Promise and Pitfalls of Pool/Exchange and Tax Savings to Reach Working Uninsured

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The Changing Health Insurance Landscape

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Critical <u>Difference</u> Between a Large Employer and a Pool for Small Employers and/or Individuals

- A large employer group **constitutes an attractive pool of people to insure because it is what carriers often refer to as a** "natural group"—**a group that is constituted for purposes other than health insurance.**
- Such a "natural group" includes a healthy share of low-risk persons. **They participate in the pool largely because the employer contribution is applicable only there and the workers' net cost of coverage is lowest there.**
- Individual small employers **by definition do not have large populations, so a given small employer is** more likely to have a disproportionate share of low or high risks.
- A group of small employers, and/or individuals each having choices about where, how, and whether they obtain health insurance is not a "natural group."

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Broader Risk Spreading Is Important: The Most Expensive 5% of the Population Accounts for About Half of Total Health Care Costs

(Percent of Total Expenditures Incurred by Top and Bottom x% of Population, Ranked by Total Payments for Health Services)

Percentile	Total Population, 2002	Privately Insured <65, 2002
Top 5%	49%	49%
Bottom 50%	3%	n/a

Source: William W. Yu and Trena M. Ezzati-Rice. *Concentration of Health Care Expenditures in the U.S. Civilian Noninstitutionalized Population*. Statistical Brief #81. May 2005. Agency for Healthcare Research and Quality, Rockville, Md. <http://www.meps.ahrq.gov/papers/st81/stat81.pdf>

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Avoid “Poolish” Pricing Policies: Pooled Rates Won't Work If Healthy People Can Get Preferred Rates Elsewhere

Health Insurance Pools:
Magic Bullet Effects on Costs and Coverage?

<u>Where No Subsidies and No Mandates</u>

Tighter versus looser small employer rating rules*

and

Small employer purchasing pools

The objective research literature found <u>little to no effect</u> on

– health insurance costs or
– coverage rates

*e.g., Findings and references: Marquis, S.M., & Long, S.H. (2001) Effects of "second generation small group health insurance market reforms, 1993-1997, *Inquiry*, 38(4), 365-380.

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A Workable Option: Target Subsidies / Tax Credits *exclusively* through the pool.

- Low-wage small firms and modest income individuals cannot afford to purchase coverage
- Channeling subsidies / tax credits for low-wage small-firm workers and/or individuals only through the pool:
  - **A sizeable new "Neutral" group could be reached through the pool, making it an attractive opportunity for health plans.**
  - **The subsidies would play the role that large employer contributions play for their employee plans (create cohesion similar to that which a "natural" group enjoys).**

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A pool or "exchange" can simplify premium assistance for job-based contributions

- Specify plan options that meet State policy goals for population.
- Pool automatically knows subsidized families are enrolled in plan. And either pool defines or tracks employer contribution levels.
- Collect premium contributions from employer groups, combine with subsidies on behalf of the State (and, if worker choice of plans ala FEHBP, route them to the health plan chosen by the enrollee).

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Some Other POLICY WHYS

Purchasing Pool Roles to reach Uninsured Workers in Small Employer Groups

- Utilize payroll withholding, other efficiencies unique to job-based coverage, lower costs of group coverage
- Efficiently harness subsidies for low-income workers
- Extend coverage to uninsured workers above subsidy income eligibility line at no state cost
- Reinforce work, job stability, career development
- Create hybrid between group and individual coverage, interface between private employer contributions and public subsidies
- If desired, worker choice of health plans, relieve employer of sponsor / purchaser burden

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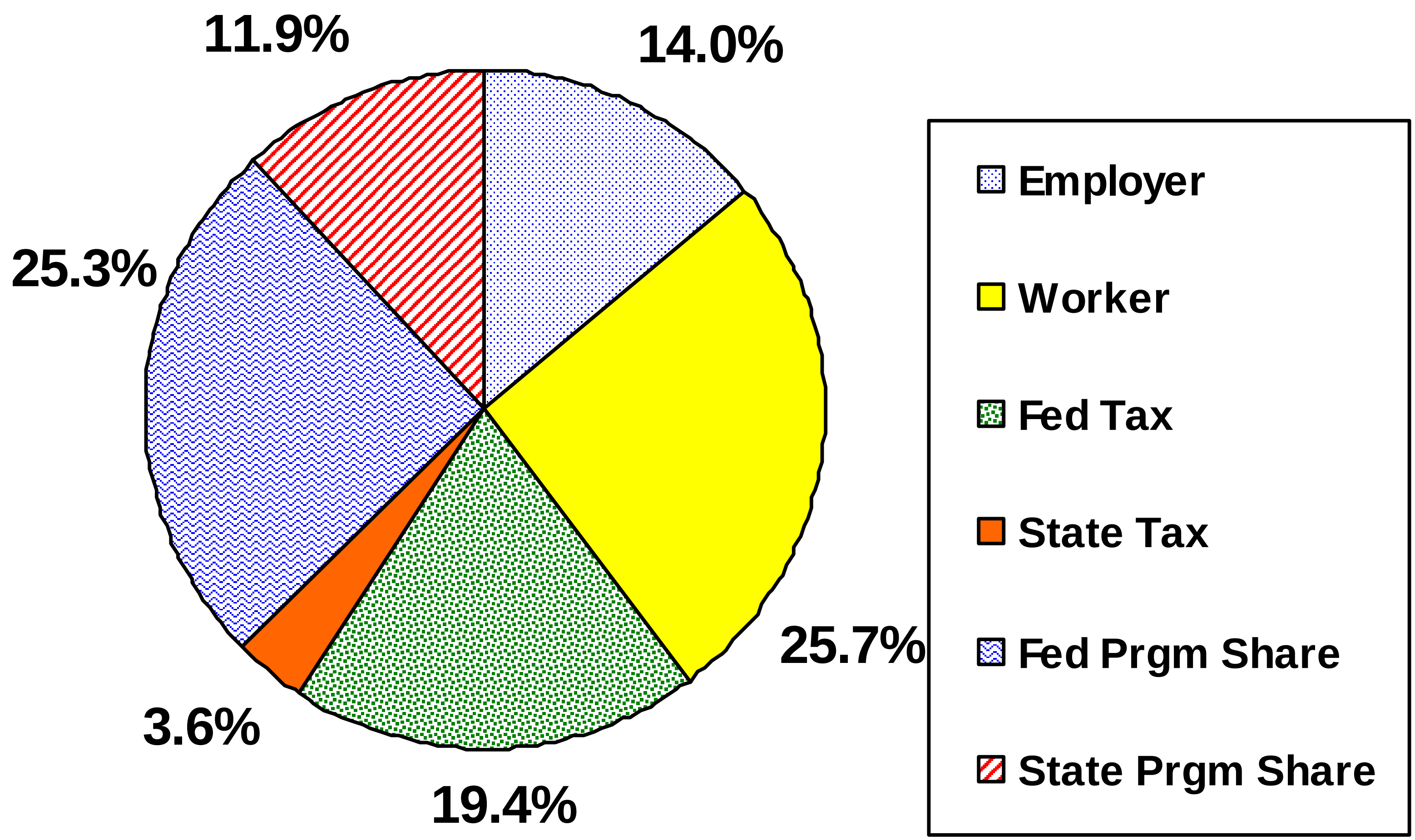
Limited State and Employer Contributions Can Leverage Multiple Existing Financing Sources for Coverage of Low-Wage Small Employer Groups

<u>Example includes some non-subsidized group members</u>

Illustrative % of Total Program Premium Cost Paid by Different Sources



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Why consider mandatory approaches?

Only mandatory coverage approaches can obtain coverage of all –

- **Bring the currently healthy into coverage**
- **Can avoid perverse incentives and cost shifts and counter-productive crowd-out**
- **E.g., people of comparable incomes make comparable contributions**

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Why consider mandatory approaches? (cont'd)

Conversely, voluntary expansions to cover working uninsured --

- **Achieve enrollment goals via lower participant contributions than many with same incomes pay for employer coverage**
- **Thus cause shifts from existing coverage, increasing public costs per uninsured person covered, and**
- **Too expensive to substantially reduce the number of uninsured on a sustained basis (i.e., here we are…)**

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Mandatory Coverage Approaches Analyzed

- Individual Mandate – (Massachusetts style)
- Alternative Individual Mandate (reduced State cost)
- Individual Mandate with employer pay minimum percent of payroll
- **All Consumer Choice Pool, Employer and Individual Pay**

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Insurance and Poverty Status of the Non-Elderly Population in California, Maryland, Massachusetts and the U.S., 2004

Non-Elderly in 2004	California	Maryland	Massachusetts	U.S. Total
Percent Uninsured	20.7%	16.3%	13.1%	17.8%
Percent with Employer Coverage	55.6%	69.2%	69.4%	63.2%
Percent on Medicaid	16.8%	8.1%	14.5%	13.3%
Percent Who Are Under 250% FPL	42.8%	29.5%	28.7%	38.8%
Percent Under 250% Who Are Uninsured	31.6%	32.5%	22.4%	29.3%
Percent Who Are Uninsured and Under 250% FPL	13.5%	9.6%	6.4%	11.4%

Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2005. Author's tabulations using online Table Creator at http://www.census.gov/hhes/www/cpstc/cps_table_creator.html.

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Low-Wage Workers and Employer Coverage in

California, Maryland, Massachusetts and the U.S., 2003

	California	**Maryland**	**Massachusetts**	**U.S. Total**
Share of workers employed by firms with a majority of low-wage workers (under $9.50/hour)	17.7%	14.7%	10.4%	19.2%
Workers with own-employer coverage in low-wage firms as a percent of all workers with own-employer coverage	7.8%	4.9%	2.8%	8.4%

Source: Author's tabulations based on data from the 2003 MEPS Survey of Private-Sector Business Establishments, U.S. Agency for Healthcare Research and Quality.

Data accessed from http://www.meps.ahrq.gov/MEPSDATA/ic/2003/Index203.htm

All estimated mandatory coverage approaches include:

- **Sliding scale subsidies to assure coverage is affordable**
  - **People under poverty pay no premium**
- **Employer tax sheltering for <u>all</u> worker contributions**
  - ✓ **Reduces individual's and state subsidy costs**
  - ✓ **Payroll withhold efficient, reliable, easy contributions venue**
- **Coverage Arrangements through a "health insurance exchange"/consumer choice pool (for those not eligible for employer-sponsored coverage)**
- **3% premium savings due to universal coverage**

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All approaches designed to minimize relative exposure to ERISA challenge

- Team’s legal analysis (Patricia Butler) is that State can require employers to tax shelter workers’ contributions
  - E.g., DOL ruling indicating that Section 125 tax sheltering plans are not ERISA plans
- Limitations on how far a “pay-or-play”/”fair-share” approach can go in assuring employer contributions for all workers
  - Prudent State approach involves a “pay” level based on an employer’s contributions across workers, e.g., average per worker or $ amount as a percent of payroll
  - Can’t structure “pay-or-play” to cover each individual worker without directly or indirectly referencing the employer plan – an ERISA no-no

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Change in California Premium Payments by Source across Scenarios

Premium payments by:	Mass-Style	Alt Indiv Mandate	Er 5% [$2.4b]	ACCE "High-Value"
Employers	$5.1	$5.1	$7.5	$0.5
Tax System	$1.5	$3.4	$3.4	$2.3
People	($2.0)	($1.2)	($1.2)	($0.3)
Public Programs	$11.5	$7.5	$5.1	$1.1
TOTAL Premiums	$16.1	$14.8	$14.8	$3.6
Cost to State (including tax revenue loss)	$9.7	$6.7	$4.3	$3.2

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