hpio health policy institute of ohio

Private Health Insurance Basics 2016

Fact sheet 5

Employer-sponsored health insurance (ESI)

What's inside?
Fully insured versus self-insured coverage • Employer-sponsored health insurance trends • Employer mandate • Cadillac tax

Employer-sponsored health insurance coverage

Employer-sponsored health insurance (ESI) is offered by employers to their employees and sometimes their spouse and dependents as part of an employee's compensation package.

In 2015, a majority of Ohioans – 5,974,700 (52 percent) – had ESI coverage. More than 90 percent of people with private health insurance coverage in Ohio had ESI coverage in 2015.[1] The percentage of Ohioans with ESI coverage has remained relatively stable over the past few years (see Figure 1).

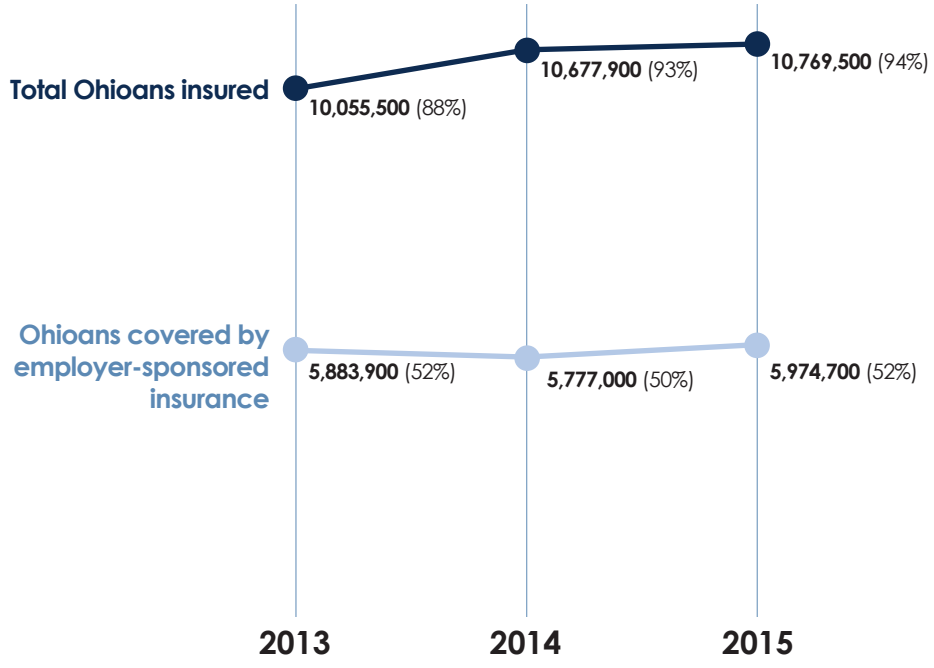
Fully insured vs. self-insured coverage

There are two general categories of ESI – fully insured and self-insured health plans. With fully insured health plans, an employer purchases a plan from an insurance company that pays claims and assumes the risk of providing health coverage to covered employees.[2]

Through self-insured health plans, an employer assumes the full risk of providing health coverage to its employees and, through its own funds, pays healthcare claims to providers.[3] Self-insured coverage is generally administered through a contractual arrangement between the employer and a third-party administrator (TPA), in which the TPA assists the employer with tracking premiums, processing insurance claims and managing related plan paperwork.

Some companies offer a hybrid plan that combines elements of fully insured and self-insured coverage. A hybrid plan may protect an employer from some of the risk associated with self-insured plans and can be attractive to smaller employers.[4]

Figure 1. **Employer-sponsored health insurance trends in Ohio, 2013-2015**



Source: Data from the Census Bureau's March Supplement to the Current Population Survey Annual Social and Economic Supplement, as compiled by the Kaiser Commission on Medicaid and the Uninsured.

Employer-sponsored health insurance trends

Large vs. small employers

Large employers are more likely to offer ESI than small employers, who cite high costs as the primary reason for not offering coverage.[5] In 2015, only 31.7 percent of companies in Ohio with fewer than 50 employees offered health coverage compared to 96.6 percent of companies with 50 or more employees (see Figure 2).[6] In total, 50.6 percent of companies in Ohio offered health insurance compared to the U.S. average of 45.7 percent in 2015.[7]

Low-wage vs. high-wage workers

According to the Kaiser Family Foundation's 2016 Employer Health Benefit Survey, high-wage workers are more likely to be eligible for ESI coverage than low-wage workers.[8] In Ohio, the percent of workers with ESI coverage increases with income-level (see Figure 3). Nearly 87 percent of workers with incomes above 400 percent of the federal poverty level (FPL) had ESI coverage in 2014, compared to 28.4 percent of workers with incomes below 138 percent FPL ($27,821 for a family of three in 2016).[9]

Full-time vs. part-time workers

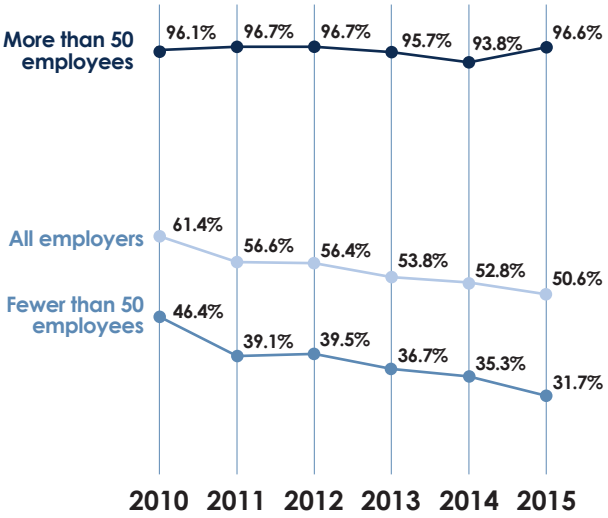
ESI offer rates can also vary greatly by a worker's full-time or part-time status. In the U.S., only 21 percent of part-time workers (less than 30 hours a week) were offered ESI coverage, compared to 72 percent of full-time workers (30 hours or more a week) in 2014.[10]

Premiums

ESI premiums in Ohio increased by about 27 percent for single coverage and 29 percent for family coverage from 2010 to 2015 (see Figures 4 and 5).[11]

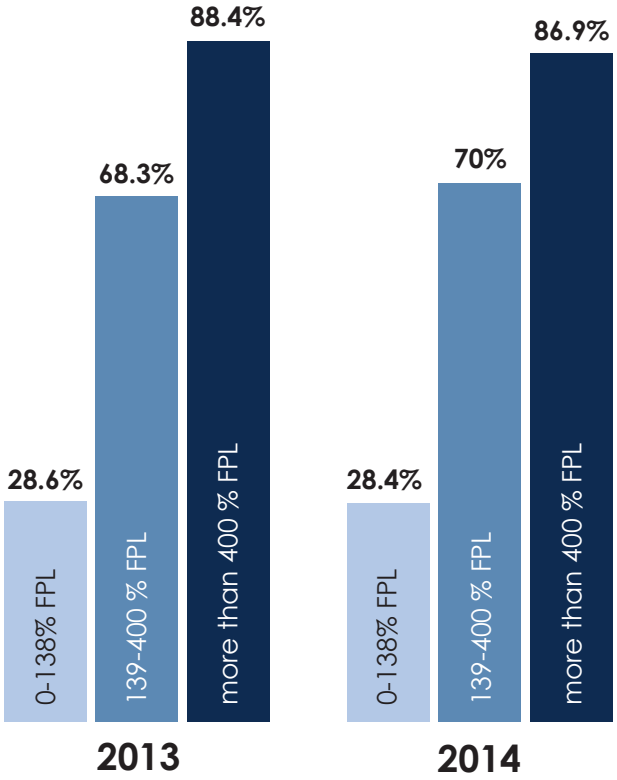
Employers who offer health insurance coverage pay all or part of the plan premium for their employees, making health insurance more affordable for the employee to purchase. In 2015, employers paid, on average, 79 percent of premiums for single coverage and 78 percent of premiums for family coverage in Ohio.[12] Notably, between 2010 and 2015, employee contributions to premiums remained stable for single coverage and decreased 3.1 percentage points for family coverage.[13] The total cost of ESI coverage has increased slightly, but employee spending on premiums has remained relatively constant.

Figure 2. **Percent of employers offering health insurance coverage in Ohio, 2010-2015**



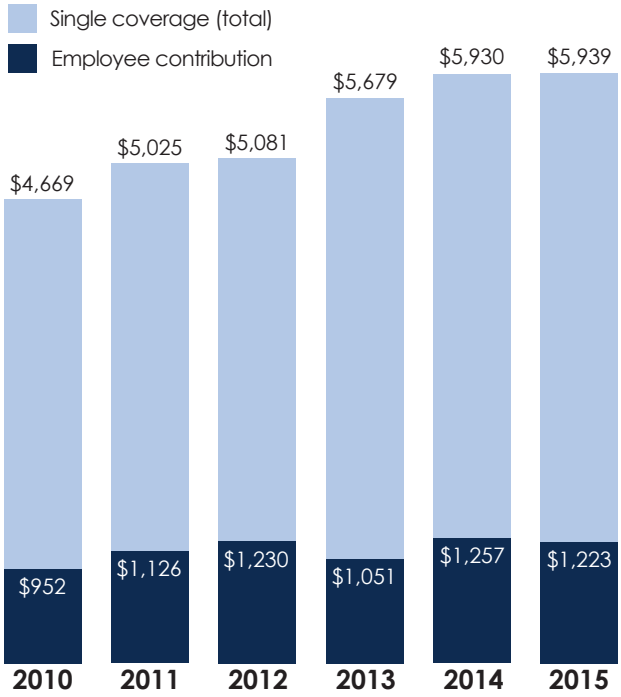
Source: Data from the Medical Expenditure Panel Survey – Insurance Component, as compiled by the State Health Access Data Center and Kaiser Family Foundation

Figure 3. **Employer-sponsored health insurance trend by federal poverty level (FPL) for Ohio, 2013 to 2014**



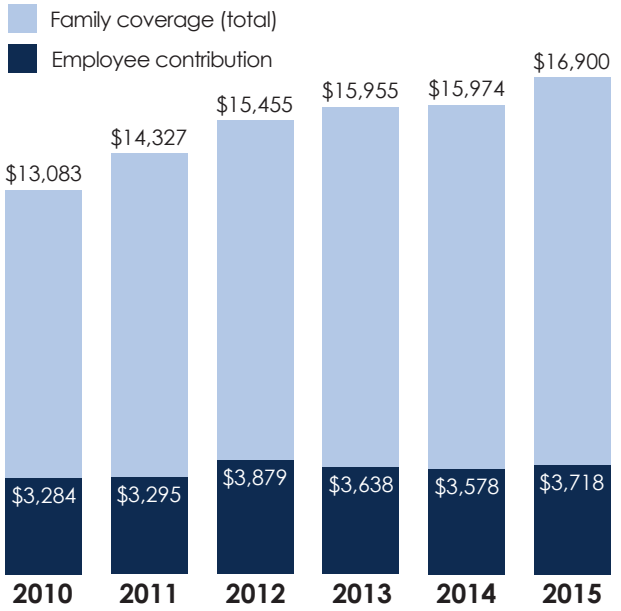
Source: Data from the Medical Expenditure Panel Survey – Insurance Component, as compiled by the State Health Access Data Center

Figure 4. **Average total premium and employee contribution for single coverage in Ohio, 2010-2015**



Source: Data from the Medical Expenditure Panel Survey – Insurance Component, as compiled by the State Health Access Data Center and Kaiser Family Foundation

Figure 5. **Average total premium and employee contribution for family coverage in Ohio, 2010-2015**



Source: Data from the Medical Expenditure Panel Survey – Insurance Component, as compiled by the State Health Access Data Center and Kaiser Family Foundation

Employer shared responsibility provision (employer mandate)

Under the Affordable Care Act (ACA), certain large employers with 50 or more full-time equivalent (FTE) employees in the preceding calendar year are subject to a shared responsibility tax (penalty) if they do not offer ESI coverage to their full-time employees and their dependents.[14] Dependents include an employee's children under the age of 26 but not an employee's spouse.[15] Full-time employees are generally defined as individuals working an average of at least 30 hours per week.[16]

To avoid the penalty, ESI coverage must be offered to no less than 95 percent of full-time employees and must meet both affordability and minimum value requirements (see text box below).[17] An employer penalty is triggered when one or more of these requirements are not fulfilled and at least one full-time employee obtains coverage through the ACA health insurance marketplace and receives a premium tax credit.[18]

Small business health options program

Starting in 2014, small employers, with 50 or fewer FTE employees, were able to purchase health insurance coverage through the small business health options program (SHOP) created by the ACA. The SHOP provides small employers and their employees with options for purchasing health insurance coverage in the small group market.

Small business employer healthcare tax credit

Small businesses may be eligible for a healthcare tax credit under the ACA if the small business purchases coverage through the SHOP and:

- Has no more than 25 FTE employees
- Has average annual wages for employees less than $50,000 (adjusted for inflation beginning in 2014)
- Pays a uniform contribution equal to at least 50 percent of the premium cost for employee-only insurance coverage[19]

For-profit employers can receive a tax credit of up to 50 percent of their premium contribution payment, but the tax credit is reduced to 35 percent for eligible non-profits.[20] The tax credit is only available to eligible employers for two consecutive taxable years.[21]

ESI affordability and minimum value requirements

Affordable: Employees' portion of the annual premium for self-only coverage must not exceed 9.66% of their household income in 2016 and 9.69% in 2017.[22]

Minimum value: Employer's plan must cover at least 60% of expected total allowed costs for covered services (60% actuarial value).[23]

Cadillac tax

The ACA implements a 40 percent excise tax (referred to as "Cadillac tax") on high-cost ESI coverage.[24] The Cadillac tax was set to begin in 2018 under the ACA, however Congress delayed implementation until 2020.[25] Implementation of the tax is intended to raise revenue, offset the cost of other ACA provisions and control healthcare spending by discouraging employers from offering overly generous health plans to their employees.

The Cadillac tax is applied to the difference between the total cost of health coverage for an employee during a taxable period and a federally set threshold amount (i.e. excess benefit).[26] Total cost includes contributions made by employers and employees toward health insurance coverage.[27]

The tax will be assessed on the entity providing coverage rather than the employee, which can include health insurance issuers, employers or other entities administering plan benefits.

The Congressional Research Service provided estimates for the set dollar limits in 2020 at $10,800 for single coverage and $29,100 for family coverage.[28] However final rules regarding the dollar limits and determination of the cost of applicable coverage are still forthcoming from the federal government.[29] A recent Kaiser Family Foundation analysis found that, if health plans remain unchanged, 30 percent of employers will be affected by the tax by 2023 and 42 percent will be affected by 2028.[30]

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