go towards providing coverage for people currently without insurance. In reality, this legislation represents a massive tax on businesses that will not solve the problem of the uninsured in California.

**Appendix A**

**Health Insurance Act Coverage, by detailed current insurance status**

Type of Coverage		All people covered by mandate (20+) Employees	All people covered by mandate (50+) Employees
Employer-based coverage in	own name, Not in universe plan	115,600	109,185
	own name, Employer pays all premiums	2,290,400	2,088,101
	own name, Employer pays some premiums	4,720,088	4,381,417
	own name, Employer pays none of premiums	281,442	248,936
	other's name, 0 plans found, Not in universe	55,486	55,486
	other's name, covered under 1 plan, Not in universe plan	64,985	53,796
	other's name, covered under 1 plan, Employer pays all premiums	1,223,280	1,211,880
	other's name, covered under 1 plan, Employer pays some premiums	3,445,720	3,416,697
	other's name, covered under 1 plan, Employer pays none of premiums	159,250	156,883
	other's name, covered under 2 plans, Not in universe plan	3,850	3,850
	other's name, covered under 2 plans, Employer pays all premiums	225,247	225,247
	other's name, covered under 2 plans, Employer pays some premiums	245,340	243,166
	other's name, covered under 2 plans, Employer pays none of premiums	12,419	12,419
	Private, non-employer	580,844	524,359
Medicaid only	693,160	641,239	
Medicare only	32,905	29,984	
Champus only	269,663	269,663	
Medicaid, Medicare	19,675	15,878	
Champus, Medicare	1,718	1,718	
Champus, Medicaid	6,834	6,834	
Champus, Medicaid, Medicare	–	–	
Employer-based coverage in own name	Medicare, Employer pays all premiums	28,649	26,415
	Medicare, Employer pays some premiums	50,601	48,911
	Medicare, Employer pays none of premiums	8,153	6,038
	Medicaid, Employer pays all premiums	12,884	12,884
	Medicaid, Employer pays some premiums	47,413	42,972
	Medicaid, Employer pays none of premiums	3,598	3,598
	Champus, Employer pays all premiums	43,644	43,644
	Champus, Employer pays some premiums	78,795	74,368
	Champus, Employer pays none of premiums	1,316	1,316
	Medicare, Medicaid, Employer pays all premiums	5,800	1,649
	Medicare, Medicaid, Employer pays some premiums	5,350	5,350
	Medicare, Medicaid, Employer pays none of premiums	982	982
	Champus, Medicaid, Employer pays some premiums	2,571	2,571
	Champus, Medicaid, Employer pays none of premiums	2,174	2,174
	Champus, Medicare, Employer pays all premiums	2,079	2,079
	Champus, Medicare, Employer pays some premiums	2,501	2,501
	Champus, Medicare, Employer pays none of premiums	–	–
	Medicare, Medicaid, Champus, Employer pays all premiums	–	–

*Continued on next page*

## Appendix A

## Health Insurance Act Coverage, by detailed current insurance status

Type of Coverage		All people covered by mandate (20+) Employees	All people covered by mandate (50+) Employees
Employer-based coverage in other's name	Medicare, 0 plans found, Not in universe	—	—
	Medicare, covered under 1 plan, Not in universe	—	—
	Medicare, covered under 1 plan, Employer pays all premiums	7,997	7,997
	Medicare, covered under 1 plan, Employer pays some premiums	32,188	32,188
	Medicare, covered under 1 plan, Employer pays none of premiums	2,089	2,089
	Medicaid, covered under 1 plan, Not in universe	2,643	2,643
	Medicaid, covered under 1 plan, Employer pays all premiums	26,903	26,903
	Medicaid, covered under 1 plan, Employer pays some premiums	56,838	56,838
	Medicaid, covered under 1 plan, Employer pays none of premiums	2,539	2,539
	Medicaid, covered under 2 plans, Employer pays all premiums	7,192	7,192
	Medicaid, covered under 2 plans, Employer pays some premiums	13,039	13,039
	Champus, covered under 1 plan, Not in universe	—	—
	Champus, covered under 1 plan, Employer pays all premiums	28,524	28,524
	Champus, covered under 1 plan, Employer pays some premiums	88,900	88,900
	Champus, covered under 1 plan, Employer pays none of premiums	8,863	8,863
	Champus, covered under 2 plans, Employer pays some premiums	10,114	10,114
	Medicare, Medicaid, 0 plans found, Not in universe	—	—
	Medicare, Medicaid covered under 1 plan, Employer pays all premiums	—	—
	Medicare, Medicaid covered under 1 plan, Employer pays some premiums	—	—
	Medicare, Medicaid covered under 1 plan, Employer pays none of premiums	—	—
	Champus, Medicaid covered under 1 plan, Employer pays all premiums	—	—
	Champus, Medicaid covered under 2 plans, pays all premiums	5,016	5,016
	Champus, Medicaid covered under 2 plans, Employer pays some premiums	1,450	1,450
	Champus, Medicare covered under 1 plan, Employer pays all premiums	2,079	2,079
	Champus, Medicare covered under 1 plan, Employer pays some premiums	—	—
	Champus, Medicare covered under 1 plan, Employer pays none of premiums	—	—
	Private, non-employer, Medicare	12,340	8,865
	Private, non-employer, Medicaid	20,482	20,482
Private, non-employer, Champus	5,354	5,354	
Private, non-employer, Medicare, Medicaid	—	—	
Private, non-employer, Champus, Medicare	2,661	2,661	
Uninsured	2,294,519	1,952,726	
<b>Total</b>	<b>17,376,146</b>	<b>16,260,652</b>	

## Endnotes

1. HIA, 2160.1(b).
2. HIA, 2122.8
3. HIA, 2190.2(d)
4. HIA, 2190.2(b)(1)
5. For this analysis, the authors utilized the March 2002 Current Population Survey (CPS) Annual Demographic Survey, including health insurance information. The March 2002 CPS provides data from the calendar year 2001.
6. The weights utilized for the CPS data in this paper create a total population figure exactly identical to the U.S. Census figures for California. In the data analysis, 16,857 observations were extracted from the March 2002 CPS, which, when weighted, represent California's population of 34,488,443.
7. Using EDD data, a regression was constructed to predict the probability of a firm in the 10-24 employee size category being either above or below 20 employees. The same process was used to develop probabilities for the 50 and 200 employee cut-offs. The results showed that given a firm was in the 10-24 employee category, there was a .32 probability the firm has between 20-24 employees. Given a firm in the 25-99 category, there was a .4 probability the firm has between 25-49 employees. Given a firm in the 100-499 category, there was a .59 probability the firm has between 100-199 employees.
8. In reality, this assumption may be overly generous due to the rich level of benefits mandated by HIA.
9. The Census Bureau estimates employer contributions through a model developed from a statistical match of the March CPS and the 1977 National Medical Care Expenditure Survey (NMCES). The March supplement collects information on the number of persons who were covered at any time during the previous calendar year by a health insurance plan obtained through an employer or union. The supplement also collects information on whether the employer paid for all, part, or none of the cost of the plan. The best data source available for measuring the amount employers contribute to health plans was the 1977 NMCES. The survey had a relatively large sample size and included data on contributions that were obtained by conducting interviews with the employers of persons who were in the household portion of the NMCES sample. The procedure for estimating the value of employer contributions for persons and families on the current CPS data file involved the following steps:
  - a. An enhanced NMCES data file was prepared by adding two variables not on the original file. The two variables were total earnings during the year and usual hours worked per week. The variables were created by statistically matching NMCES and CPS using the appropriate demographic and economic variables that were available from both sources. The match made it possible to assign the earnings and full-time/part-time variables to the NMCES file.
  - b. The enhanced NMCES was used to estimate a model that related employer contributions to a set of explanatory variables. The variables chosen were ones that are also available on the CPS file. The list of variables included (1) type of plan (family or individual), (2) proportion of the cost paid for by the employer (part or all), (3) level of earnings, (4) type of worker (full-time or part-time), (5) industry, (6) occupation, (7) sector (private or government), (8) region, (9) residence, (10) personal characteristics such as age, race, marital status, and education.
  - c. The model was run on the March CPS file to obtain estimates of the amount of employer contributions for each worker whose employer paid all or part of the cost of his or her health plan. The model was run after deflating current earnings to 1977 dollars. The estimates produced by this model were then inflated to current estimates by multiplying the 1977 level estimates by the 1977 to current year change in employer contributions per covered employee.

See Bureau of Census, 1993, "Measuring the Effects of Benefits and Taxes on Income and Poverty: 1992, Current Population Reports," *Consumer Income*, Series P-60, No. 186-RD, Washington, D.C., : U.S. Department of Commerce.
10. Gruber, Jonathan. "The Incidence of Mandated Maternity Benefits," *American Economic Review*, Jun 1994: Pg. 622.
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