Comparing Subsidies for the House and Senate Healthcare Bills

By Gene Steuerle and Stephanie Rennane

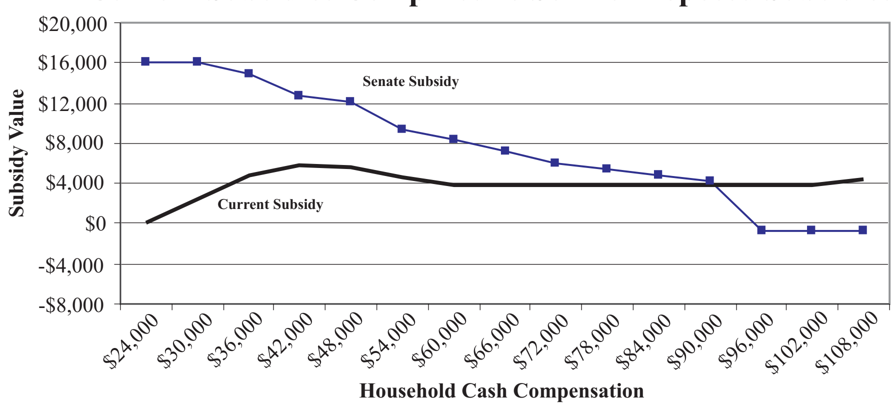
The flurry of proposed health subsidies in Congress present alternatives to the current employer-provided health insurance system. Consider an employer who bears an equal cost for their employees and must choose between the proposed subsidy for those on the exchange and the current subsidy for those who get employer-provided health insurance. Under the exchange, this employer would be able to provide higher cash wages for their employees but would be subject to higher payroll taxes and would likely pay a penalty for not providing health insurance. Using the current system, the employer would pay out lower cash wages and payroll taxes, but would also be responsible for the cost of health insurance. And the employee?

The graph below shows the size of the current subsidy at various income levels compared to the subsidies proposed by H.R. 3962 in the House, and in the November Senate leadership bill. It shows the net gain or loss to the employee from choosing to drop or not adopt employer-provided insurance. The value of the insurance is assumed to be the same and, because the individual receives insurance, there are no penalties from an individual mandate. We equalize employer cost at the cash compensation levels that would apply if there were no employer-provided insurance.

For households at most income levels, the new subsidy is more valuable than the old one. For example, a household with cash compensation of $60,000 under the Senate plan would receive a subsidy of $8,310, while an employee whose employer provides insurance at an equal compensation level would receive a subsidy of only $3,758 under the current system.

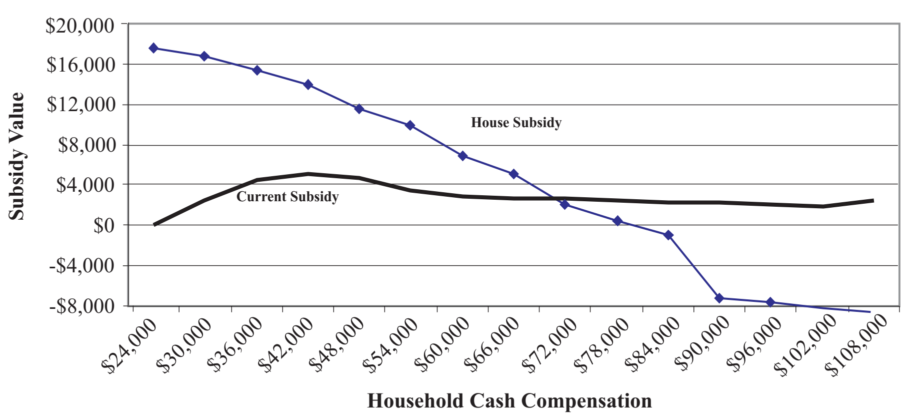
One consequence of this two-subsidy system would be large shifts in whether employers provide insurance at all, especially when their employees can receive higher net incomes by going to the exchanges. Higher-wage employers are more likely to provide insurance than lower-wage employers, and incentives for outsourcing, reorganizing, starting up without providing insurance, and for converting full-time to part-time jobs are also affected.

Current Subsidies Compared to Senate Proposed Subsidies[a]



[a]As of the end of November 2009.

Current Subsidies Compared to House Proposed Subsidies



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