Employer-Sponsored Health Insurance

Employer-sponsored health insurance is a major source of coverage in the U.S. There are likely to be reductions to the generosity of employer-sponsored health insurance as a result of Affordable Care Act provisions, including the Cadillac tax, and market developments such as the emergence of private health insurance exchanges. A reduction in the generosity of employer-sponsored health insurance could have consequences for utilization of medical services.

Background

Most non-elderly Americans receive health insurance coverage from their employer (about 153 million in 2015). Employer coverage tends to have a high actuarial value, which means that a large share of health expenses is paid by the plan, and only a small share is paid by the employee in the form of deductibles or cost sharing. Even though there are now affordable alternatives to employer coverage in the form of public Health Insurance Exchange plans, the Congressional Budget Office and others project that most employers will continue to offer coverage, in part because of the employer mandate under the Affordable Care Act (ACA).

However, there are other ACA-related provisions and market developments that are likely to result in reduced generosity of employer-sponsored coverage. These changes could impact the utilization of medical services, including pharmaceuticals.

One ACA provision that is likely to affect the generosity of employer coverage is the Cadillac tax (Section 9001 of the ACA). Starting in 2018, large employers who offer plans whose value exceeds a certain threshold ($10,200 in the case of individual coverage and $27,500 in the case of family coverage) will be required to pay a 40 percent tax on the excess value of their plans. Based upon analysis by the Joint Committee on Taxation, most of the revenue to be raised by the tax will not come from employers paying the tax, but rather from them shifting compensation away from health benefits towards taxable wages. This is likely to mean higher employee cost sharing for health care.

Some employers are shifting to a defined contribution approach to health insurance involving private exchanges, which are usually operated by insurers or brokers and are unrelated to the public Health Insurance Exchanges under the ACA. Under a private exchange, employees receive a fixed amount of money from their employer and pick a health insurance plan from among a specified set of options. Many of the plans available on the private exchanges have narrow networks and involve high deductibles. Research indicates that high-deductible plans can suppress both branded and generic pharmaceutical utilization.

Because employer-sponsored insurance is tax exempt, employers are able to purchase more coverage for their employees than employees could if they were given an equivalent amount of wages with which to purchase coverage directly. Complete or partial repeal of the tax exemption for employer-sponsored insurance could cause major reductions in the number of Americans receiving insurance from their employer, because it would reduce the advantages to employees of having their employer purchase coverage on their behalf.

Key Facts and Figures

- Fifty-seven percent of Americans receiving health insurance coverage from their employer have a preferred provider organization plan, 20 percent have a high-deductible health plan, 14 percent have a health maintenance organization, and 9 percent have a point-of-service plan.
- The typical employer-plan pharmacy benefit is significantly more generous than the typical Silver plan found on the Health Insurance Exchanges.
• Actuarial value of typical employer plan pharmacy benefit: 80 percent.
• Actuarial value of typical Silver plan pharmacy benefit: 54 percent.
• The Cadillac tax is a concern to the majority of employers, and many are contemplating actions to avoid it or reduce its impact:7
  • Forty-eight percent are planning to increase deductibles or cost sharing.
  • Twenty-seven percent are planning to implement a consumer-directed health plan.
  • About a third of employers are projected to exceed the Cadillac tax thresholds in 2018.8
• Private exchange enrollment could eventually surpass Public Health Exchange enrollment
  • Both Accenture and McKinsey project as many as 30 million enrollees in private exchanges in 2017,9, 10
  • The Congressional Budget Office projects that there will be 24 million enrollees in the Public Health Insurance Exchanges in 2017,11

Pfizer’s Position

Employer-sponsored insurance is an important form of health care coverage that should be preserved. The long-term employer/employee relationship offers incentives for greater investments in prevention and wellness than in the individual market or the Health Insurance Exchanges. In addition, economies of scale and risk pooling can give employer-sponsored insurance an efficiency advantage over the individual market or Health Insurance Exchange offerings.12

How Patients and Health Care Professionals Benefit

Patients enrolled in an employer plan typically receive comprehensive coverage that makes necessary medicines and medical care affordable.

How the Health Care System Benefits

Employer-sponsored insurance can encourage efficient use of preventive and other medical services.

What It Means for Pfizer

Employer-sponsored insurance is a major way in which we are able to reach patients needing our medicines.

Related Pfizer Activities

• Sponsoring research on the role that pharmaceutical coverage plays in lowering employer medical costs, and the downstream impact on Medicare costs of employer-sponsored insurance.
• Developing a value-based approach to restructuring health benefits that may exempt certain pharmaceuticals from high deductibles and cost sharing.

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2 Thomas Buchmueller, Colleen Carey and Helen G. Levy “Will Employers Drop Health Insurance Coverage Because of the Affordable Care Act?” Health Affairs, 32, no.9 (2013):1522-1530.
4 Brand-Name and Generic Prescription Drug Use After Adoption of a Full-Replacement, Consumer-Directed Health Plan With a Health Savings Account” was published in the March EBRI Notes.
7 Mercer’s Survey on Health Care Reform in 2014.
8 Mercer’s Survey “Health Care Reform Five Years In” March 2015.