

SECURE AND AFFORDABLE HEALTH CARE ACT OF 2008: IMPACT ON PAYROLL COSTS IN CALIFORNIA

PRELIMINARY REPORT

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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 firm

Employer Payroll (Health Care 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

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 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—California workers by firm size and increased employer health spending

Increased employer spending as a percent of total payroll	Firm size of 3–9 employees	Firm size of 10–99 employees	Firm size of 100–999 employees	Firm size of 1,000+ 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%	<i>14.7%</i>	<i>31.6%</i>	<i>17.9%</i>	<i>26.4%</i>	23.9%
Between 4.01–6.50%	<i>0.0%</i>	<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%

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

Table 3—California employers by firm size and increased employer health spending

Increased employer spending as a percent of total payroll	Firm size of 3–9 employees	Firm size of 10–99 employees	Firm size of 100–999 employees	Firm size of 1,000+ 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%	<i>9.8%</i>	<i>27.5%</i>	<i>22.2%</i>	<i>19.6%</i>	16.6%
Between 4.01–6.50%	<i>0.0%</i>	<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 rate, they are also currently more likely to incur health expenditures that 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 percent 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%
1,000+ 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 5 and 6).

Table 5—California 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%
Health Care	90.9%	9.1%
Total	89.6%	10.4%

Source: 2005 California Employer Health Benefit Survey

Table 6—California 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%
Health Care	60.2%	39.8%
Total	64.6%	35.4%

Source: 2005 California Employer Health Benefit Survey

APPENDIX

Methodology for determining increased health care 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 use the March 2005 CPS to arrive at payroll amounts for each firm. These elements are combined to generate a current level of health care spending as a percent of employee payroll. Each of the steps is described in more detail below.

Employer health care 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 health care expenditure was computed for each firm.

Payroll information

Earnings information is 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 is 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, health care) 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 are computed for each of the 36 size-industry categories. Because many in the sample did not work the full 2005 year, earnings are computed based on a 52-week work year. This allows workers earnings from the CPS to represent annual amounts and match the annual health care premium amounts from the CEHBS. The percentage of workers earning above and below \$20,000 a year for each firm in the CEHBS is adjusted so that the percentage for each industry size category in the CEHBS matches 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 are capped at the Social Security maximum wage base of \$97,500.

Percent of spending on health care

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

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