

Secure and Affordable Health Care Act of 2008 Impact on Payroll Costs in California

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The proposed Secure and Affordable Health Care Act of 2008 would establish a health care contribution for employers equal to a percentage of wages paid by those employers, with a credit for “health expenditures.” The policy does not apply to wages above the Social Security maximum wage base.

Under the initiative, firms with payrolls of \$250,000 or less would pay a contribution of 1 percent of payroll; firms with payrolls greater than \$250,000 but less than or equal to \$1 million would pay a contribution of 4 percent of payroll; firms with payrolls greater than \$1 million but less than or equal to \$15 million would pay a contribution of 6 percent of payroll; and firms with payrolls over \$15 million would pay a contribution of 6.5 percent. Contribution amounts are offset by firms health expenditures, broadly defined.

While slightly less than half of California firms have payrolls under \$250,000 and would fall into the 1 percent category, a majority of workers are in firms with payrolls above \$15 million (Table 1).

Table 1 - Amount of employer payroll, by percentage of workers and percentage of firms

Employer Payroll (Healthcare Contribution)	Percentage of CA workers in private firms	Percentage CA private firms
Less than 250,000 (1%)	7.1%	46.8%
250k-Million (4%)	14.0%	36.6%
1-15 Million (6%)	27.6%	14.7%
Above 15 Million (6.5%)	51.4%	1.9%
Total	100.0%	100.0%

Source: 2005 CA Employer Health Benefit Survey, March 2006 Current Population Survey

We find that nearly half of all firms (47.3 percent), which account for 54 percent of the workforce, would be required to make no additional payments under the proposed initiative; and 82 percent of firms that would make payments of less than 1 percent, accounting for 70 percent of the workforce. The 1.7 percent of firms that would make contributions between 4 and 6.5 percent account for slightly more than 6.5 percent of the workforce (Tables 2 and 3).

Table 2: CA workers by firm size and increased employer health spending.

Increased employer spending as a % of total payroll	Firm size of 3-9 employees	Firm size of 10-99 employees	Firm size of 100-999 employees	Firm size of 1000+ employees	Total for all firm sizes
No increase	39.0%	47.1%	64.2%	53.7%	54.1%
Up to 1%	46.3%	<i>15.8%</i>	<i>11.1%</i>	<i>11.8%</i>	15.4%
Between 1.01-4.00%	14.7%	<i>31.6%</i>	<i>17.9%</i>	<i>26.4%</i>	23.9%
Between 4.01-6.50%	0.0%	<i>5.5%</i>	<i>6.8%</i>	<i>8.1%</i>	6.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Table 3: CA employers by firm size and increased employer health spending.

Increased employer spending as a % of total payroll	Firm size of 3-9 employees	Firm size of 10-99 employees	Firm size of 100-999 employees	Firm size of 1000+ employees	Total for all firm sizes
No increase	43.8%	50.2%	58.4%	64.8%	47.3%
Up to 1%	46.4%	<i>19.2%</i>	<i>11.3%</i>	<i>7.1%</i>	34.4%
Between 1.01-4.00%	9.8%	<i>27.5%</i>	<i>22.2%</i>	<i>19.6%</i>	16.6%
Between 4.01-6.50%	0.0%	<i>3.0%</i>	<i>8.2%</i>	<i>8.4%</i>	1.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: 2005 CA Employer Health Benefit Survey, March 2006 Current Population Survey
 Note: Italicized numbers may not be statistically significant.

While large employers are required to pay a higher contribution on payroll, they are also currently more likely to incur health expenditures which offset the payroll contributions. The average additional cost as a share of payroll—0.9 percent of firms, accounting for 1.1 percent of workers—shows only small variations by firm sizes (Table 4).

Table 4: Average increase in employer health spending as a % of payroll by firm size.

Firm size	Weighted by Workers	Weighted by Firms
3-9 employees	0.8%	0.7%
10-99 employees	1.4%	1.1%
100-999 employees	0.8%	0.9%
1000+ employees	1.1%	0.9%
Total	1.1%	0.9%

Source: 2005 CA Employer Health Benefit Survey, March 2006 Current Population Survey

Finally, we look at firms offering health coverage by industry. The industries with sizeable workforces in the state and the highest share of the workforce not offered coverage are retail, construction, services and health care. The lowest are transportation, utilities, manufacturing and finances (Tables 6 and 7).

Table 6: CA workers by industry and whether firm offers benefits.

Industry	Offer health benefits	Do not offer health benefits
Mining	76.0%	24.0%
Construction	85.1%	14.9%
Manufacturing	93.5%	6.5%
Trans/Util/Commun	96.0%	4.0%
Wholesale	91.5%	8.5%
Retail	75.9%	24.1%
Financial	95.1%	4.9%
Service	90.8%	9.2%
Healthcare	90.9%	9.1%
Total	89.6%	10.4%

Source: 2005 California Employer Health Benefit Survey

Table 7: CA employers by industry and whether firm offers benefits.

Industry	Offer health benefits	Do not offer health benefits
Mining	86.1%	13.9%
Construction	57.2%	42.8%
Manufacturing	74.3%	25.7%
Trans/Util/Commun	74.9%	25.1%
Wholesale	66.4%	33.6%
Retail	51.4%	48.6%
Financial	75.2%	24.8%
Service	63.6%	36.4%
Healthcare	60.2%	39.8%
Total	64.6%	35.4%

Source: 2005 California Employer Health Benefit Survey

Appendix

Methodology for determining increased healthcare spending as a percent of total payroll.

Summary

The 2005 California Employer Health Benefit Survey(CEHBS) was the basis for looking at increased payroll costs under the proposals. The CEHBS contains detailed health care information for the sample of 846 private sector employers but lacks information on payroll practices. We used the March 2005 CPS to arrive at payroll amounts for each firm. These elements were combined to generate a current level of healthcare spending as a percent of employee payroll. Each of the steps is described in more detail below.

Employer healthcare spending

Each firm surveyed in the CEHBS provides information on the number of employees covered by different medical plans and the amount that employers contribute to those plans. From this a total annual healthcare expenditure was computed for each firm.

Payroll information

Earnings information was obtained from the March 2006 Current Population Survey (CPS) Annual Social and Economic Supplement (ASEC). The sample contains earnings information for the 2005 year of 5,905 Californians employed in the private sector.

Each worker in the sample was assigned to one of four firm size categories (fewer than 10 employees, 10 to 99, 100 to 999, and more than 1,000 employees) and to one of nine industry categories (mining, construction, manufacturing, utilities/transportation/communication, wholesale, retail trade, financial, services, healthcare) for a total of 36 different size-industry categories.

Finally, 2005 average earnings for workers earning less than \$20,000 and average earnings for workers earning \$20,000 or more were computed for each of the 36 size-industry categories. Because many in the sample did not work the full 2005 year, earnings were computed based on a 52-week work year. This allowed workers earnings from the CPS to represent annual amounts and match the annual healthcare premium amounts from the CEHBS. The percentage of workers earning above and below \$20,000 a year for each firm in the CEHBS was adjusted so that the percentage for each industry size category in the CEHBS matched the percentage for each industry size category in the CPS.

We show health spending as a percent of total payroll. However, for the purposes of determining employer contributions earnings have been capped at the Social Security maximum wage base of \$97,500.

Percent of spending on healthcare

The payroll information and healthcare spending information yielded the amount each employer spent on healthcare as a percent of payroll and the required increase in spending under the California healthcare proposals.

Employer spending full-time and part-time employees

AB8 requires that employer contribution amounts be applied separately to part-time and full-time employees where part-time is defined as working less than 30 hours per week. For each firm surveyed the CEHBS gathers the percentage of employees covered, the percentage of part-time employees and whether or not part-time employees receive benefits (and 40% of the firms surveyed do offer benefits to part-time employees). What the CEHBS does not track is the percentage of part-time employees who receive benefits and the percentage of full-time employees who receive benefits.

We use the CPS to determine coverage probabilities for part-time employees for the 36 different industry-size categories and apply this to the number of part-time employees to arrive at the number of part-time employees receiving health benefits and then the number of full-time employees receiving health benefits. We assume that healthcare spending is equal for part and full-time employees to arrive at healthcare expenditure amounts for part and full-time employees. Payroll amounts for part-time and full-time are determined in the same way that overall payroll is determined yielding separate expenditure levels on health care, as a percentage of payroll, for part-time employees and expenditure levels on healthcare, as a percentage of payroll, for full-time employees.

Because the CEHBS defines part-time employees as working 20 or less hours a week we also used this as our definition of part-time for all analysis in this report.