



The Hilltop Institute

analysis to advance the health of vulnerable populations

Small Business Participation in the New Mexico State Coverage Insurance Program: Evaluation Results

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The New Mexico State Coverage Insurance Program Evaluation

The Hilltop Institute at the University of Maryland, Baltimore County (UMBC) recently completed the first formal evaluation of the State Coverage Insurance (SCI) program. The study objective was to identify factors that have influenced employer participation in SCI. The study findings highlighted in this brief draw from two employer surveys fielded in 2008 and site visits to interview program stakeholders conducted in July 2008 and May 2009. The evaluation was partially funded by the *Robert Wood Johnson Foundation's* State Health Access Reform Evaluation (SHARE) program through a partnership between the New Mexico Human Services Department (HSD) and The Hilltop Institute.

Overview of the SCI Program

New Mexico's SCI program is a public/private partnership that provides access to subsidized health insurance for uninsured adults aged 19 through 64 years with household incomes below 200 percent of the federal poverty level (FPL). The program was initially conceived under the previous ad-

ministration as a health care coverage option offered to low-income workers through small businesses and jointly financed by private (employer/employee) contributions and by public (state/federal) funding. The program was implemented under Governor Bill Richardson in July 2005. The pro-

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gram targets small businesses with 50 or fewer eligible employees. These businesses may sponsor group enrollment into SCI for employees whose incomes are at or below 200 percent FPL. Low-income adults (working and non-working) may also enroll directly in the program without an employer sponsor.

SCI is funded through three revenue streams: federal subsidies authorized through a federal 1115 waiver under the Children's Health Insurance Program (CHIP) (approximately 71 percent of program revenue), state funds (approximately 18 percent), and premiums from participating employers and individuals (approximately 11 percent).

HSD contracts with three health plans to offer a standardized benefit package. SCI is marketed to employer groups by insurance brokers who are certified by the state. Many of these brokers also sell commercial insurance products to small businesses. Commissions paid to brokers for SCI enrollment vary by carrier, but generally are lower than commissions for commercial products.

The standard SCI benefit package covers inpatient and outpatient physical health services, prescription drugs, and behavioral health services. It includes nominal co-pays

and has a \$100,000 annual claims benefit maximum. This benefit maximum was included in the original 2002 waiver because it was an effective way of ensuring an affordable premium. Enrollees who reach this maximum benefit level have the option to transfer to the New Mexico Medical Insurance Pool, the state's high-risk insurance pool.

Employers pay a \$75 monthly premium for each enrolled employee; employees pay either \$20 or \$35 (depending on their income) per month. Since August 2007, the state has assisted individuals with household income below 100 percent of the FPL with the premium contribution. Continuation of such state assistance with the premium remains contingent upon the availability of state funding.

As of June 2009, 37,918 individuals were enrolled: 27,000 without group sponsorship, 3,000 with group sponsorship, and 7,918 with an unreported group status. The number of employers and sponsored employees participating in the program has risen sharply since implementation. However, relative to the large number of small businesses in the state, employer participation remains low, and most individuals—including those who work for small businesses—enroll in SCI without employer sponsorship.

Efforts to Attract Small Employers to Participate in the Program

Since the program's inception, the state has implemented new strategies to ease administrative and cost barriers to participation by small employers. These strategies have been designed in response to ongoing feedback from health plans, insurance brokers, and employers in an effort to attract more small

employers to the program. The most important strategies are described here.

Agents of the State Certification: In July 2006, the state established a training program available to those who assist with eligibility applications, including brokers, out-

reach workers, and others. As agents of the state, certified individuals are authorized to view original documentation from potential applicants that proves identity and U.S. citizenship or legal permanent residence, a necessary step in the application process.

Certified agents may visit the employer's worksite to compile and accept employee applications so that employees do not have to take time off work to visit a county office.

Group Enrollment Center: The *Insure New*

Mexico! Bureau established the Group Enrollment Center (GEC) in June 2007 to respond directly to employer inquiries about SCI, provide initial screening of the firm's eligibility, link employers to brokers, and coordinate application submissions. In addition, there are two dedicated Central Processing Units at the state's Income Support Division to process the large increase in SCI applications submitted by individuals.

What are the Characteristics of Businesses that Participate in SCI?

To learn more about businesses that participate in SCI, The Hilltop Institute contracted with Research & Polling, Inc., located in Albuquerque, New Mexico, to conduct a telephone survey of businesses that joined SCI between June 2007 and August 2008.¹ To understand how participating businesses differ from businesses that do not enroll but are likely eligible for SCI, a survey was conducted of those businesses that requested information about SCI between September 2007 and April 2008 from the *Insure New Mexico!* GEC but had not joined SCI as of August 2008.²

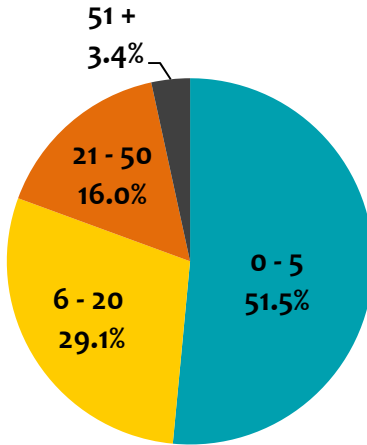
Just over one-half of participating businesses employ five or fewer full-time year-round workers. As shown in Figure 1 below, most participating businesses are very small, despite the fact that businesses with up to 50 eligible employees may sponsor SCI. The average number of full-time year-round workers among participating businesses is 13.

Participating businesses represent many different industries. Many types of businesses have chosen to sponsor SCI, including retail stores; auto dealerships; gas stations and convenience stores; doctor and dentist offices; home health agencies; community and social service organizations; day care providers; construction, maintenance, and repair services; restaurants and hotels; agriculture and dairy processing plants; and many others. Just over 80 percent of these businesses are for-profit, and almost all of them have only one location.

¹ Of 312 businesses that were eligible to participate in the survey of participating employers, 269 responded.

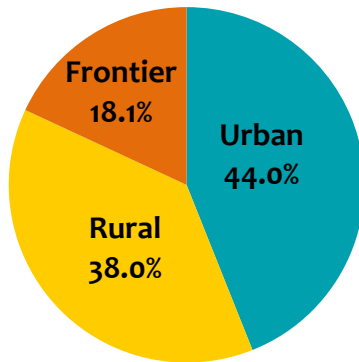
² Of 198 businesses that were eligible to participate in the survey of inquiring employers, 148 responded. Both the survey of inquiring employers and the survey of participating employers were fielded between September 2008 and January 2009.

Figure 1. Number of Full-Time Year-Round Workers Employed by Businesses Participating in SCI



Participating businesses are located throughout New Mexico. Participating businesses are located in almost every county in the state. Just over one-third (38 percent) of these businesses are located in a rural county, 18 percent are located in a frontier county, and 44 percent are located in an urban county (Figure 2).³

Figure 2. Percentage of Participating Businesses in Each Region



More than two-thirds of participating businesses have been in operation for ten or more years. Businesses that have been in operation for many years may be more financially stable than businesses that are new to the market. They may have prior experience offering other benefits to employees and may be more confident entering into a long-term commitment to sponsor SCI.

³ Regional classifications were designated by HSD. The urban region includes Santa Fe, Bernalillo, Los Alamos, and Dona Ana Counties. The rural region includes Chaves, Curry, Eddy, Grant, Lea, Luna, McKinley, Otero, Rio Arriba, Roosevelt, San Juan, Sandoval, Taos, and Valencia Counties. The frontier region includes all other counties.

Almost one-half of participating businesses report an annual operating budget of less than \$250,000. Businesses with small operating budgets have chosen to sponsor SCI. However, businesses with larger operating budgets may be more willing and able to make long-term commitments to their workers through sponsorship of SCI or offering other benefits.

Just over one-third of participating businesses are low-wage employers. Approximately 36 percent of participating businesses report that more than one-half of their employees earn less than \$10 per hour. Low-wage employers (businesses that employ mostly low-wage workers) may have high rates of uninsurance among their workers. The fact that businesses with fewer low-wage workers are also participating in SCI suggests that businesses in different types of markets are finding SCI to be an attractive coverage solution.

Almost one in four participating businesses is a vendor to the state of New Mexico. In the summer of 2007, Governor Richardson signed an Executive Order requiring that state vendors offer health insurance coverage to their employees.⁴ This order currently applies only to businesses with large annual state contracts. However, small businesses may now have new incentives to seek coverage options for their workers to compete for new state contracts, and SCI has become a vehicle for these small employers to meet the state's mandate.

Participating businesses differ from businesses that inquired about but did not enroll in SCI. Participating businesses are larger than inquiring businesses, with an average of 13 and 8 full-time workers, respectively. Compared to inquiring businesses, participating businesses are also significantly more likely to be located in a frontier county (18 versus 8 percent), are more likely to employ mostly low-wage workers (36 versus 25 percent), and are less likely to report an annual operating budget under \$250,000 (47 versus 63 percent).⁵

⁴ State of New Mexico. (2007). *Executive Order 2007-049: State of New Mexico Contractor Health Coverage Requirement*.

⁵ All differences between samples noted in this brief are significant at the $p < .05$ level.

How Do Employers Describe Their Experience with SCI?

Participating businesses sponsor enrollment into SCI for 5 employees on average, and 71 percent sponsor 5 or fewer employees. Many businesses sponsor SCI for only a few workers. Although some businesses see a benefit to sponsorship, very small businesses and businesses with only a few low-wage workers disproportionately choose not to participate. In this case, the workers eligible for SCI can enroll directly in the program.

Sixty-nine percent of participating businesses reported that the application process was easy or very easy for the business, and 65 percent reported that it was easy or very easy for the employees. When a business chooses to sponsor SCI, both the business and employees who want to enroll in SCI must complete paperwork. The business must apply for eligibility as a participating employer, select a health plan through which to offer SCI, and contract with the health plan to submit monthly pre-

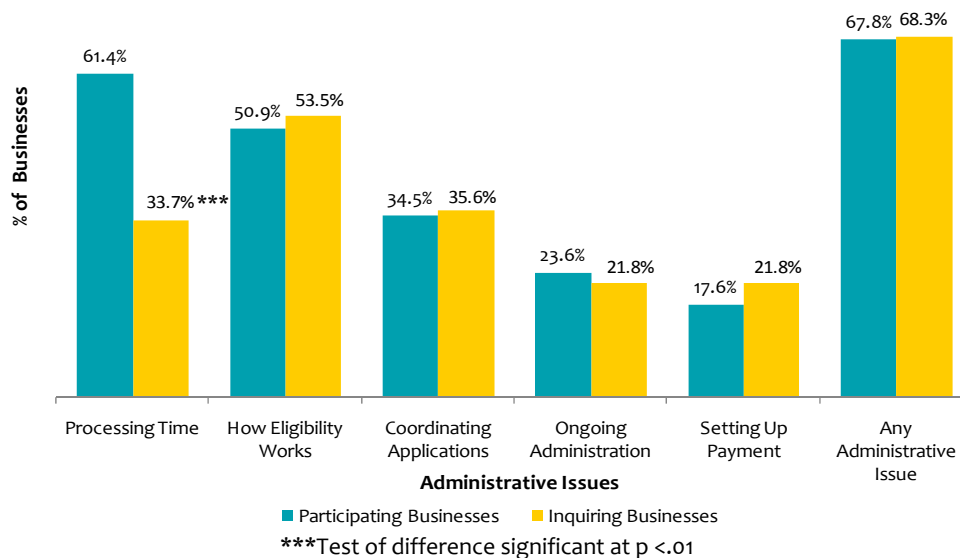
mium obligations. Insurance brokers play a critical role in facilitating the enrollment process for both the business and its employees. A significantly higher percentage of employers who stated that a broker or health

plan representative visited their worksite reported that the application process was easy or very easy for the business and employees (70 percent), compared to employers who were not visited (57 percent).

Do Participating Businesses Have Concerns about the Administrative Burden of Sponsoring SCI?

More than two-thirds of participating businesses reported that at least one of the administrative issues below applied to their business. Inquiring businesses were just as likely to report concern about administrative issues (Figure 3). SCI eligibility guidelines for individuals are dictated by federal regulations for CHIP, which is the program’s primary funder. Many of the administrative issues identified as burdensome are tied to SCHIP funding. These include 1) the amount of time to process the application, 2) understanding how eligibility requirements apply to the business or its employees, 3) coordinating applications, 4) setting up the premium payment, and 5) ongoing administration.

Figure 3. Concerns that Applied to the Business when Deciding to Participate in SCI: Administrative Issues



Over 60 percent of participating businesses reported concerns about the amount of time necessary to process applications. Individual applications must be submitted to the state’s Income Support Division (ISD), which processes all applications for Medicaid and CHIP programs, including Salud!, New Mexikids, and SCI. However, the ISD eligibility system cannot track individuals as a group. The GEC assumes this role instead, submitting to the ISD most applications

for one business at the same time. This may simplify the process for employees, but adds time to the application process. Inquiring businesses were about half as likely to report this concern, but these businesses may not have completed the process.

About one-half of participating businesses reported difficulty understanding how eligibility requirements applied to the business and its employees. An individual's eligibility for SCI is based on family income, not simply wages paid by the sponsoring business to the employee. This makes it difficult for a business to predict how many of its workers will be eligible for SCI, and for how many it will be obligated to pay premiums.

One-third of participating businesses reported that coordinating the SCI application with other health insurance applications was difficult. In addition to the fact that application processing time varies across case workers once applications are submitted, a business can face the added complexity of coordinating the SCI benefit with open enrollment for a private plan option if the business is offering a private plan in conjunction with SCI.

Approximately one in four participating businesses reported that ongoing administration of the program would be complicated for the business. Because individual workers can become eligible for SCI in different months, their renewal times can also vary. As new workers are hired, their eligibility and renewal periods are also added to this equation. As is the case with private health insurance benefits, the business must set up and submit premium payments to the health plan. Almost one in five businesses reported that setting up the premium payment to the health plan was complicated. This concern may reflect the lack of experience most participating businesses have in offering any kind of health insurance program.

Do Participating Businesses Have Concerns about the Cost of SCI to the Business and its Employees?

Concern among businesses regarding the costs of SCI sponsorship is far less prevalent than concern regarding administrative issues. Only one-third of participating businesses reported at least one concern about the cost of SCI to the business (Figure 4). About 19 percent were concerned about affording the employer share of the premium in the first month, and 27 percent had concerns about the cost of the program to the business over the long run.

Inquiring businesses are more likely than participating businesses to have concerns about the cost of SCI. Just over one-half of

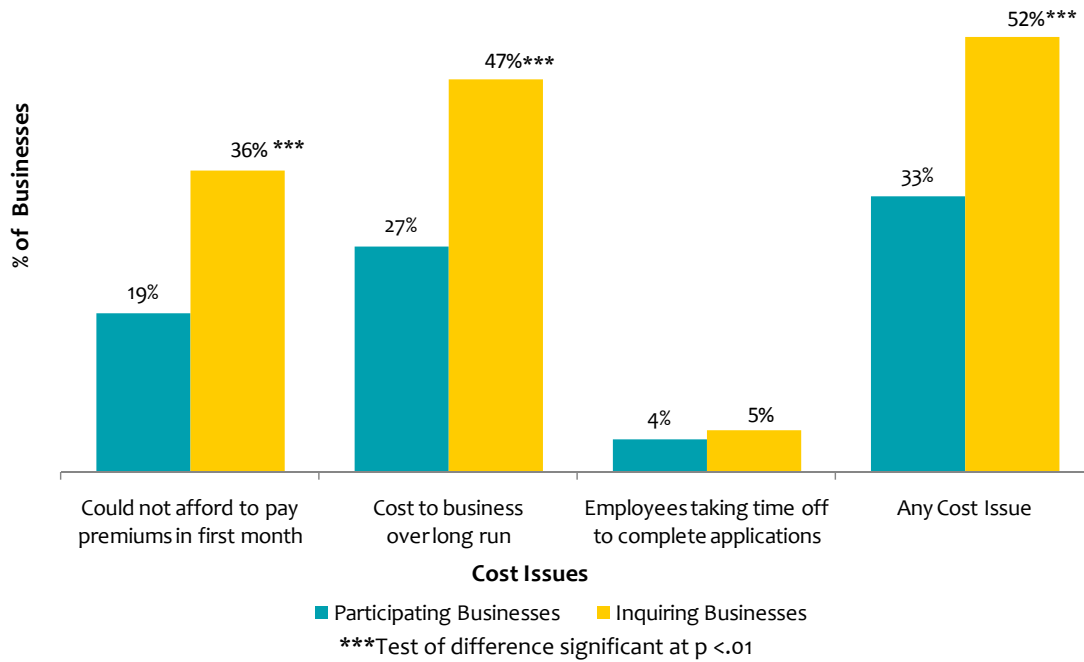
inquiring businesses (52 percent) reported at least one concern about the cost of SCI to the business, compared to 33 percent of participating businesses. Moreover, inquiring businesses were less likely than participating businesses (44 percent and 86 percent, respectively) to have "highly agreed" that SCI is affordable for businesses like theirs and is affordable for their low-wage employees.

More than two-thirds of participating businesses reported that the maximum amount a business like theirs should be asked to spend on health care coverage was \$75 or more per employee per

month. The \$75 level is far higher than the expected average premium obligation per enrollee for a business now that the state fully subsidizes premiums for the lowest-income enrollees. Inquiring businesses did not differ significantly from participating businesses on this measure, despite a significantly greater share of inquiring businesses reporting concerns about the cost of SCI. We speculate that much of the concern inquiring businesses have about SCI is gener-

ated by the program’s lack of cost transparency. Since an enrollee’s eligibility is based on family income rather than wages, a business cannot anticipate how many workers will become eligible or what the total premium obligation will be for the business. Insurance brokers interviewed during the site visits conveyed the difficulty of getting employers over this hurdle of cost concerns.

Figure 4. Concerns that Applied to the Business when Deciding to Participate in SCI: Cost Issues



Do Participating Businesses Have Experience Offering Private Insurance?

SCI regulations stipulate that employers may not have dropped employer-sponsored insurance (ESI) voluntarily in the twelve months prior to sponsoring SCI. Individuals who have been covered by ESI in the past six months are not eligible for SCI.

Most participating businesses have no recent experience with the private insurance market. Most participating businesses (88 percent) reported that they did not offer any private health insurance to any employees at the time of interview. About two-thirds had never offered insurance in the past three years. For these businesses, SCI is

filling a gap for low-income employees who would otherwise not be offered coverage through their employer. The lack of experience with private insurance is also one more hurdle insurance brokers face in recruiting employers to participate in SCI. Insurance brokers reported that, among employers who had not previously offered private insurance, health insurance literacy was poor, and brokers had to cover a lot of ground to get them up to speed, including making the “business case” for offering a health insurance benefit to employees, in addition to explaining the SCI program and enrollment processes.

Lessons from the Evaluation

This evaluation highlights several lessons from the implementation of the SCI program to date. Importantly, the program has attracted a diverse array of businesses to sponsor SCI enrollment for their workers. These employers represent a wide variety of industries and all regions of the state. Such success may be a testament to an effective broker recruitment and training program.

The *Insure New Mexico!* Bureau has worked closely with health plans and insurance brokers since the program’s inception to develop a training program and dedicated support services for brokers, and has streamlined referral mechanisms to link employers with brokers. Compared with other states that have engaged businesses in order to facilitate enrollment in coverage expansions, New Mexico appears to have had greater success in engaging brokers in a way that facilitates business participation and works in tandem—not in competition—with private insurance marketing.⁶ In particular, brokers may play a critical role in achieving the disproportionate participation of businesses in frontier counties, where brokers often know business owners personally. Brokers may also help businesses and their workers navigate a complex enrollment process—notably, understanding eligibility requirements and anticipating costs to the business.

This evaluation also highlights the significant challenges that the SCI program will face to increase employer participation. Although participation by businesses has grown over the life of the program, their participation continues to be low relative not only to the potential, but also to the

⁶ McKethan, A., King, J., Nguyen, N., & Lischko, A.M. (2009, July). *Evolving State Approaches to Expand Coverage in the Current Wave of State Access Reform*. Washington, D.C.: Engelberg Center for Health Care Reform at the Brookings Institution.

volume of direct enrollment by individuals. Very small businesses with less than five employees and businesses in urban counties are currently underrepresented. New approaches to increase employer participation will need to be explored, and the state is actively working on addressing this issue as it develops plans to renew and modestly revise the underlying Medicaid Section 1115 waiver.

The complexity of the eligibility and enrollment process will be an ongoing barrier to recruiting employers to the program. Both participating and inquiring businesses reported a variety of concerns about the administrative burden of sponsoring and enrolling their workers in SCI. Many of the administrative issues identified as concerns are tied to CHIP funding. Thus, program stakeholders face a trade-off between accepting federal subsidies in order to achieve significant coverage expansions, and designing a program that is simple for businesses and their low-income workers to navigate.

One controversial provision being considered in federal health insurance reform legislation could generate increased employer participation in SCI by changing the incentives employers face in the insurance market. The so-called “free rider penalty” penalizes employers for each employee who receives subsidized coverage through the health insurance exchange. Such a provision, if enacted, could prompt employers to sponsor SCI for their low-income employees and avoid the penalty. Such a provision may also increase the amount of premium subsidy per employee that businesses would be willing to pay to insure their workers through SCI if they otherwise would forfeit a higher amount through a federal penalty. However, any new options proposed under federal legislation could be years away from implementation.

In the meantime, uninsured adults who are not otherwise eligible for public coverage and who do not have access to ESI that is affordable must rely on state innovations to expand coverage. In New Mexico, increasing employer participation in SCI could help sustain the program as a coverage alternative for low-income workers. Employer contributions provide a private revenue source that brings down the cost for the state and taxpayers. In return, employers also benefit. Clearly SCI provides an affordable coverage solution for businesses that sponsor SCI. Only one-third of participating businesses reported any cost concern about SCI, and nearly 90 percent perceived SCI as affordable for their business and low-income workers. Because small businesses often cannot provide affordable private insurance options for their workers, engaging small businesses in the SCI program as an alternative coverage solution continues to be a promising mechanism by which universal coverage could be achieved in New Mexico.

About The Hilltop Institute

The Hilltop Institute at the University of Maryland, Baltimore County (UMBC) is a nationally recognized research center dedicated to improving the health and social outcomes of vulnerable populations. Hilltop conducts research, analysis, and evaluation on behalf of government agencies, foundations, and other non-profit organizations at the national, state, and local levels. To learn more about The Hilltop Institute, please visit www.hilltopinstitute.org.



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