

PHOTOCOPY
PRESERVATION

Shared Responsibility

Shared Responsibility: The American Way

Shared responsibility is the American way -- part of the American tradition of work and reward. Nine out of ten Americans with private insurance already get it through their workplace. Real health care reform will continue this tradition, building on the existing system and expanding it to include all Americans.

And shared responsibility will lower costs for businesses that already insure their workers. Small businesses benefit most. And studies reveal that real reform will not slow the economy, and may even create jobs.

This health care reform debate is coming down to a choice between two approaches. One builds on our American system of workplace health benefits, and makes sure employers live up to their responsibilities. The other approach encourages employers to drop our health care coverage. For middle class Americans, its an obvious choice.

The American people overwhelmingly support Universal Coverage: 78% according to a recent *ABC News/Washington Post* Poll [June 27, 1994]. And shared responsibility is the fairest, most economical, and least disruptive way to get there.

I. WITHOUT SHARED RESPONSIBILITY, COST SHIFTING WILL PUNISH RESPONSIBLE BUSINESSES

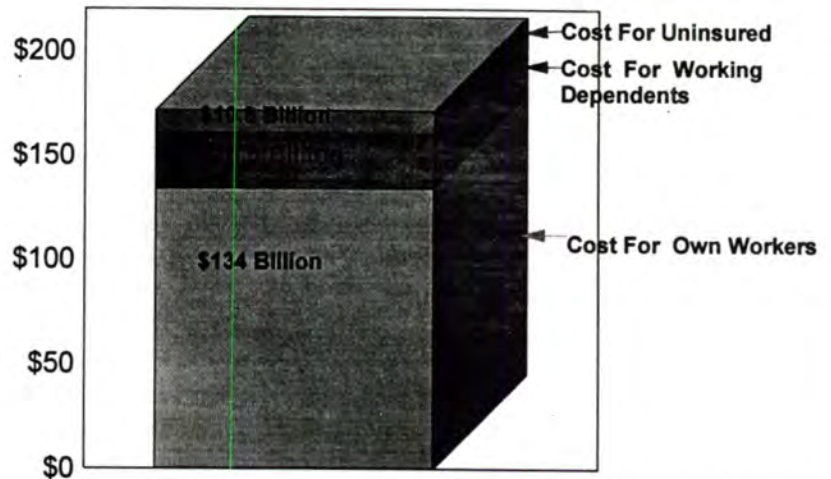
There is often cost-shifting among firms in the same industry, "creating a situation where some employers may actually subsidize health care provided to employees in competing firms." [National Association of Manufacturers, "Employer Shifting Expenditures," prepared by Lewin ICF, December 1991]

The current system forces responsible employers to pay for insurance three times: First, for their employees. Second, for dependents of their employees who work, but don't get health care from their own jobs. And third, for the uninsured -- many of them working people -- who show up in America's emergency rooms, and whose unpaid costs are added to the bills of those who do have insurance. **Cost shifting is a hidden tax on responsibility and on employment.**

- In 1991, employers who took responsibility for employees and their families **paid \$26.5 billion to cover dependents whose employers did not offer insurance to their workers.** [National Association of Manufacturers, "Employer Cost-Shifting Expenditures," prepared by Lewin-ICF, December 1991]

- That same year, employers who took responsibility for their employees' insurance also had an additional \$10.8 billion added to their premiums to cover the uncompensated hospital costs of families without any insurance. Nearly half of this was to pay for **"workers, or dependents of workers, in firms that didn't provide coverage."** [National Association of Manufacturers, "Employer Cost-Shifting Expenditures," prepared by Lewin-ICF, December 1991]

Hidden Tax On America's Business: Responsible Businesses Pay 3 Ways

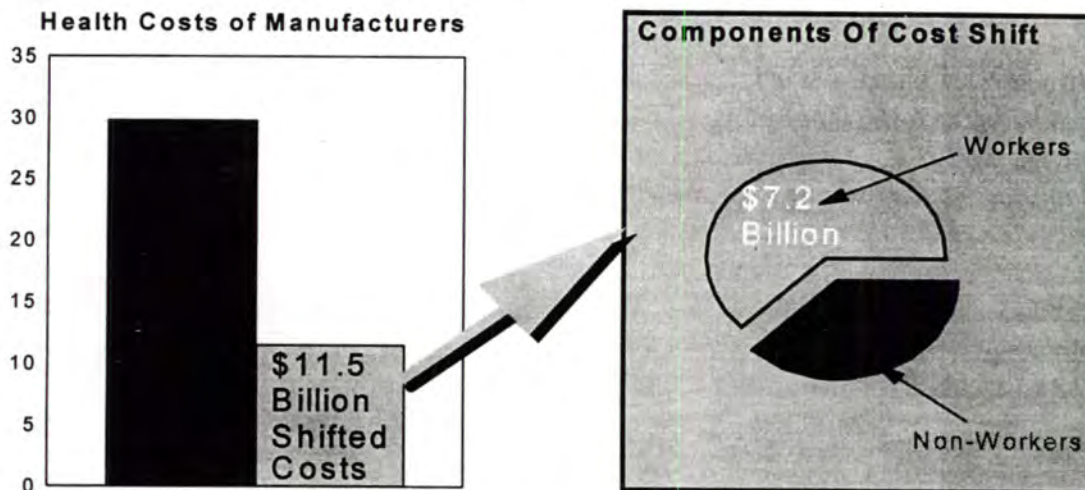


Source: "National Association of Manufacturers, "Employer Cost-Shifting Expenditures," prepared by Lewin-ICF, December 1991

The manufacturing industry -- a critical source of high-wage jobs and export-quality American goods -- has been hard hit by cost shifting. America's manufacturers are among the nation's most responsible sector, covering almost all of their workers. They must compete against foreign manufacturers with a stable, insured, productive workforce, while carrying the extra burden of companies that do not provide coverage.

- **Bethlehem Steel has 20,000 employees but pays insurance for 160,000 people.** Although locked into a competitive battle with Canadian steel producers just across the border, Bethlehem is burdened by \$65 million in additional health care costs -- almost a third of their total health care bill -- **because of cost-shifting.** [Testimony of B. Boyleston, V.P. for Human Resources, before Congressional Steel Caucus, 6/23/94]
- One study estimates that 28% -- or \$11.5 billion -- of the health care costs paid by manufacturing companies are a result of cost-shifting. [National Association of Manufacturers, "Employer Cost-Shifting Expenditures," prepared by Lewin-ICF, December 1991]

Most of Manufacturing Cost Shift Is From Workers In Other Firms



Sources: Lewin VHI for The National Association of Manufacturers

- **Universal coverage will eliminate the penalty on businesses that provide coverage.** *"Universal coverage would mean that those firms that now offer insurance would no longer need to pay indirectly through higher doctor and hospital bills for the care given to uninsured workers and their families. On the other hand, firms that do not now provide insurance could no longer ride free."* [CBO, 2/94]

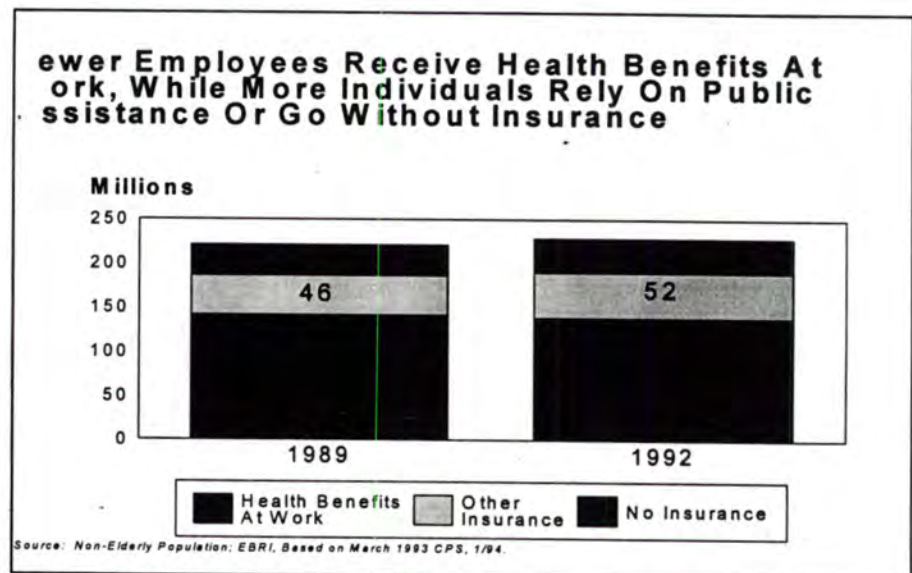
II. AVOIDING SHARED RESPONSIBILITY MEANS MORE WORKERS WILL LOSE THEIR COVERAGE

"For those who have suggested that the best policy may be to muddle through with only small, incremental changes, our analysis suggests that the number of uninsured workers in small businesses will continue to grow. If our survey proves true, in the years ahead 30 percent of small businesses currently providing insurance will drop their insurance coverage because of the high cost." [Health Affairs, Spring 1992]

- Under one proposed plan, where benefits were not guaranteed at work, two million workers in small businesses would lose their employer's contribution. [CBO, 2/94]
- Another reform alternative would cost 1.3 million Americans their insurance every month. And 1.8 million Americans a month would lose their coverage under yet another leading alternative. [Lewin-VHI estimates for Families USA]
- If employers are allowed to dodge responsibility every worker in the United States will be at risk of having to bear the entire burden of health insurance alone -- \$3900 or more each year.

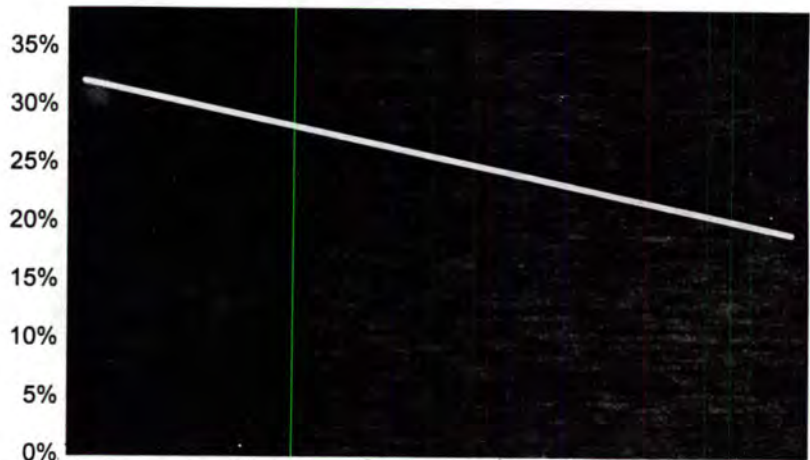
More and more, employees are being hurt as rising costs force companies that take responsibility to cut back.

- The percentage of workers whose employers sponsor health insurance plan is already falling -- from 81% in 1988 to 78% in 1992. In 1978, 23% of new companies offered health benefits to their employees. In 1992, that percentage had dropped to 15%.
[Department of Labor, 5/94; University of North Carolina, 8/92]



- Nearly six in ten Americans earning between \$30,000 and \$50,000 a year have experienced health benefit cutbacks in their households. The percentage of families with full employer-paid coverage fell from 32% in 1988 to 19% in 1992. [New York Times/CBS News Poll 4/7/93; Hay/Huggins Benefit Report, 1992]
- Steve Burd, President and Chief Executive Officer of **Safeway Inc.** -- one of the world's largest food retailers -- said his company competes "with some very large companies that don't offer the same kind of coverage." If health reform doesn't pass with the employer mandate, Burd fears that Safeway might be forced to curtail its coverage "to level the playing field." [LA Times Friday July 22, 1994]

Percentage of Families With Full Employer-Paid Coverage



Source: Hay/Huggins Benefit Report, 1992.

Some voluntary systems end up creating welfare-like incentives for irresponsible behavior.

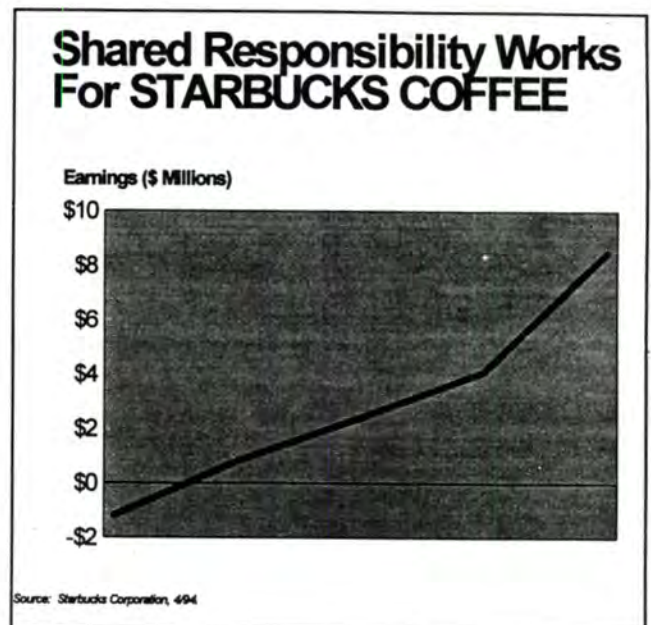
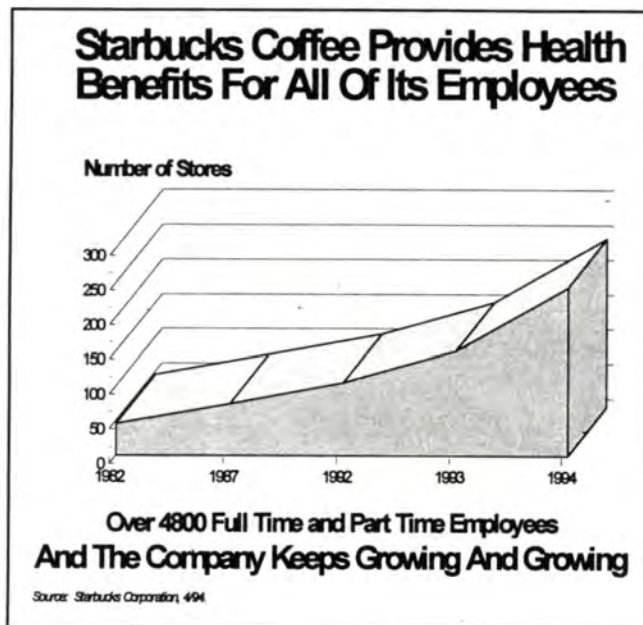
One proposed plan would cause employers that take responsibility for their workers to bear even greater costs. Employers are encouraged to shove their employees out of the system, where taxpayer-funded subsidies will help workers buy coverage.

- The cost of subsidies to taxpayers could be "much higher" without benefits guaranteed at work. The study found that under these proposed schemes **companies would have "powerful incentives" to drop coverage for their employees and to shift costs to the government**, which would subsidize the premiums. [Center on Budget and Policy Priorities]

III. SHARED RESPONSIBILITY IS GOOD BUSINESS

"The simple math is it saves the company money. It costs about \$1,500 per year to cover each employee, part time and full time, and the cost of attrition if we have to hire and retrain a new employee is over \$3,000." [Starbucks CEO Howard Schultz]

- **Starbucks Coffee**, with 4,800 employees, was named one of the fastest growing companies in America in 1993 by Fortune Magazine. CEO Howard Schultz believes that a comprehensive employee benefits package for all workers is the key to competitiveness: *"At Starbucks Coffee Company adding benefits for part-time and full-time employees is leading to a healthier workforce and bottom line. The longer an employee stays with us, the more we save."* And Starbucks posts higher profits every year, sales have grown almost 80% over the last three years, and the stock price continues to climb.



- **PictureTel**, the technology and market leader in video conferencing, has doubled the number of its employees since 1991 to 865. They are able to provide health care benefits to all their employees and yet still grow at world class rates -- an astonishing compounded growth rate of 97% over the past five years. PictureTel is the market leader both in the U.S. and in Europe.

Shared responsibility works around the world.

"[Pizza Hut and McDonalds] are living proof that shared responsibility works for employers and employees, and as a means for a nation to achieve universal coverage," [The Health Care Reform Project, "Do As We Say, Not As We Do," July 1994]

- **Pizza Hut**, which earned a net profit last year of \$372 million, does not contribute to health insurance for many of its hourly restaurant workers in the United States. The company does make a group insurance plan available, but employees are required to pay the full amount. After six months, the company will contribute to the cost of supplemental coverage, but paying for the basic plan is still the responsibility of the employee.

By contrast in Germany, Pizza Hut is required to pay 50 percent of its employees' premiums. As of 1991, there were 64 Pizza Hut restaurants in Germany with revenues of \$39 million and 2,100 employees. In Japan, Pizza Hut is required to pay 50 percent of the premiums for employees who work at least 30 hours per week -- as most do at any of the company's 65 Japanese restaurants. Pizza Hut is doing so well there that two years ago the company announced its intention to quadruple the number of Pizza Huts in Japan by 1997.

- **McDonald's** does not cover hourly or part-time workers at its restaurants in the United States. However, McDonald's does pay for coverage for its workers in Belgium, Germany, Japan, and The Netherlands. Germany is one of McDonald's six largest markets, with 27,000 employees and revenues of nearly \$1 billion in 1992. Likewise, in The Netherlands, McDonald's now has 100 stores, a 17.6 percent increase over last year. In Japan, the number of McDonald's restaurants (1,048) has increased 8 percent since 1993.

IV. SHARED RESPONSIBILITY HAS A SMALL IMPACT ON BUSINESS

"In the past, we have taken similar actions to assure workers a minimum wage, to provide them with disability and retirement benefits and to set occupational health and safety standards. Now we should go one step further and guarantee that all workers will receive adequate health insurance protection." [President Richard M. Nixon]

"I can assure you that there's not going to be a single job lost if the insurance plan you are proposing goes into effect." [Eric Sklar, Owner, Burrito Brothers Restaurants]

- A system of employer-employee shared responsibility makes sense because it builds on the existing system. Nine out of ten Americans with private insurance get it through employers. [EBRI, 1/94] 85% of firms with more than 25 employees offer their workers health benefits. [HIAA, "Source Book of Health Insurance Data," 1992]
- A recent survey of over 1,000 major employers, including Fortune 100 and Fortune 500 companies, found that "almost all provided medical coverage to full time salaried employees." [Daily Labor Report, 3/1/94]
- Many businesses that already provide coverage could see costs actually drop as the burden of cost-shifting is lifted. Small businesses -- who currently pay 35% more than large businesses to ensure their employees than their larger counterparts -- would benefit most dramatically. [Hay Higgins Report]
- The President's original proposal capped contributions at 7.9% of payroll, and with discounts many small businesses would have paid only 3.5%. Every congressional proposal pending contains even greater protection for our nation's smallest companies. All of the proposals would have costs far below the 90 cent per hour minimum wage increase signed into law by then-President George Bush.
- Recent studies of the minimum wage increase show negligible effects on employment. A study comparing fast food employment in New Jersey where the minimum wage increased, and Pennsylvania where wages stayed stagnant, found a greater employment increase in New Jersey. [Card and Krueger. Princeton University]
- Studies have estimated that reform with shared employer-employee responsibility will create jobs -- as many as 258,000 in the manufacturing sector, and as many as 750,000 in home health care. ["The Impact of the Clinton Health Care Plan on Jobs, Investments, Wages, Productivity and Exports," Economic Policy Institute November 1993; Reuters, from Brookings Institute study, 9/17/93]

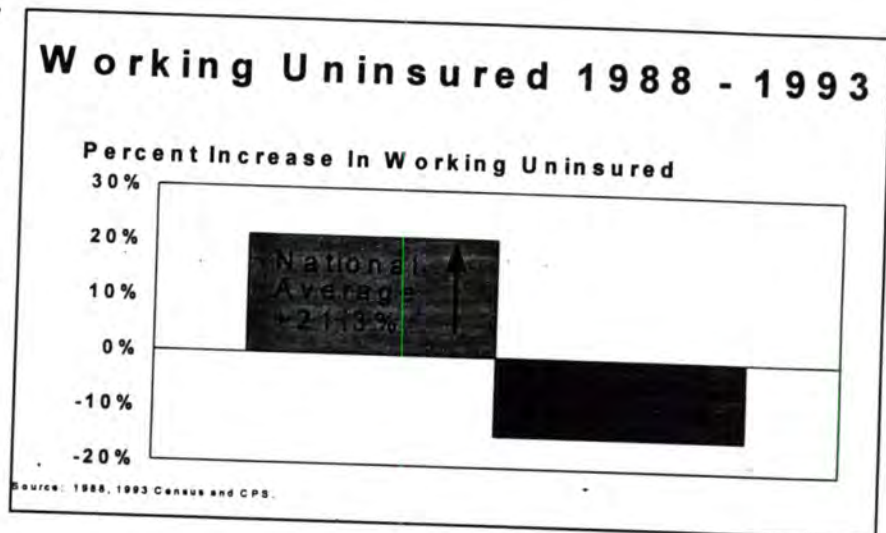
V. HAWAII: HEALTHIER BUSINESSES, HEALTHIER PEOPLE

*"It is clear that the "employer mandate," . . . has succeeded in bringing Hawaii to the threshold of universal health insurance coverage. That seems to have helped restrain health care inflation, a serious problem here but less critical than on the mainland: **health insurance premiums are about 30 percent cheaper here**, while almost everything else in Hawaii is more expensive. "*
 ["Hawaii is a Health Care Lab as Employers Buy Insurance", New York Times, 5/6/94]

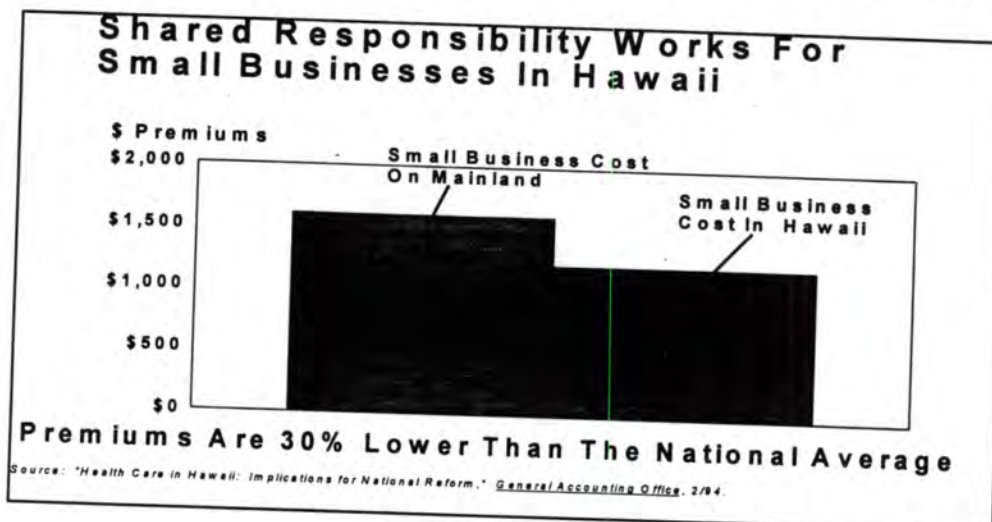
Shared responsibility is neither an untried novelty nor an exotic import unsuited to the American way of business.

Hawaii (1974), Oregon (1989) and Washington State (1993) are the only states with a current commitment to universal coverage. All have chosen employer-employee shared responsibility as the most practical way to achieve it.

- Since 1988, the number of working uninsured in America has increased by 21%. But during that same period Washington enjoyed a 19% decrease in its working uninsured, Hawaii saw a 15% dropped in working uninsured, and Oregon's shrank by 2%. [CPS and Census data, 1988, 1993]



- Hawaii, the state that's had shared responsibility the longest, has 96% coverage. Employer-paid premiums are 30% lower than they are on the mainland. [GAO, 2/94; Hawaii Department of Health, 11/92].



- Since Hawaii began asking all employers to provide insurance in 1974: the unemployment rate has dropped to one of the lowest in the nation; small business creation has remained high; and the rate of business failures is less than half the national rate. [Hawaii Department of Labor and Industrial Relations; Dun and Bradstreet, *Monthly New Business Incorporation Rate*; Journal of the American Medical Association, 5/19/93]

"Universal access is in itself a cost-containment strategy. Because virtually all of Hawaii's people have access to primary care through the employer mandate and the state programs it has made possible, utilization of high-cost services is well below the rest of the nation. This leads to low health care costs, comparatively low small business insurance rates, and a lower portion of gross domestic product spent on health care when the state is compared to the rest of the nation." ["Hawaii's Employer Mandate and its Contribution to Universal Access" JAMA, 5/19/93]