The Free Choice Proposal: Workers and Employers Get More Choices and Savings

Health reform should give ALL Americans choices. Americans who are happy with their current coverage should be able to choose to keep it just as Americans who are unhappy with their current coverage should be able to reject it and choose a better plan. The Free Choice Proposal shows that it is possible to guarantee these choices – not just for some Americans – but for ALL Americans in a way that strengthens the employer-based health care system.

While health reform shouldn't blow up the current employer-based system, health reformers should not steer clear of improving the system. Today half of American workers fortunate enough to have employer-sponsored health insurance are given no choice in where they get their coverage; and while millions of Americans say they are happy with their current health insurance, most Americans aren't able to keep that insurance if they lose their job, change jobs or go into business for themselves. Additionally, as health care costs continue to skyrocket more and more employers are being forced to provide their workers with cheaper benefits or drop coverage altogether. Health reform can and should improve the employer-based system to address these issues.

How would "Free Choice" work?

The Free Choice approach addresses the need for increased choice and portability by creating a path for employers to insure their workers through a national insurance marketplace known as the "Exchange." Instead of just allowing some Americans to choose a health plan in the Exchange while keeping others out, the Free Choice approach would give all Americans choices. Instead of being required to either "play or pay," employers would have a third option of giving their employees access to the Exchange. They would do this by providing their employees a fixed, affordable contribution – a voucher – to choose either their current insurance plan or an Exchange plan of their choice. Workers would then have the choice of buying more coverage if they need it or buying less to maximize the employers contribution and to keep coverage affordable.

How would this help Americans?

By having access to the Exchange, individuals and families will have more choices. They can choose to keep the insurance that they currently have or if they aren't happy with their current plan, they can use their voucher to go into the Exchange and select an insurance option that works better for them and their family. Because the Exchange will force insurance companies to compete for customers on the basis of price, benefits and quality, individuals might find a more attractive plan in the exchange that will even allow them to pocket some of their employer's contribution as a bonus. Moreover, since Exchange plans will be available universally, most Americans will be able to choose to stay with the same insurer if they lose their job, change jobs or go into business for themselves.

How would this help employers?

Because so many more people will be getting their insurance through the Exchange – thus spreading risk and lowering administrative costs – most employers will save money by providing their employees insurance through the Exchange. Employers with good health plans will be able to maintain their plans because they will offer their workers better value – either better benefits, lower costs, or both. Employers with high cost, low value plans have new ways to cut their costs: they can give their workers money to buy the lowest cost plan in the Exchange or if enough of their workers prefer to buy through the Exchange, the employer can bring their entire group to the Exchange and get a discount on the cost of the Exchange plans. That way, the employer and workers can continue to get the benefit of group coverage while still providing workers with more choices.

How would this impact the system?

The Free Choice approach would strengthen both the employer-based system and the new national Exchange while generating health care savings.

- ✓ The Free Choice approach strengthens the employer-based system by giving employers additional bargaining power to negotiate affordable health care for their workers. For example, if insurers won't offer affordable coverage to an employer, that employer would have the option of taking the entire business to the Exchange and getting a discount on their coverage. Making health benefits more affordable for employers makes it less likely that employers will be forced to drop health coverage and more likely that other employers will be able to start offering the benefits.

- ✓ The Free Choice approach improves the economic viability of the Exchange-based individual market, by increasing the number of Americans participating in the Exchange, which has the added benefit of lessening the potential need for future government interventions.

- ✓ The Free Choice approach reduces rising health care costs. Unlike under the current system where most Americans consider health care a "free" benefit – thus encouraging the over consumption of health care – allowing Americans to pocket the money they save in making a careful health care purchase is proven to save the system money while forcing insurers to compete to offer more affordable quality plans. The Congressional Budget Office has already scored savings for health reform legislation that provides choices of coverage and financial rewards for those who choose plans that offer good value for consumers.

More details on how Free Choice would expand choices to all Americans.

Currently, employers pay an average of 70% of their workers' health coverage costs. The Free Choice Proposal would fix 70% of the lowest cost Exchange plan as the bottom-line contribution for all large employers to their employees' health benefits. This could be paid in a number of ways:

1) For most employers and employees there would be no change. Employers would have the competition from Exchange plans to drive the best bargains with their current insurers. Employees would have the security of knowing that they could no longer lose their employer benefits during times of economic instability.
2) During the transition, employers with smaller benefit packages would have to offer benefits at least equal to the lowest cost Exchange plan, or could choose to purchase an appropriate plan for all of their workers from the Exchange at a discount.
3) Employers not offering coverage would have a choice: offering their own coverage, purchasing discounted coverage through the Exchange, or simply paying their share of their employees' Exchange purchased plans. Employers would have the security of knowing that all of their domestic competitors would have the same per-employee costs.

Smaller employers would still be expected to contribute, but at a lower, graduated, level to ensure that the new contributions would not discourage employment or encourage replacing current employees with part-timers or independent contractors. The employer contribution would start at .125% for the very first employee and increase by .125% for each additional employee up to 560 employees when they would be paying the full 70% employer share.

Estimated Employer Payments Under the Free Choice Proposal:

National Average for Employer-provided Individual Premium: $4,700/yr

Employer/Employee Split : $3,290/$1,410

Basic Exchange Individual Premium: $3,525/yr

Employer Responsibility: $2,467/yr, either paid as employer coverage or the Exchange

In this case, if the employer didn't offer a plan, or failed to offer an appropriate plan, the employee could take the $2,450 to the Exchange and purchase a plan that works better for them. If the employee saves money on this transaction they would get to keep it, creating the additional incentive to shop wisely for coverage.

Average Employer Provided Family Premium: $14,000/yr

Employer/Employee Split: $9,800/$4,200

Basic Exchange Family Premium: $10,500/yr

Employer Responsibility: $7,350/yr

If the employer is currently offering an average plan and paying $9,800/employee the vast majority of workers will keep that plan. But the workers will have the option to go to the Exchange and save more than $1,000/year in out-of-pocket expenses by purchasing the basic Exchange plan ($ 10,500 - $7,350 employer contribution = $3,150 or $1,050 less than the employee spends in an employer plan) -- a market force that will help limit employer premium increases and increase competition between plans to offer high value, lower cost coverage.

Employers could also save when their employees buy coverage in the Exchange. In this example, the employer's share of the cost of the basic Exchange plan is $2,450 less than what the employer currently pays ($9,800 - $7,350 = $2,450). In order to help pay for subsidies for lower income workers employers could be assessed a percentage of their savings on such a transaction to further support the Exchange system. But even with this assessment, many employers would still save money when their workers buy coverage in the Exchange.

Adding workers to the Exchange would add no cost to the federal government because workers would not receive federal subsidies. This policy would also expand the risk pool for the Exchange, lowering the overall costs for Exchange based coverage, and lowering the costs of subsidies for the government through system-wide savings.

It's clear that getting bipartisan support for pay or play will be a huge challenge. The Free Choice proposal provides an alternative way for everyone to pay something without destabilizing employer coverage that offers workers more choices and provides savings.

Transition to the Free Choice System

Year 1- People who are currently in the individual market plus small employers with up to 10 workers and the uninsured have access to the exchange.
Year 2-- Add small employers with up to 25 workers to the exchange.
Year 3-- Give State Medicaid programs the choice to be in exchange.
Year 4-- Open up the exchange to medium sized employers with up to 250 workers using the Free Choice approach.
Year 5 - Open exchanges to all employers.