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Healthcare Spending Mandate Modeling Report

Northwest Economic Research Center

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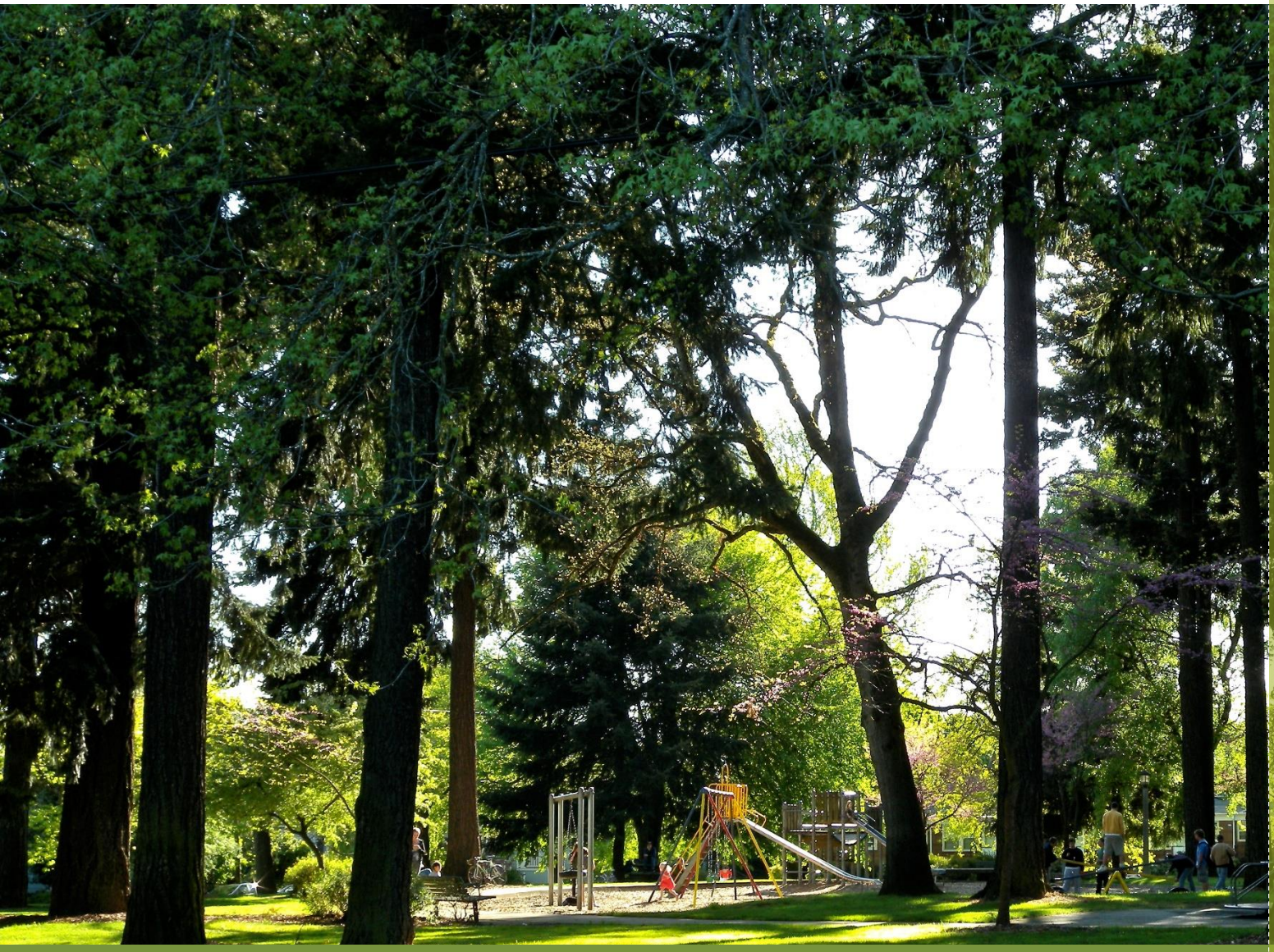

Healthcare Spending Mandate

Modeling Report

NeRC

Northwest Economic Research Center
College of Urban and Public Affairs

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The Oregon Health Authority is a government agency dedicated to the oversight of most health-related programs in the state. The Oregon Health Authority is at the forefront of lowering and containing costs, improving quality and increasing access to health care in order to improve the lifelong health of Oregonians.

NERC is based at Portland State University in the College of Urban and Public Affairs. The Center focuses on economic research that supports public-policy decision-making, and relates to issues important to Oregon and the Portland Metropolitan Area. NERC serves the public, nonprofit, and private sector community with high quality, unbiased, and credible economic analysis. Dr. Tom Potiowsky is the Director of NERC and former Chair of the Department of Economics at Portland State University. Dr. Jenny H. Liu is NERC's Assistant Director and Associate Professor in the Toulan School of Urban Studies and Planning. This report was researched and written by Peter Hulseman, Adam Rovang, and Devin Bales. Demographic work was provided by Nicholas Chun.

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Executive Summary

Governor Brown's health care financing package, which was released with the 2019-21 recommended budget included several revenue components which provide broad-based, sustainable revenue for health care coverage in Oregon for the next six years. One component of that package is the Subsidized Employer Participation Program, which would be similar to the San Francisco Health Care Security Ordinance (HCSO). The new requirement would compel employers of a certain size who otherwise do not qualify for any exemption to contribute to their employees' health care costs. An employer's contribution could be in one of three ways: (1) in the form of directly paying for part of their employees' health insurance, (2) by paying for health care services directly or through a sort of health reimbursement arrangement, or (3) by contributing to the state Health Care Access Fund that further supports access to coverage through the Oregon marketplace or helps fund the Oregon Health Plan. The Oregon Health Authority (OHA) has developed a revenue model to estimate potential state collections based on the size of the mandated contribution. To assist in this, the OHA has requested that the Northwest Economic Research Center (NERC) review their revenue and rate-setting modeling for accuracy and explore additional risks and consequences of the proposed policy.

The OHA model utilizes 2017 Medical Expenditure Panel Survey (MEPS) data to determine the number of employees by firm size and full-time/part-time status, as well as health insurance status. From this data, the model calculates the numbers of employees within three groups: employees at firms not offering coverage, employees at firms offering coverage but who are not eligible for coverage, and employees at firms offering coverage who are eligible but are not covered. The model then assumes per worker hour spending requirements[1] assuming all workers are employed for an average of 34.5 hours per week[2], to calculate the potential revenue raised.

For the purpose of this analysis, NERC assumes that: 1) New Businesses (startups) would be exempt from the spending requirement in their first year; 2) $120 million annually from the Health Care Access fund would be used to fund the Oregon Health Plan with the remaining revenue being directed to a new program providing marketplace subsidies to employees getting coverage through the Marketplace; and 3) only firms with over 50 employees will be subject to health care spending requirements. Model inputs and estimates are shown in Figure 1 below.

Figure 1 – Model inputs and outputs

Input	
Budget Months	18
Firm's per worker hour spend requirement	$0.50
Output	
Range of potential revenue raised[3]	$449m - $517m
Average monthly marketplace subsidy level per worker	~ $75 - $80
Firm's cost for 1 FTE annually	$1,040.00

[1] NERC uses the term "fee" to indicate the minimum spending requirement.

[2] (Jan 2019). Table B-2. Average weekly hours and overtime of all employees on private nonfarm payrolls by industry sector, seasonally adjusted. Bureau of Labor Statistics. Retrieved from https://www.bls.gov/news.release/empsit.t18.htm.

[3] To calculate the lower bound of this range, 68.3% of the population was assumed to be above 138% of the poverty level (see Figure 3). Additionally, 10% of those eligible opt to not take advantage of the marketplace subsidies. The "upper bound" uses the base assumptions of no additional opt outs and uses the ACS figures for persons above 138% of the poverty level (see Figure 2).

Based on the $0.50 per worker hour spending requirement, the model assumes employers in Oregon would contribute approximately $449 million to $517 million to the Heath Care Access Fund during the 18 months of 2019-2021 biennium that the spending requirement is in effect. Based on this total amount and the previously noted assumption that $120 million from the Fund would be directed to the Oregon Health Plan, the model estimates that the average value of the new marketplace subsidy would be approximately $75 to $80 per month for each employee eligible for assistance. (Additional details of the marketplace program will be established in the future and this estimate does not indicate the final value of the credit for specific employees, but rather an approximation of the average benefit across the population of employees who would be eligible for the program as a result of contributions from their employer.)

NERC expects that businesses will react to the proposed spending mandate like how they would react to a minimum wage increase, and that similar businesses would be affected. Specifically, for businesses that do not meaningfully contribute to their employees' health care coverage, part-time worker hours would go down and consumer prices will increase. This is consistent with what is happening in San Francisco in response to their HCSO, and what is happening in Seattle in response to the rising minimum wage—although the magnitude of the change is lower for the proposed spending mandate than either of those instances. It is important to note, however, that among businesses that already have high rates of employees enrolled in employee-sponsored health insurance, which is most large employers, there would be minimal impact to those firm's consumer prices.

Part 1 – Potential Health Care Spending Minimum

The State of Oregon is investigating the implementation of a policy like the San Francisco Health Care Security Ordinance (HCSO). The new requirement would compel employers of a certain size who otherwise do not qualify for any exemption to contribute to their employees' health care costs. An employer's contribution could be in the form of directly paying for part of their employees' health insurance, paying for health care services directly or through a sort of health reimbursement arrangement, or by contributing to the state Health Care Access Fund that further supports access to coverage through the Oregon marketplace or helps fund the Oregon Health Plan. The Oregon Health Authority (OHA) has developed a revenue model to estimate potential state collections based on the size of the mandated contribution. To assist in this, the OHA has requested that the Northwest Economic Research Center (NERC) review their revenue and rate-setting modeling for accuracy and explore additional risks and consequences of the proposed policy.

First is a review of the HCSO.

The San Francisco Health Care Security Ordinance

The San Francisco Health Care Security Ordinance (HCSO) mandates that employers meet a minimum spending requirement on health care expenditures for each covered employee by hours paid.[4] There are different minimum spending requirements depending both on the size of the firm, and its corporate status (for-profit vs non-profit). Employers can meet this spending requirement through[5]:

- Payments for health, dental, and/or vision insurance;
- Payments into health savings/reimbursement accounts;
- Paying directly to health care services or reimbursing employees for their health care costs;
- Payments to the City Option Program. (The San Francisco City Option is one option to comply with the HCSO. If you participate in the City Option Program, you may choose to satisfy the Employer Spending Requirement in whole or in part by payments to the program).

The current minimum expenditures by employer size and corporate status are[6]:

Employer Size	Number of Employees	2018 Expenditure Rate	2019 Expenditure Rate
Large	All employers w/ 100+ employees	$2.83 per hour payable	$ 2.93 per hour payable
Medium	Businesses w/ 20-99 employees Nonprofits w/ 50-99 employees	$1.89 per hour payable	$1.95 per hour payable
Small	Businesses w/ 0-19 employees Nonprofits w/ 0-49 employees	Exempt	Exempt

[4] This is inclusive of any paid time-off.
[5] (January 2019). Health Care Security Ordinance, Employer Spending Requirement. SF Department of Public Health. Retrieved from http://sfcityoption.org. See also https://sfgov.org/olse/e-making-health-care-expenditures#whatarehces
[6] (January 2019). Health Care Security Ordinance. SF Department of Public Health. Retrieved from http://sfcityoption.org

In addition to size and corporate status exemptions (shown above), employees may also be exempt or excluded under the ordinance if they meet one of the below criteria[7]:

1. Employees who voluntarily waive their right to have their employers make Health Care Expenditures for their benefit (which may occur when the employee has insurance through a spouse or other employment).
2. Employees who qualify as managers, supervisors, or confidential employees AND earn more than the applicable salary exemption amount ($100,796 in 2019)
3. Employees who are covered by Medicare or TRICARE (the health care program serving Uniformed Service members, retirees and their families). In order to claim these exemptions, an employer must be able to document employee eligibility.
4. Employees who are employed by a non-profit corporation for up to one year as trainees in a bona fide training program consistent with federal law.
5. Employees who receive health care benefits pursuant to the San Francisco Health Care Accountability Ordinance (HCAO).

Estimating Potential Revenue to the Health Care Access Fund

Similarly, to the San Francisco program, a health care spending requirement for Oregon employers would consider the creation of a new state fund (called the Health Care Access Fund) to provide employers with a compliance option that differs from a traditional employer-sponsored health insurance plan. This section reviews the model estimating the potential revenue for the Health Care Access fund that would accompany Oregon's employer spending mandate, discusses data sources, shows results and assumptions of the model, and points out risks to the model's accuracy. The proposed spending mandate requires that firms spend a minimum amount on health care (with the option of paying the state instead of providing coverage), and the model assumes a $0.50 per worker hour spending requirement for firms with over 50 employees. The primary goal of the model is to estimate potential employer contributions to the Fund and the potential value of a monthly marketplace subsidy for employees whose firms choose to contribute to the Fund on their behalf.

Model Review

The model utilizes 2017 Medical Expenditure Panel Survey (MEPS) and Quarterly Census of Employment and Wages (QCEW) data to determine the number of employees by firm size and full-time/part-time status, as well as health insurance status.[8] From this data, the model calculates the numbers of employees within three groups: employees at firms not offering coverage, employees at firms offering coverage but who are not eligible for coverage, and employees at firms offering coverage who are eligible but are not covered. The model then estimates both hourly and per worker fee assessments, assuming all workers are employed for an average of 34.5 hours per week. The model considers the variable impact of the spending requirement on firms of different sizes and for employees in different categories. [9]

The QCEW data relies on unemployment records and, being a census, does not have survey error. Therefore, NERC uses the 2017 QCEW estimate for total number of employees instead of MEPS data.

[7] San Francisco Department of Public Health. (January 2019). Covered Employees. Retrieved from http://sfcityoption.org
[8] Other data sources, such as QCEW, offer the percentage of firms that offer healthcare by size. However, this analysis depends on covered *employees*, and MEPS is the best available data for that purpose.
[9] Possible exempt firms include those with less than 10, 25, or 50 employees.

Estimating Employee-Level Exemptions from Spending Requirement

Employers may be exempt from the health care spending requirement for some of their employees based on various criteria. For example, employers would not be required to meet the health care spending requirement for management and supervisory employees with income above a certain threshold, while other employees may voluntarily waive their right to employer health care spending if they so choose. It is unclear to what extent employees will be willing to sign waivers exempting their employers from spending towards their health care; however, greater waiver signings would likely reduce employers' contributions to the Health Care Access Fund as a method of complying with the new state spending requirement. At the same time, employees waiving their right to employer health care spending would not be eligible for the new marketplace subsidies designed to help them buy private health coverage through the marketplace when they do not have job-based coverage.

The revenue estimates for the Health Care Access Fund assume that employers would be exempt from the spending requirement for approximately 5 to 15 percent of their employees for whom they are not *already* meeting the 50-cent per hour spending requirement. This range is partly responsible for the revenue range for the Access Fund. If employers obtain exemptions for a larger share of their workers than we assume, revenue to the fund will decline, but so would expect spending for marketplace subsidies. Because of this relationship, a slightly larger exemption rate would be expected to only slightly decrease the value of the marketplace subsidy relative to the estimates presented in this report.

Model Output

For the purpose of this analysis, NERC assumes that: 1) New Businesses (startup) would be exempt from the spending requirement in their first year; 2) $120 million per biennium from the Health Care Access fund would be used to fund the Oregon Health Plan with the remaining revenue being directed to a new program providing marketplace subsidies to employees getting coverage through the Marketplace; and 3) only firms with over 50 employees will be subject to health care spending requirements. Model inputs and estimates are shown in Figure 3 below.

Figure 1 – Model inputs and outputs

Input	
Budget Months	18
Firm's per worker hour spend requirement	$0.50
Output	
Range of potential revenue raised[10]	$449m - $517m
Average monthly marketplace subsidy level per worker	~ $75 - $80
Firm's cost for 1 FTE annually	$1,040.00

[10] To calculate the lower bound of this range, 68.3% of the population was assumed to be above 138% of the poverty level (see Figure 3). Additionally, 10% of those eligible opt out of the marketplace subsidy. The "upper bound" is the base assumptions of no additional opt outs and uses the ACS figures for persons above 138% of the poverty level (see Figure 2).

Estimating the Potential Distribution of the Health Care Access Fund

Employers may comply with the spending requirement by contributing to the Health Care Access Fund, which will be used to fund marketplace subsidies for those employers' employees and the Oregon Health Plan. Approximately 27% to 32% of employees who do not have employer-sponsored coverage have income at or below 138% of the Federal Poverty Level, meaning these individuals are likely eligible for the Oregon Health Plan. Employees who are not eligible for OHP are much more likely to use the marketplace subsidies funded by the Health Care Access Fund.

Figure 2: Employed persons without health insurance coverage (NERC analysis of American Community Survey Public Use Microdata – PUMS)

Income as a percent of Federal Poverty Level	Share of population	Standard error
Above 138%	72.6%	<1%
Below 138%	27.3%	0.5%

Figure 3: Percent of working Oregonians ages 18-64 without employer sponsored insurance by FPL (Oregon Health Insurance Survey data provided by OHA)

Income as a percent of Federal Poverty Level	Share of population
Above 138%	68.2%
Below 138%	31.8%

Model Risks

A potential risk to the accuracy of the estimation is that instead of paying into the Health Care Access Fund, businesses switch to providing enough health care coverage to meet the minimum spending limit. This switch to providing health coverage happened to a significant degree in San Francisco[11]; should a similar transition occur in Oregon, the current model would over-estimate the potential revenue to the Access Fund. However, there is one key reason to believe that the Oregon law would not have the same effects as the one in San Francisco. The minimum spending requirements in San Francisco are much higher than the anticipated rates in Oregon—meaning that paying into the Health Care Access Fund is likely to be less expensive for the employer than providing health care coverage. However, this also means that employers are not as incentivized to increase health care coverage for their employees as they are in San Francisco.

Another risk is dynamic employment effects. If, instead of paying into the Health Care Access Fund, employers hire fewer employees or transition hours to employees that are already covered, then the amount of revenue collected will decrease over time. San Francisco provides some evidence to the contrary as employers seem to be raising prices instead.[12] Again, there are some caveats to assuming outcomes in Oregon will be like San Francisco. For one, the HSCO has a much larger spending requirement, and moving hours from part-time workers to those already covered is a less

[11] Colla, Carrie; Dow, William; and Dube Arindrajit. (January 2013). San Francisco's 'Pay or Play' Employer Mandate Expanded Private Coverage by Local Firms and a Public Care Program. Retrieved from https://www.healthaffairs.org

[12] Colla, Carrie; Dow, William; and Dube Arindrajit. (July 2011). The Labor Market Impact of Employer Health Benefit Mandates: Evidence from San Francisco's Health Security Ordinance. National Bureau of Economic Research. Retrieved from https://www.nber.org

effective cost-saving approach (either the full-time employee already has health insurance, so is already more expensive, or doesn't, in which case there would be no cost-savings). Also, San Francisco is a much smaller geography, with a much more homogenous cost-of-living than Oregon. Since the cost-of-living and labor market dynamics vary considerably across the state, how employers adapt to the Oregon law will also be much more varied than in San Francisco. Since this spending minimum would act similarly to an increase in the minimum wage, looking at the effects of that policy change is illustrative. The Seattle increase in the minimum wage has produced some adverse labor market changes.[13] The *Labor and Wage Impacts* section in Part 2 has more detail on these potential effects. Since this policy will have similar labor market effects to the minimum wage, one potential way to mitigate them is by establishing minimum health care expenditure rates by geography, like the 2016 Minimum Wage Law.[14] This is discussed further in the *Potential Thresholds* section of Part 2.

The San Francisco HCSO requires minimum spending for employees that work 8 or more hours per week. The low hour threshold is instituted so that it is unlikely an employer will hit a new spending requirement after passing an hours-worked threshold (since few employees work less than 8 hours). However, should Oregon institute a similar threshold, this is an additional risk to the model. NERC does not have a recommendation for a reliable source that breaks down the distribution of worker hours to that granularity, so it is difficult to provide a precise estimate of how much expected revenue would be reduced based on the threshold. However, since these employees work minimal hours, and the rate is charged on an hourly basis, the revenue lost from this is marginal.

[13] Jardim, Ekaterina; Lond, Mark; Plotnick, Robert; et al. (October 2018) Minimum Wage Increases and Individual Employment Trajectories. National Bureau of Economic Research. Retrieved from https://evans.uw.edu

[14] State of Oregon. (January 2019). Oregon Minimum Wage Rate Summary. Retrieved from https://www.oregon.gov

Part 2—Further Implications

This section examines four further implications: 1) ways businesses may avoid paying into the Health Care Access Fund, 2) potential exemptions to the spending requirement and their revenue implications, 3) labor impacts of the spending requirement, and 4) border effects of the spending requirement.

Avoidance

In the San Francisco law's current state, there are two ways a firm may avoid paying the city's program: by providing the minimum required amount of health care spending or contributing the minimum amount to a Health Savings Account (HSA). However, since contributions can only be made to a Health Savings Account if the account holder is enrolled in a qualified high-deductible health plan (HDHP)—which does not include Medicaid—it is exceedingly unlikely that any employers would be covering contributions to an HSA in addition to medical insurance already received by the employee. Therefore, in Oregon, the only feasible way a firm avoids contributing to the Health Care Access Fund would be to provide the minimum amount of health care spending on behalf of employees. This too is unlikely since the proposed fee would cost less than $1,000 for an employee per year, and the average annual premium paid by a business was over $6,400 for a single employee in 2017.[15] In other words, from an employer's perspective, paying into the Health Care Access Fund would be the most cost-effective option to meet the spending requirement on behalf of employees for whom their health care spending does not already meet the requirement. Relative to the San Francisco ordinance, which pressures employers to increase health care coverage, Oregon's policy may not entail as high of pressure for employers to expand health care coverage to their employees.

Potential Thresholds

NERC outlined three potential scenarios for an exemption from spending requirement. It is important to note that if Oregon were to embrace any of the above exemptions, the number of employers subject to the spending requirement would decrease, as would the number of employees with access to state-funded subsidies for health insurance coverage purchased through the marketplace.

The one currently used in the potential revenue model is the New Business Exemption:

- **New Business Exemption**: Within a business's first year, they would be exempt from the spending requirement. Startups make up approximately 1.4% of all business filings[16], and it is likely that many would choose to offer medical benefits in order to remain competitive in the labor market even in the absence of a spending requirement. It should be noted that the 1.4% figure is an upper-bound, as many startups do not reach 50 employees in their first year. Exempting all businesses in their first year of operation regardless of their size would have a negligible effect on revenue but could assist new firms with 50 or more employees in what is often a tumultuous first year.

[15] Bronson, Caitlin. (February 2018). The Average Cost of Health Insurance for Small Business in 2017: Study. PeopleKeep. Retrieved from https://www.peoplekeep.com

[16] Lehner, Josh. (August 2018). Start-Ups, R&D, and Productivity. Oregon Office of Economic Analysis. Retrieved from https://oregoneconomicanalysis.com

NERC also reviewed two other potential exemptions:

- **Full or Partial Exemption for Businesses Located in Rural Areas**: In November 2018, there were 243,640 jobs in Rural Oregon Counties.[17] Exempting rural businesses from the spending requirement would be expected to reduce payments to the Health Care Access Fund, assuming these businesses would pay into the fund on behalf of workers at a similar rate as non-rural businesses. *At the same time, employees at these businesses would not be eligible for the new financial assistance program that will be created to help employees at firms paying into the fund obtain health coverage through the marketplace.* Beyond singling out rural businesses specifically, different regions could have separate spending requirements (akin to the different separate rates based on region in Oregon's recent minimum wage law). However, partly exempting rural firms or specific communities by establishing a lower spending requirement could have a broader impact on the marketplace assistance program, depending on whether employees at these firms were still eligible for the same level of assistance. If so, the financial assistance available to employees whose employers pay into the Access fund would likely decrease if rural businesses paid a lower amount into the fund.
- **Corporate Status**: Originally, this exemption would apply to nonprofits employing less than 50 people. However, nonprofits employing less than 50 people would already be exempt from the spending requirement in its current form, and thus this exemption is already in effect (without special consideration for nonprofits). Extending the exemption to all nonprofits with 50 or more employees would extend the exemption to hospitals, which make up a large proportion of nonprofit employment.[18] Extending the exemption only to non-hospital nonprofits with 50 or more employees would reduce the number of businesses subject to the spending requirement as well as the number of individuals who would be eligible for the marketplace-based financial assistance program. Of these proposed credits, NERC assumes the New Business credit is in effect for modeling.

Labor and Wage Impacts

This proposed fee acts like an increase to the minimum wage in a variety of ways. First, it increases the minimum cost-burden on businesses. Second, the workers that receive the increase in benefits are, in many cases, at or near the minimum wage. Therefore, NERC reviews a recent study on the increase to the minimum wage in Seattle, as well as the aforementioned NBER study on San Francisco's labor market, to help anticipate labor impacts and the most affected industries.

The University of Washington study partnered with the Washington State Department of Labor to access confidential data on the number of hours worked by Seattle employees. In the most recent version of the UW report, released in October 27, 2018, the research team found that while the 2016 minimum wage increase from $11 to $13 per hour generated 3% growth in wages for workers making the minimum wage it also resulted in a 9% reduction in hours worked for those same employees. Some workers, who saw their wages increase and maintained their hours might be better off, but on average, low wage workers brought home less pay than before the increase. Therefore, if Oregon employers react to the proposed health care spending requirement like those in Seattle reacted to the minimum wage, a modest decrease in overall hours worked and subsequent earnings for workers is expected. Another potential adjustment businesses may make when the minimum cost-burden increases is through non-wage compensation such as access to

[17]Nelson, Jessica. (May 2017). The Employment Landscape of Rural Oregon. State of Oregon Employment Department. Retrieved from www.qualityinfo.org

[18] Fridley, Dallas. (June 2018). Oregon's Nonprofits in 2017. State of Oregon Employment Department. Retrieved from www.qualityinfo.org

job training, job safely, or retirement contributions. In the case of the proposed fee, an increase to non-wage compensation is mandated. A potential negative consequence would be wage compression. Employers keep wages down to offset the increase in other compensation. One key point is that the proposed health care fee is significantly lower than the Seattle minimum wage increase studied; however, the proposed spending requirement would occur in concert with rising minimum wages in Oregon mitigating the problem of wage compression but increasing the financial impact on businesses. In this case, it may make sense for businesses to decrease other forms of non-wage compensation. However, this may not be the case. A 2004 paper by Simon and Kaestner found, in an empirical study using compensation data in the U.S. from 1979 to 2000, "no discernable effect on fringe benefits" from an increase in the minimum wage.[19] This suggests it is unlikely that businesses would adjust to the health care spending requirement by reducing other benefits.

In Oregon, low wage workers— who are likely to feel the most impact from a potential health care spending requirement—are concentrated in certain industries, primarily leisure and hospitality and retail. These include food service and preparation, cleaning, front and back of house retail work, and other integral service jobs. In 2018 just over 360,000 workers in Oregon made less than $12 per hour. Figure 4 displays the percentage of workers making less than $12 per hour by occupation. Occupations with the highest percentage of low wage workers are dominated by food related jobs: dishwashers (78%), combined food prep and serving workers, including fast food (76%) and counter attendants at cafeterias, concession stands, and coffee shops (70%). Businesses that employ these workers will feel the largest impact of an ordinance similar to the San Francisco HCSO and will likely pursue adjustment strategies similar to leisure and hospitality businesses did in San Francisco. Simultaneously, investment in these workers could increase the number of people with coverage.

[19]Simon, Dosali; Keastner, Robert. (October 2004). Do Minimum Wages Affect Non-wage Job Attributes? Evidence on Fringe Benefits. Sage Journals. https://journals.sagepub.com

Figure 4 – Percent of Oregon Employees Making Less than $12 Per Hour by Occupation, 2018[20]

Occupation	Percent of Jobs in Occupation Paying Less than $12/hr
Total, All Occupations	20%
Dishwashers	78%
Combined Food Prep and Serving Workers, Including Fast Food	76%
Cashiers	70%
Counter Attendants, Cafeteria, Food Concession, and Coffee Shop	70%
Wait Staff	69%
Cooks, Fast Food	67%
Bartenders	66%
Childcare Workers	60%
Maids and Housekeeping Cleaners	57%
Food Preparation Workers	55%
Personal Care Aids	55%
Retail Salesperson	51%
Packers and Packagers	48%
Janitors and Cleaners, Except Maids and Housekeeping	37%
Cooks, Restaurant	34%
Stock Clerks and Order Fillers	32%
Laborers and Freight Stock and Material Movers Hand	30%

The NBER paper mentioned above looks at the effects of the employer benefit mandate's effects on wages and labor in San Francisco, following the implementation of a mandate in 2008. They found that in industries most likely to be affected by the mandate, wage and employment patterns did not change after 2008-- indicating that the policy had minimal impacts on employment and wages. Instead, businesses passed the cost burden on to consumers. This could take multiple forms. In some cases, businesses may increase prices. In others they may slightly decrease the size or quality of a product. For example, decreasing portion sizes at a restaurant. In San Francisco some restaurants took a more explicit approach to passing on these costs to consumers. Many restaurants now include a health care line-item on their receipt[21]. Instead of raising menu item prices, size or quality, they directly passed the extra cost to patrons. While not all costs are passed on in this direct manner, adjusting to changes in minimum compensation by passing costs along to customers is consistent with previous studies on similar policies in Hawaii.[22,23]

[20] Johnson, Anna. (December, 2018). Occupations with the Most Jobs Paying Less than $12.00 per Hour. Oregon Employment Department. Retrieved from https://oregonemployment.blogspot.com

[21] Kauffman, Jonathan. (Sep 2018) What's this 'S.F. Mandates' Surcharge doing on my Restaurant Check? An Explainer. San Francisco Chronicle. Retrieved from https://www.sfchronicle.com

[22] Thurston, N.K. (1997). Labor Market Effects of Hawaii's Mandatory Employer-Provided Health Insurance. Industrial and Labor Relations Review.

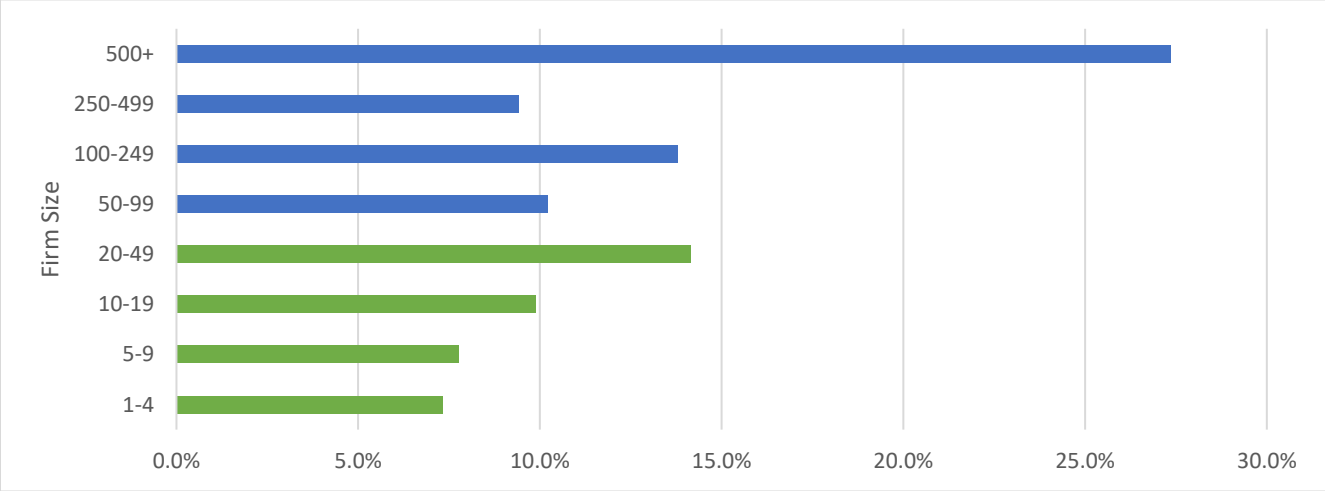
[23] Buchmueller, T.C., DiNardo, J., and R.G. Valletta (2009). "The Effect of an Employer Health Insurance Mandate on Health Insurance Coverage and the Demand for Labor: Evidence from Hawaii." FRBSF Working Paper

Border Effects

One concern is that this fee may create adverse "border effects": that is, a situation where an employer is disincentivized to expand due to a significant increase in costs. For example, one potential aspect of the proposal is that businesses with less than fifty employees are exempt from the fee (analysis would be similar for 10 and 25). In this case, a firm with forty-nine employees would delay hiring a fiftieth employee since that would mean paying the fee for all employees as well as taking on the increased administrative burden.

A precise estimate of how many firms would choose not to expand from forty-nine employees to fifty is difficult to ascertain; however, it is possible to determine the universe of firms that could potentially be affected. Using the State of Oregon Employment Department data[24], approximately 39.2% of employees work for firms that have less than 50 employees (see Figure 5) and approximately 95.7% of firms have less than 50 employees. According to the Census, in 2016 firms with 40-49 employees made up only 25.4% of the 25-49 employee category in the U.S.).[25] This means that, at most, 3.6% of firms in Oregon will be approaching the fifty-employee cutoff (assuming the distribution of firm size in Oregon is similar to that of the U.S.). Furthermore, some of those firms are likely either not looking to expand, or already offer health insurance to their employees. It should be noted that the Oregon Employment Department does not differentiate between full time and part time employees, so this cutoff is an imperfect measure, and it is probable that a smaller proportion of firms hit the 50 full-time equivalent (FTE) threshold. Also, there may be discontinuous jumps in employment, where firms add groups of employees at a time. This would increase the group of firms "at risk" for hitting the 50 FTE mark; however, there is not a reliable way of estimating this.

Figure 5 – Percent of Employees by Firm Size in Oregon, October 2018, State of Oregon Employment Department



Inflation

As the spending requirements are likely to grow over time, so should the revenue target and therefore the hourly rates. NERC suggests indexing the rates to the Consumer Price Index for the West Region to account for inflation.

[24] (October 2018). Most Oregon Employers have fewer than 20 Employees. State of Oregon Employment Department. Retrieved from https://www.qualityinfo.org/-/most-oregon-employers-have-fewer-than-20-employees

[25] (December 2018). 2016 SUSB Annual Data Tables by Establishment Industry. United States Census. Retrieved from https://www.census.gov/data/tables/2016/econ/susb/2016-susb-annual.html

Conclusion

This was a brief review of the revenue modeling, labor impacts, and effects of potential exemptions of a health care spending mandate. Most of the revenue modeling assumptions are highly dependent on the revenue target and exemptions. Anticipated labor impacts and unintended consequences are based on relevant literature and data collected by the Census, BLS, and Oregon Employment Department. Modeling available upon request from NERC.


NeRC