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Report: Forcing employers to provide health insurance doesn't work

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- **Economic costs could be steep**
- **Lower wages, jobs losses, still many uncovered says report**

If not crafted carefully, requiring employers to provide health insurance to their employees – either directly or by paying a fee to the state – can have damaging economic consequences, according to a new study by the nonpartisan, nonprofit Public Policy Institute of California (PPIC).

According to its research, one such "pay or play" mandate could have resulted in lower wages and job losses and that, by itself, it would not have come close to the goal of providing universal coverage.

Although that law never took effect, the "pay-or-play" concept is being considered in 21 other states in various forms, and is likely to resurface in California, PPIC says. The state's pay-or-play experiment of 2003 – when the legislature passed the Health Insurance Act only to have voters repeal it less than a year later – offers insight into the potential economic pitfalls of such health insurance mandates and provides valuable lessons about how to better craft future laws.

Nearly 46 million Americans lack health insurance. And in California the problem is particularly acute: Nearly 20 percent – or seven million – residents are uninsured, compared to about 16 percent in the rest of the nation. But California's 2003 pay-or-play law was probably not the way to go, according to the report's author, Aaron Yelowitz, an associate professor of economics at the University of Kentucky.

Among his major findings:

• Two-thirds of the money spent by employers would have gone to individuals who were already insured. Not only did the law require employers to provide health insurance to workers who already had coverage, but it also forced employees to take up their employer's plan even if they had more generous coverage from another source, such as through a spouse's employer.

• Approximately 70,000 low-wage workers would have lost their jobs because their employers would have been obligated to pay more than 80 percent of insurance premium costs—a major disincentive to hiring such workers (low-income workers would have been obligated to pay no more than 5 percent).

• Employers faced with the increased costs of providing coverage would have likely shifted those costs back to their employees in the form of lower wages.

• Nearly 40 percent of California's uninsured population would have remained uninsured under the mandate because of their weak attachment to the labor force and other eligibility requirements. To truly cover uninsured populations in both the state and the nation, greater measures than employer mandates will be required, the report found.

The study finds that as the percentage of privately insured Californians rises, the percentage who are uninsured falls – and vice versa.

"Because private coverage plays such an important role in overall insurance rates, you can understand the logic behind the pay-or-play concept," says Mr. Yelowitz. "States just need to make sure that mandates are structured to avoid unintended and damaging pitfalls."

The Public Policy Institute of California describes itself as "a private, nonprofit organization dedicated to improving public policy in California through independent, objective, nonpartisan research on major economic, social, and political issues. The institute was established in 1994 with an endowment from William R. Hewlett."