March 9, 1994

TO: Senator Dole

FROM: Vicki Vicki

RE: Self-insurance

The self-insurance industry is very opposed to the Clinton health care plan because of its negative affect on their industry. Very few companies would be allowed to continue to self-insure if the Administration's plan became law, and even those companies who would be allowed to self-insure would be discouraged from doing so through many of the bill's provisions.

Under the Clinton proposal, only companies with 5,000 or more employees would be allowed to opt out of the regional health alliance. These would be the only companies that would be allowed to self-insure -- a dramatic reduction from the current situation.

Under the Single-Payor plan, no companies would be allowed to self-insure. In the Cooper bill, only companies with 100 or more employees could self-insure. This probably does not represent a significant change from current law since most small companies do not self-insure today. All of the other pending health reform plans have no effect on the self-insurance market because the other plans do not propose mandatory health alliances.

The most important point that the self-insurance industry would like you to stress is the need to keep ERISA laws intact at the Federal level. ERISA standardizes the requirements for self-insurance. If ERISA laws are waived, businesses that operate in many states would be subjected to the laws of all the states in which they conduct business. This would represent an administrative nightmare for these large companies who are the most likely to self-insure.

Also, under current ERISA laws, states are not permitted to tax self-insured plans. Obviously, the self-insurance industry would like to preserve this tax-exempt status.

They would also like you to encourage the group to become active in expressing their views to their Congressmen and Senators.

The Clinton plan discourages self-insurance in the following ways:

1. Employers in regional alliances would be required to pay no more than 7.9 percent of payroll for health benefits provided by plans within the regional alliance.

2. By contrast, employers who choose to self-insure in a corporate alliance do not get the benefit of this cap on payroll expenditures. There is no limit on the amount of their health insurance premiums.

3. In a regional alliance, low-wage workers are eligible to receive government subsidies to enable them to pay the employee portion of insurance premium.

4. An employer in a corporate alliance would be required to pay most of the employee portion of health premiums, even for low-wage workers. That is because government subsidies are not available in corporate alliances. The result is that employers of low-wage employees may be required to pay up to 95% of the premium costs.

5. ERISA now permits employers almost total flexibility in choosing whatever benefits they would like to offer their employees. The Clinton proposal calls for a standard benefit package that would have to be offered to all employees, regardless of need. The mandate of a standard benefit package could represent a significant cost increase for large employers who currently self-insure.

6. A 1 percent payroll tax would apply to all corporate alliances, including the payroll of part-time employees who are not even part of the corporate alliance.

7. The employer gets one shot at making the decision to form a corporate alliance or to join the regional alliance. This is an irrevocable decision.

It becomes quickly evident that the economics of self-insuring would not be feasible for most large companies. Since most large employers would probably elect to join the regional alliance, this means that their many employees will be required to change health care plans, possibly disrupting many doctor-patient relationships.

An important note is that the funding of the Clinton plan will be affected since the administration estimates that $24 billion will be raised from the 1% payroll tax on corporate alliances. Most, if not all of this, will not be collected since most employers of large firms will make the rational economic decision not to self-insure.

Senator Dole Private Reception
March 9, 1994
Grand Hyatt Washington at Washington Center

General Reception expected to have 120-130 people.

William M. Bennett
President
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Columbia, South Carolina

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Page Two

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