



The Irony of ObamaCare:
Making Inequality Worse

UNITEHERE!

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The promise of Obamacare was the right one and the hope for extending healthcare coverage to the un- and under-insured a step in the right direction. Yet the unintended consequences will hit the average, hard-working American where it hurts: in the wallet. Currently a national dialogue is emerging by all political parties on the issue of income inequality. That is a debate worth having. The White House and Congressional Democrats are “resetting” the domestic agenda following the negative fallout from the rollout of the ACA. They plan to shift focus from health care to bread and butter issues of income inequality that have eroded the American paycheck for decades.

Obama Presses Case for Health Law and Wage Increase

—*New York Times*, December 4, 2013

Ironically, the Administration’s own signature healthcare victory poses one of the most immediate challenges to redressing inequality. Yes, the Affordable Care Act will help many more Americans gain some health insurance coverage, a significant step forward for equality. At the same time, without smart fixes, the ACA threatens the middle class with higher premiums, loss of hours, and a shift to part-time work and less comprehensive coverage.

- **Transferring A Trillion Dollars in Wealth:** Most of the ACA’s \$965 billion in subsidies will go directly to commercial insurance companies, one of the largest transfers of public wealth to private hands ever. Since the ACA passed, the average stock price of the big for-profit health insurers doubled, their top executives were paid more than a half billion dollars in cash and stock options, and in the past 2 years, the top 10 insurers have spent \$25 billion on mergers and acquisitions.
- **Strangling Fair Competition:** Before reform, different types of health plans were regulated under different bodies of law. The Obama Administration has blocked many non-profit health funds from competing for the law’s proposed trillion dollars in subsidies by refusing to set fair regulations for different types of plans. The unbalanced playing field will give employers of people covered by these plans powerful incentives to drop coverage.
- **Moving to Part Time Work:** The Administration’s experts say employers won’t follow the incentives and drop coverage. But they also told the nation that employers would not cut workers’ hours to get below the 30-hour per week threshold for “full time” work, even as 388 employers announced hours cuts since early 2012.
- **Cutting People’s Pay:** If employers follow the incentives in the law, they will push families onto the exchanges to buy coverage. This will force low-wage service industry employees to spend \$2.00, \$3.00 or even \$5.00 an hour of their pay to buy similar coverage.

A Trillion Dollar Wealth Transfer

\$965 Billion: Projected insurance subsidies under Obamacare, 10 years

\$25.4 Billion: Mergers and acquisitions by top 10 health insurers last 2 years

\$548.4 Million: Cash and stock options to 32 execs of Big 5 for-profit insurers since Obamacare³

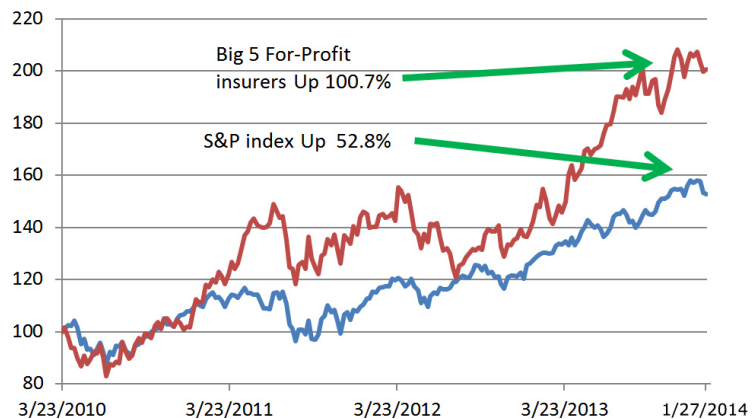
45: States with two health insurers controlling 50+% of the market⁴

0: Likely anti-trust enforcement actions against health insurers. ACA preserved their exemption from federal laws.

The Congressional Budget Office projects that the federal government will spend at least \$965 billion in subsidies to make coverage purchased through the new online marketplaces affordable.¹ Nearly all of that money will go directly to health insurance companies, one of the largest transfers of wealth from public to private hands in history. This is the heart of the ACA — subsidies to persuade health insurers to make their products affordable to new customers.

Even before subsidy checks, the ACA is benefiting for-profit health insurers. The average share prices of the top 5 for-profits — Wellpoint, United, Aetna, Cigna, Humana — have more than doubled since the March 23, 2010 passage of the ACA. At a time of record stock prices, the Big 5's aggregate share prices have increased almost twice as fast as the Standard and Poor's 500 index of blue chip stocks.²

For-Profit Health Insurance Stocks Since Obamacare



“We continue to believe that public exchanges can represent a longer-term upside opportunity.”

—Aetna CEO Mark J. Bertolini, *New York Times*, October 26, 2013

Strangling Fair Competition

For decades, unions and their employers have provided affordable comprehensive benefits to employees through “Taft-Hartley” plans. Named for the anti-union law passed in 1947, these benefit funds are governed by a separate regulatory scheme from commercial insurers, and are a non-profit market counterweight to the for-profit companies. Their joint union-management governance structure gives patients a unique democratic voice in plan governance.

These plans face extinction because the Obama Administration’s regulators have saddled them with all of the regulatory burdens but none of the benefits of health reform. Three key problems combine to drive a potential five-year death spiral:

An Example, UNITE HERE Health

2013:

- **Bad Actors Rewarded, Good Actors Punished:** Like all plans, Taft-Hartleys have eliminated lifetime limits on coverage and now cover dependents until 26 years of age. New ACA rules prohibit plans not already charging a premium for dependents from going back and imposing one. So plans that achieved efficiencies through providing good health care prior to reform are punished. Plans that “solved” financial problems by increasing employee costs before reform are rewarded by continuing to charge high premiums and cost sharing.
- **Employers respond to perverse incentives.** A year before implementation of the employer mandate:
 - **Cutting hours.** Close to 400 employers announce plans to cut workers’ hours back to less than 30 to stay below the 50-worker full-time threshold, more than a year in advance of the employer mandate.
 - **Dropping coverage:** The IRS arbitrarily defined “affordability” as only applying to employees. In response, UPS and other major employers eliminate coverage for working spouses.

2014:

- **Exchanges open.** Self-funded plans including Taft-Hartleys are prohibited from offering plans to the public.
- **Subsidies begin to flow.** First of a trillion tax dollars moves to commercial insurers.
- **“Belly Button Tax” imposed.** All plans pay \$63 per head to ease the transition for insurers offering on the exchanges.
 - Aetna, Cigna, United, Wellpoint, Humana and the Big Blues can recoup their taxes because they can offer plans on the exchanges.
 - Taft-Hartleys and self-funded plans can only pay.

- Employer penalties for dropping coverage are far smaller than the cost of providing coverage — even though many Taft-Hartleys plans cost far less than the market.
- Only plans that offer coverage on the exchanges can receive subsidies.
- Self-funded plans like Taft-Hartleys are not permitted to offer plans to the public, and the Administration has refused to find a way to allow them to do so.

Taft-Hartley plans are entering a skewed marketplace facing competition with multibillion dollar insurers poised to pocket a trillion tax dollars over the next decade. Looking down the road, these plans face an accelerating slide down this uneven playing field:

2015:

- **Employer mandate begins.** Employers must choose: pay \$8,000–\$12,000 per employee for coverage, or cut coverage and pay a \$2,000 per employee fine. Hospitality industry economics create a strong temptation to dump lower-income employees.
- **Employee income declines.** For dropped employees, being pushed onto the exchanges will mean a major loss of income or health benefits. Families moving to the exchanges may lose between 4% and 25% of income to maintain equivalent benefits.

2016-2017:

- **Pressure to drop intensifies.** The cumulative effect of unsubsidized mandates on Taft-Hartley plans will escalate the gap between the cost of benefits and the penalties, raising pressure to drop.
- **States allowed to form interstate compacts for commercial insurers.** This will give commercial insurers the ability to sell the same products in multiple states, as self-insured plans can, with no reciprocal access to subsidies for the self-insureds. Unequal competition intensifies.
- **“Cadillac tax” implemented.** Without subsidies or the ability to tweak premium shares, and with the new mandates raising costs, plans face fatal taxation of 40% of the value of the plan.

Part Time America: Test Case for Dropping Coverage

Many experts sympathetic to the Obama Administration say employers will not dump coverage in large numbers. Yet Obama Administration officials also frequently say that employers will not respond to the ACA's requirement that employers with more than 50 full time employees provide coverage for everyone working more than 30 hours per week.

Yet polling commissioned by the U.S. Chamber of Commerce and the International Franchise Association found that nearly a third of U.S. franchise businesses have already cut workers' hours, and more than a quarter of franchisers have replaced full time with part time workers. A majority of businesses close to the 50-worker employer mandate threshold said they planned personnel moves to stay below 50 full time workers.⁵

Investors.com, website of *Investors Business Daily*, has documented 388 public announcements of plans to reduce workers' hours or cut jobs since early 2012, and several large businesses have eliminated health insurance for part time workers, providing a counterpoint to the Administration's reassuring statements.

A Year Before Employer Mandate, Businesses have already:



Source: *Public Opinion Strategies for US Chamber of Commerce, Int'l Franchise Assn*
<https://www.uschamber.com/sites/default/files/legacy/reports/IFACHamberFinal.pdf>

The Congressional Budget Office now estimates that the ACA will reduce the annual hours worked in the economy from between 1.5% and 2.0% through 2024, the equivalent of losing 2 – 2.5 million full time jobs. The CBO says this will happen primarily because workers will choose to work less. If those estimates are correct, the ACA's impact could be much worse than the CBO's new prediction. Polling and a long list of announced job and benefit cuts suggest that employer behavior is reducing jobs and hours, too.

Cap and Cut: Employers Respond to Obamacare

Investors.com: Feb. 1, 2012 – July 15, 2013	244 articles, announcements, public notices and hearing records of employers planning to cut workers' hours or benefits, or hire part time instead of full time workers
Obama Administration: July 15 (Press Secretary Jay Carney)	<i>"[I]f you look at the economic data, the suggestion that the ACA is reducing full-time employment is belied by the facts."</i> ⁶
Investors.com: July 16-August 1	23 additional reports of hours cuts in just two weeks, including 140 workers at Central Michigan University and 37 in Brevard County FL.
Obama Administration: August 1 (CMS Director Marilyn Tavenner)	<i>"I do hear isolated incidents of individuals trying to cut back hours. I've been all across this country. I actually talked to over 1,000 small businesses in Miami a couple months ago, and . . . they're trying to learn about the law and see if they can make it work for them."</i> ⁷
Investors.com: August 2 – August 13, 2013	10 more reports in the next 11 days, including 50 Maine Subway workers limited to less than thirty hours.
Obama Administration: August 13 (Jason Furman, Chairman, Council of Economic Advisers)	<i>"We are seeing no systematic evidence that the Affordable Care Act is having an adverse impact on job growth or the number of hours employees are working."</i> ⁸
Investors.com: August 14 – October 22, 2013	61 further reports in the ensuing 7 weeks, including national retail chain Forever 21 reducing the hours of 300 workers to 29.5 per week.
Obama Administration: October 22 (Press Secretary Jay Carney)	<i>"The percentage of full-time jobs versus part-time jobs has been at the level of previous recoveries or greater than previous recoveries, again, disproving a charge that seems to be made regularly unchallenged."</i> ⁹
Investors.com: October 23 – December 31, 2013	42 more reports, including retail giant Staples' decision to cap the weekly hours of 35,067 part time workers at 25, ¹⁰ sparking a national furor. ¹¹

"Experts predict more employers in industries with large numbers of part-time workers will make similar decisions to keep costs low.... 'Employers who employ a lot of unskilled [workers] will more often eliminate benefits,' said Robert Laszewki, a healthcare industry consultant."

—LA Times 1/23/2014, reporting Target's announcement that it will drop coverage for up to 36,000 part time workers.

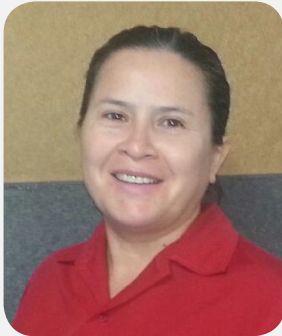
Obamacare and Inequality: UNITE HERE Example

UNITE HERE represents 300,000 workers in hotels, food service and gaming nationwide. Many receive benefits through UNITE HERE Health's Taft-Hartley funds. If employers follow the incentives in Obamacare, the hospitality industry will face labor strife, UNITE HERE members from around the nation will face pay cuts to keep good coverage, and the funds that deliver innovative care to thousands of service workers will be destroyed.

For example, *The New York Daily News* described how the New York Hotel-Motel Trades Council plan offers "platinum" coverage at "silver" prices:

"[w]ith industry financing, the hotel workers union has operated health-care clinics for some six decades. The network includes 200 doctors and provides full ambulatory medical, dental, optical and pharmaceutical services at five locations in Manhattan, Brooklyn and Queens.

"The health plan contracts with an additional 200 doctors to provide specialized care and services. As a result, the union's medical coverage costs about one-third of what other employers pay to buy health insurance."



Angela Portillo

Guest Room Attendant
Mandalay Bay Resort, Las Vegas
Married
Household Income \$61,000
(393% federal poverty level)

"Housekeeping is a tough job—many of us suffer serious injuries doing this work. And ObamaCare would cause my husband and I even more pain. The Obamacare website says we would have to pay \$8,057.04 a year more to keep the great insurance we have now. That's a \$3.87 per hour pay cut. We work hard for our insurance. Why should we have to take a cut in pay for it?"



Earl Baskerville

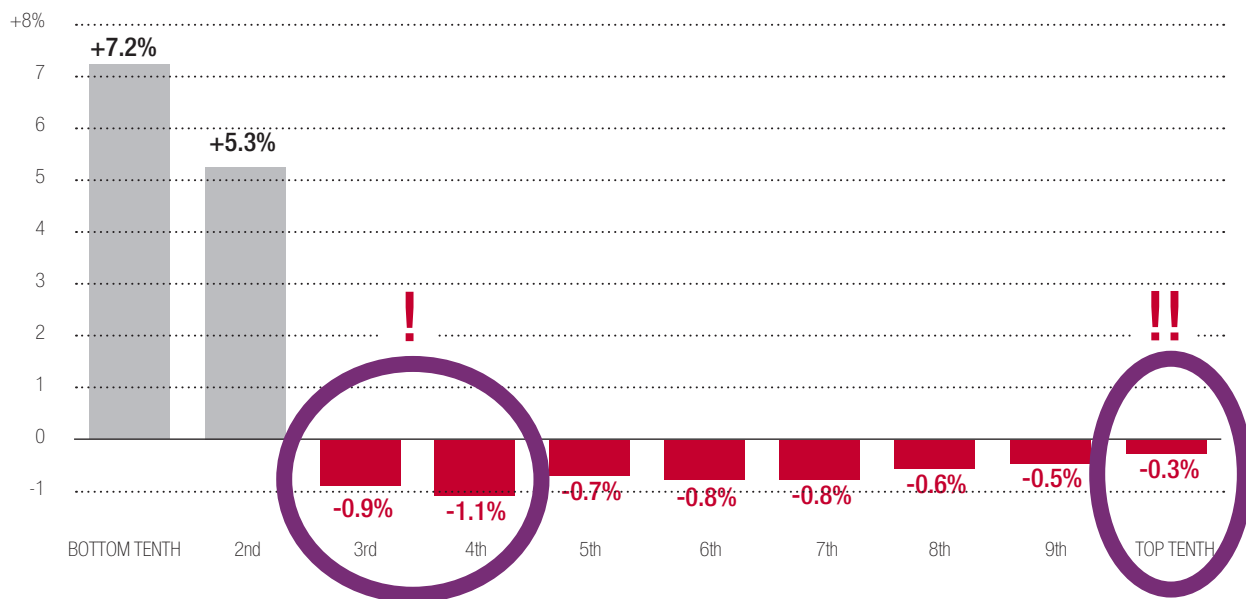
50 year old food service worker,
University of Hartford, CT
Household Income: \$45,000
(392% federal poverty level)
Single

"The health care crisis hit our workplace hard. We tried three different plans in a three year contract. When the for-profit insurance companies were going through the roof, we switched to our union's plan to keep good benefits. But Obamacare will give government money to those plans and not ours. Obamacare would cost me \$4,855.20 a year more, or a \$2.33 an hour pay cut. That's not right. We just want to be treated like everyone else."

Does Washington Understand Inequality?

The Associated Press headline for a new Brookings Institution study says that the ACA will have a “Big Impact on Income Gap.” People in the bottom two tenths of the income distribution would see average gains of 5.3% and 7.2% from the ACA. But take a close look at Brookings’ graph. Families in the next lowest 20% (family income \$20,000 to \$38,000) would suffer significant income declines to achieve these gains. Meanwhile, the top ten percent would give up the smallest percentage of income. Only in Washington could asking the bottom of the middle class to finance health care for the poorest families be seen as reducing inequality.

Change in average income under the Affordable Care Act, by income decile



Learn more at brookings.edu/aca-income



Arturo Marquez

Cook, Hotel Vitale, San Francisco CA

Single Father, 2 children

Household Income \$44,000 (225% federal poverty level)

"I'm a single dad and need every penny for my kids. The best deal Obamacare could offer me would take \$1,908 more than our union plan. That's like a dollar an hour pay cut. If I get really sick and wind up in the hospital, they can charge me \$3,700 more out of pocket. I can't imagine taking care of my son and daughter while taking a \$2.70 an hour pay cut."

Conclusion

For two years, labor unions and employer partners have patiently explained to the Obama Administration and Congress the potential damage that the ACA poses to these unique, successful non-profit health plans.

Having already made efforts to accommodate businesses, churches and congressional staff, it is ironic that the Administration is now highlighting issues of economic inequality without acting to preserve health plans that have been achieving the goals of the ACA for decades. Without a smart fix, the ACA will heighten the inequality that the Administration seeks to reduce.

We take seriously the promise that “if you like your health plan, you can keep it. Period.” UNITE HERE members like their health plans. UNITE HERE’s plans are ready to compete with the corporate giants of the health insurance industry if Washington will simply create a level playing field.

Endnotes

- 1 Congress of the United States, Congressional Budget Office, *Updated Budget Projections: Fiscal Years 2013 to 2023*, May 2013. [“CBO Baseline”]
- 2 Yahoo Finance Historical Share Prices. Weekly closing prices for United Healthcare, Aetna, Cigna, Humana and Wellpoint were downloaded along with the S&P 500 index from March 23, 2010 through November 26, 2013. The prices on March 23, 2010 for all six data sets were indexed to 100, and the five company share prices averaged. Four of the five exceeded the S&P 500, one of the five, Wellpoint, slightly underperformed the index, increasing 48.5% over the period measured. The indexed prices for the other four individual companies: United: 227; Aetna: 200.47; Cigna: 245.63; Humana: 219.24.
- 3 SEC Schedules 14A for United HealthGroup Incorporated, Aetna Inc., Cigna Corporation, Wellpoint, Inc., and Humana, Inc., 2011, 2012, 2013
- 4 “AMA Analysis Lists States Where One Private Health Insurer Rules”, <http://www.ama-assn.org/ama/pub/news/news/2013/2013-11-07-study-anticompetitive-market-conditions.page>
- 5 http://pos.org/documents/ifa-chamber_survey_findings.pdf
- 6 <http://thehill.com/blogs/healthwatch/health-reform-implementation/311393-carney-suggestion-obamacare-prevents-full-time-hiring-belied-by-the-facts>
- 7 <http://www.reuters.com/article/2013/08/01/net-us-usa-healthcare-tavenner-idUSBRE96U1F520130801>
- 8 http://investigations.nbcnews.com/_news/2013/08/13/20010062-businesses-claim-obamacare-has-forced-them-to-cut-employee-hours?lite
- 9 <http://www.mediaite.com/online/jay-carney-september-jobs-report-disproves-anti-obamacare-part-time-jobs-talking-point/>
- 10 <http://www.buzzfeed.com/sapna/staples-accused-of-cutting-employee-hours-ahead-of-obamacare>
- 11 <http://www.change.org/Staples>

