OVERVIEW OF PROPOSED MODEL OPTION TO EXPAND HEALTH INSURANCE COVERAGE AMONG EMPLOYED VIRGINIANS

Background

In 2004, the state of Virginia was awarded a State Planning Grant (SPG) from the Health Resources and Services Administration of the U.S. Department of Health and Human Services. The goal of Virginia's SPG calls for the development of a business plan for extending health insurance coverage to a defined population of working uninsured, with recommendations for implementation to be submitted to Governor Warner through the Secretary of Health and Human Resources by September 2005. Several workgroups have been charged with soliciting data and input from the business and consumer communities critical to project development.

The charge of the SPG Model Development Workgroup (MDWG) is to: 1) identify the target population of working uninsured to be served by an insurance coverage expansion, 2) understand the various state options and their feasibility for insurance coverage expansion, and 3) identify and recommend an insurance model(s) designed to have the most significant impact on coverage expansion.

The MDWG was guided by the following principles when it identified the target population in Virginia, and reviewed model options to expand insurance coverage:

- Have the greatest impact on improving continuous coverage for the target population.
- Not duplicate existing coverage options for the target population or adversely impact the coverage of other populations with limited resources.
- Have a significant impact on reducing health care costs for the target population.
- Have a significant impact on improving the health status of the target population.
- Be implemented in an environment requiring that the cost of model coverage be shared by and be affordable and sustainable to target employees and employers as well as state government.
- Be implemented in an environment dictating that available public subsidies for model coverage be budget-neutral.
- Reduce target employee low productivity, absenteeism, turnover, and other employer costs associated with lack of health care coverage and disease prevention.
- Otherwise, be easily understood, economically attractive and politically feasible to target employers, health insurance brokers, and state government.

Target Population

Guided by the goals of SPG, and based upon the best available state and national data, the priority target population is the employed uninsured and their dependents in small businesses, as follows:

- Employed in small Virginia businesses (businesses employing between 2 to 50 employees). Currently in Virginia, over half (51.7%) of all workers aged 19-34 years and eighty percent of all workers 35 to 64 years employed in Virginia businesses with 50 or fewer employees are uninsured. Just under a third of very small employers (those with less than 11 employees) in Virginia offer health insurance to their workers. Individuals working in companies with less than 50 employees are twice as likely to be uninsured as individuals working in companies with more than 50 employees.[i] More tenuous profit margins and market characteristics make insuring small groups expensive and difficult for both insurers and small businesses. Additionally, small businesses are more susceptible to failure; yet they often are the backbone of economic growth in their communities.

- In households with incomes between 100% to 300% of the Federal Poverty Level (FPL).
  The proportion of Virginia families without health insurance living at or below 150% FPL equals or exceeds 20 percent. The proportion is highest for households living at 134-150% FPL (nearly 29%). Rates at which employers offer health insurance in Virginia for workers at or below 150% Federal Poverty Level (FPL) are significantly lower (under 50%) than offer rates for workers above 150% FPL (over 60%).[ii] Employment and family income are the two characteristics most influential in health insurance coverage. Working low-income households typically are uninsured because they have difficulty accessing and affording health insurance coverage.

Insurance Expansion Options Considered

The MDWG has considered the following state approaches that represent the best options for expanding private insurance coverage under the mission of the Virginia State Planning Grant—*to improve access to health insurance for the working uninsured*.

1) Subsidizing or Reducing the Cost of Private Coverage:
- Create state-funded premium assistance / private insurance buy-in programs
- Make state-funded reinsurance available (Reduce price of private insurance for low-income uninsured and small employers by having state cover portion of health insurers' high-cost or catastrophic claims)
- Provide health insurance tax credits or deductions to purchase coverage
- Allow sale of no-mandate insurance policies exempt from state-mandated benefit requirements
- Authorize tax-free health savings accounts (HSAs) for covered individuals to offset part of cost of deductibles, co-payments or other non-covered expenses
- Allow group purchasing arrangements for health insurance such as association health plans

2) Eliminating Barriers to Getting Insurance:
- Put in place small group rating reforms to control variability in premium rates for small employers
- Enact individual health insurance market reforms
- Establish/broaden state continuation-of-coverage (COBRA-like) laws
- Allow other groups to join state employee health benefit plans
- Expand definition of 'dependent' in health insurance policies (e.g., raise eligible age)

3) Compelling Employers to Provide Coverage for Certain Groups:
- Enact employer mandate to offer health insurance to some/all employees
- Other: Require college students to be insured; Require provision of health insurance as condition of state contracts

4) Public Program Expansion
- Expand income and group eligibility for Medicaid and establish Medicaid premium assistance or buy-in program
- Expand income and group eligibility for the State Children's Health Insurance Program (FAMIS) and establish FAMIS premium assistance or buy-in program
- Strengthen outreach and enrollment efforts for Medicaid and FAMIS
- Establish/expand state-only high-risk pools and other health insurance programs

Considering the feasibility and impact of all available options, *four were examined in depth* and considered before a final recommendation was made:
- Small group reforms
- Consumer-driven health plans

- Tax incentives
- Sale of 'mandate-light' or no-mandate policies

Deleted: ,

Recommended Insurance Expansion Option and Prototype Product Design

A small group market product, coupled with tax incentives for small businesses for a portion of the individual premium, along with an extensive education and outreach program to businesses, brokers and individuals is proposed. Additional details about the model option and its features/approaches are being circulated for comment. *The table on page 5 summarizes benefit features*.

Product Purchase Market and Eligibility

The (new) product would be provided by private insurance carriers to address current, unmet needs in the small business market. The MDWG notes the intent of the new product is not to replace the need for publicly subsidized coverage (i.e., Medicaid, FAMIS) for low-income individuals and 'destabilize' the current market, but rather to expand the private insurance market and ensure coverage options to individuals that may not have an alternative to public coverage. In prevent market destabilization, eligible employers must not have been offered a health insurance product to their employees within the past 12 months. Moreover, the insurance product will be offered to employee dependents as well as employees.

The proposed insurance product will be issued in the small group health insurance market as defined by Virginia state code, and preferably be offered under the state's standard insurance underwriting rules and regulations (regulatory review underway and necessary changes will be developed) . A group model was selected in order to reach a large number of uninsured, spread insurance risk, and keep costs low. An exception to something less than the '75% employee participation' requirement may be recommended.

Demand Factors

Review of the current literature has identified a very low price tolerance for health insurance premiums for low-income individuals and families—as low as 1-2 percent of their take-home pay. The proposed product is designed with these low price tolerances as the primary driver for decisions of benefits covered under the product, while ensuring that the proposed product continues to meet requirements of a true insurance product under current state regulations. Analysis done through the State Planning Grant project indicates that that the cost of insurance, and to a much lesser degree perception of need and availability of insurance through the employer, account for individual/family decision to "take" insurance. The recommended approach takes these factors into consideration.

Affordability

The average total premium cost of the new product was designed to be sold for is approximately $100 per individual per month[1]--an amount perceived as affordable based on nationwide studies and household incomes among many of Virginia's uninsured. As with other private sector products, the new small group product would be priced according to existing carrier pricing practices for premiums for adults aged 19 to 64 years. Actuarial projections for the proposed product are being developed during the period of commentary. The product recommended also includes premium cost sharing between the employer and employee, with the employer paying between 50 and 60% of the premium cost and receiving a tax subsidy.

[1] Pending actuarial analysis and carrier coverage features

Prototype Product Coverage Features[2]

The prototype product includes the following benefit features:

- Preventative and primary care services for individual employee with household coverage available for family members (adults and children),
- Maternity care and emergency room visits,
- Limited or generic prescription drug coverage,
- An option or rider to cover some basic level of dental care and dependent coverage,
- Basic hospitalization coverage (inpatient services and outpatient surgery) associated with catastrophic-related care.

To sustain its attractiveness, the product would:

- Offer first-dollar coverage on the front end for preventative and primary care,
- Require greater cost-sharing on other benefits, including co-payments for office visits and deductibles for all other services,
- Set an annual maximum out-of-pocket payment for some level of catastrophic protection,
- Reimburse health care providers in a manner similar to PPO network models, in order to be acceptable under current state regulations.

Product Promotion and Distribution

A significant part of the recommendations for expanding health insurance coverage through the private sector in Virginia includes the development of marketing and distribution strategies (especially to businesses and their employees, as well as the Virginia health insurance and broker community). Additionally, recommendations will include the importance of establishing an education program and incentives for small business, insurance carriers, and insurance brokers, as follows:

Incentives

Current incentives under consideration include:

- For small businesses: To improve employee recruitment and retention, offer tax credits for the costs of providing limited health insurance coverage to employees and their dependents. The proposed insurance model would offer small employers a first dollar tax rebate on 80% of the cost of their contribution (e.g., 50-60%) to the monthly premium [for example: $48 (80%) of $60, which is 60% of a $100 monthly premium]. A credit for personal and corporate income taxes paid by small employers who provide health insurance coverage to their employees was included in recent legislative proposals to lower health insurance costs for small business (SB 1255 in 2005).
- For insurance brokers: To increase brokers' incentives to sell the product, provide: 1) Commission incentives for volume product sales in an 'under-tapped' market, 2) Tax credits, and 3) New product information in broker bi-annual re-certification courses.

Because no front-end public dollars are available to subsidize premium costs, public contribution can best be structured using tax incentives. Approval and implementation of any tax incentives would require new legislation, and the impact of any tax subsidy to the state treasury remains to be determined. Recommended legislative language will be developed as part of the final proposed insurance product, pending review and commentary.

[2] See the benefit matrix in the Appendix for more information.

End Notes

[i] Health Access Data Assistance Center (SHADAC). 2004 Virginia Health Care Insurance and Access Survey, 2005.
[ii] Health Access Data Assistance Center (SHADAC). 2004 Virginia Health Care Insurance and Access Survey, 2005.

APPENDIX: Proposed Prototype Insurance Product

Benefit	Product A	Basic Hospitalization Product
Annual deductible	$500-$1500	$1000-$2000
Annual Out of Pocket Maximum	$4000-$6000	$4000-$6000
Inpatient Services	30-40% coinsurance AD	30-40% coinsurance AD limited to 30days per calendar year
Outpatient Surgery	30-40% coinsurance AD	30-40% coinsurance AD limited to 30days per calendar year
Physician Office Visits	Visits 1-4 $30-$45 copay w/deductible waived Visits 5+ 30-40%AD	Up to 3 visits only $20-$40 w/deductible waived or 50% of 1st $1000
Diagnostic Lab and X-ray	30-40% coinsurance AD	Not covered
Preventative Care for Adults	Visits 1-4 $30-$45 copay w/deductible waived Visits 5+ 30-40%AD Includes colorectal cancer screenings, annual pap smears, annual mammograms, PSA screenings; 30-40% AD	Mandated services only
Preventative Care for Children	Available as rider Or 100% coverage imbedded	Available as rider Or 100% coverage imbedded
Emergency Room Visits	30-40% coinsurance AD	30-40% coinsurance AD
Maternity **	$3000-$4000 copay **	$3000-$4000 copay **
Prescription Drugs	Not covered or generic only	Not covered
Annual Maximum	$25,000-$50,000	N/A
Riders	Dental Rider	
Out of Network Deductible	2x in network deductible	2x in network deductible
Out of Network Out of pocket	2x in network out of pocket	2x in network deductible
Out of Network Coinsurance	40-50% AD	40-50% AD

Note: AD means "against deductible."
** A smaller co-payment for maternity services may be needed in order to be in compliance with current state insurance requirements (See Code of Virginia: 38.2-33407.16).