

# TEXAS STATE PLANNING GRANT FINAL REPORT - MARCH 2003

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## ***Executive Summary***

In the spring of 2000, the Texas Department of Insurance (TDI) was asked by then Governor George W. Bush to apply for a State Planning Grant (SPG) for the State of Texas. TDI received the official notice from HRSA in February 2001 that Texas' grant application would be funded as part of the second round of SPG awards effective March 1, 2001. Under the terms of the grant, Texas was to collect both qualitative and quantitative data through a variety of survey and research activities, and use the information gathered in the research phase to develop options for expanding health insurance to uninsured Texans.

Because of the large number of uninsured Texans and the diversity of populations across different areas of the state, the SPG staff and Working Group members agreed from the beginning that a significant reduction in the uninsured would require a multi-faceted approach that includes both private and public options. The cooperation of a large number of key stakeholders was essential to the success of the project and a key factor to the significant strides that have been made throughout the past two years. Members of the SPG Oversight and Implementation Working Group were chosen in large part due to their unwavering interest in the problems of uninsured Texans and their commitment to addressing the needs of these citizens. Further development of the policy options under consideration and plans for implementation will depend on their continued dedication.

Although Texas did not reach consensus on which policy options to pursue for adoption, all planned survey and research activities proposed in the original grant application have been completed, as well as some additional activities that were completed during the 12 month extension period and were not included in the original plan design. Some options have been implemented, and others are under consideration in various legislative proposals that are now pending before the Texas Legislature. Some options are no longer realistic due to economic conditions, but may be considered in the future once the state's budget improves. Following is a brief overview of the activities and the major highlights of the study. Additional information on all grant and survey activities is available at <http://www.tdi.state.tx.us/company/spg.html>.

### **Data Collection Activities**

Texas' survey activities were designed to obtain information that would be most useful in developing policy options for expanding health insurance. The six primary data collection activities are summarized on the following pages.

### ***a) Small Employer Survey***

More than 50,000 surveys were sent to small employers in Texas to collect information on their attitudes and perceptions regarding insurance, and their ability and willingness to purchase private coverage. The development, implementation, and analysis of this survey activity were conducted entirely by SPG staff. More than 13,000 completed surveys were received, an indication of the importance of this issue among small businesses. Major findings of this study include:

- The primary reason employers do not offer insurance is because it is unaffordable.
- Approximately 23 percent of surveyed employers can afford to pay less than \$50 per month per employee for coverage; 22 percent can pay no more than \$50; and 20 percent can pay no more than \$100.
- Nearly 14 percent of the small businesses would not purchase insurance at any cost.
- Employers are not aware of small business insurance reforms enacted in 1993 and 1995 that were designed to make insurance easier to obtain and more affordable.
- Only 10 percent of the employers believe employers are primarily responsible for assuring that individuals are insured; 27 percent believe the Federal government is responsible, 13 percent believe the State government is responsible, and 42 percent believe individuals are responsible.
- 25 percent of small employers currently not offering health insurance report that they definitely will not offer insurance in the next three years, and 50 percent probably will not offer insurance.

### ***b) Survey of Households above 200 Percent of Federal Poverty Level***

Under contract with the SPG program, the Texas A&M University Survey Research Laboratory (SRL) conducted a telephone survey of uninsured households above 200% of federal poverty level (FPL). Modeled after a similar study conducted by the California Health Care Foundation, the survey questions were modified to address the need for specific information from Texas' uninsured residents. Individuals above 200% of FPL were selected due to the fact that most studies have concluded that families below 200% of FPL require some type of subsidy or substantial premium assistance from employers or other entities. More than 1.8 million uninsured Texans reside in families with incomes above 200% of FPL, but very little statistical data is available regarding why this large group of people remains uninsured. The household survey was designed to provide a more detailed picture of this population, including: the reasons they are uninsured; whether employment-based insurance is available; the reasons they decline such coverage; how much they are willing to pay for insurance; the extent to which they desire health insurance; the types of medical benefits they prefer in a health plan; their interest in a variety of public and private insurance options; and other important demographic and attitudinal information. Significant findings from the survey are:

- More than half of the non-poor uninsured adults are under the age of 40; 29 percent are between age 19 and 29, with 25 percent between 30 and 39.
- Though overall statewide rates of uninsured are highest among minorities in Texas, the majority (68 percent) of non-poor uninsured Texans are white non-Hispanic individuals.

- Sixty-five percent of the non-poor uninsured report they have not purchased insurance because it is too expensive.
- When looking at a number of different factors, sixteen percent of the non-poor uninsured can be considered reluctant to buy insurance at any cost; the majority of these individuals are young males who are healthy, prefer other job benefits to health insurance, and are satisfied with obtaining health care in low-cost public clinics.
- By occupation, the largest amount (42 percent) of non-poor uninsured adults are employed in professional jobs; other employment categories include sales (13 percent), clerical (12 percent), service jobs (11 percent), skilled blue collar (9 percent), laborers (7 percent) and semi-skilled workers (3 percent).
- Most of the non-poor uninsured are employed in small firms; 39 percent work in firms with less than 5 employees and 20 percent in firms with no more than 30 employees.
- More than half (58 percent) of the non-poor uninsured are employed by firms that offer health insurance, but 53 percent of those are not eligible for the coverage. Of the remaining 47 percent who are eligible, most report the coverage is too expensive.

***c) Survey of Health Insurance Carriers and Health Maintenance Organizations***

All licensed HMOs and 40 of the largest health insurers in Texas (writing approximately 70% of all health insurance premiums) were surveyed to collect information on the fully-insured health insurance market in Texas. Companies provided information on health insurance premium rates and how those costs vary by group size; claims cost information; data regarding small employer plans required to be offered under Texas law; the prevalence of stop-loss coverage and administrative-services-only (ASO) contracts; the extent to which managed care plans are offered; and other information that is still being analyzed. Some of the survey findings include:

- Average premium rates were generally higher for small groups than large groups; the average annual premium for individuals in a small employer plan was \$2,621 compared to \$2,274 for individuals in a large employer plan.
- Average annual premium costs varied significantly among carriers; small employer premiums ranged from a low of \$1381 to a high of \$3138, a difference of more than 127%. Even wider ranges were reported for large employer groups with an average annual premium rate as low as \$1,031 to a high of \$4642, a difference of more than 350%.
- Insurer claims for 16 mandated benefits represented 4.48 percent of all claims paid. Each of the mandated benefits represented less than one percent of total claims paid, and 13 of the benefits represented less than one half of one percent of all claims paid. The two most expensive mandated benefits were diabetes supplies and training (0.80 percent of all claims), and serious mental illness (0.74 percent of claims).
- The number of small employers with health insurance has continued to increase since 1993, but the rate of increase has slowed considerably since 1999. Insurers and HMOs report 36,952 small employers offered health insurance in 1993; in 2001, carriers report 100,539 small employers provided health insurance covering 1,259,809 people.

#### *d) Focus Group Activities*

Working with SPG staff, the Texas A&M University Public Policy Research Institute (PPRI) conducted focus group meetings in 15 cities across Texas representing all of the major geographical areas of the state. Three sessions were held in each location (a total of 45 sessions statewide), including one each for uninsured unemployed individuals, uninsured employed individuals, and small employers both offering and not offering health insurance. Initially, the staff planned to only include small employers who do not offer health insurance, but at the request of various groups decided to also include small employers who do offer health insurance since many expressed concern that they will be forced to drop the coverage they currently offer if costs continue to rise. The personal stories expressed at these focus group sessions were both poignant and disturbing, and underscored the importance of continuing this effort to expand insurance to include all Texans. The more important findings obtained from the focus group sessions were:

- Cost is the primary barrier to obtaining health insurance for both individuals and small employers.
- Both individuals and small employers felt the state should be more involved in creating standard packages that are affordable and available regardless of an individual's health status.
- The uninsured are very willing to help pay for their insurance, but cannot afford the costs under the current system.
- Both individuals and small employers feel overwhelmed by the complexity of the insurance market and suggested that the state provide more educational assistance to help people shop for insurance and answer questions about benefits and coverage; and
- Focus group participants often suggested that Texas should create a system of universal health care that is based on what they refer to as a "socialized" model.

#### *e) Carrier Telephone Survey*

During the first year of the SPG study, carriers repeatedly expressed concern with the small employer market, but many of the comments were anecdotal or lacking in detail. To obtain more qualitative information, the actuarial consulting firm Milliman USA conducted a series of discussions with six of the largest carriers representing approximately 68% of the small group health insurance market based on the percentage of premiums written. Milliman worked with SPG staff to develop a survey form which was mailed to the carriers in advance of the phone interview. Milliman spent several hours speaking with representatives from each company to discuss the survey questions and obtain input from the carriers on various issues related to improving the insurance market for small businesses. Major findings from the survey include:

- Carriers believe the current standard basic and catastrophic insurance plans they are required to offer small employers are outdated and do not fulfill their intended purpose to guarantee availability of a lower cost plan.
- Carriers indicated that several provisions of the current small group statutory and regulatory requirements contribute to higher premium costs. They specifically mentioned

mandated benefit requirements, clean claims legislation that requires timely payment of insurance claims, and rate band restrictions as contributing factors.

- Carriers expressed no interest in participating in purchasing alliances, despite the high interest expressed by small employers. Carriers do not believe alliances will result in lower premium rates for small employers.
- Several carriers are concerned that not all insurers are complying with state requirements, and are using the system to obtain an advantage over carriers that do comply. One carrier stated “There needs to be a level playing field.... We would support audits to ensure this.”

The surveyed insurers offered a wide range of suggestions and recommendations for improving the market. Companies generally supported: wider rate bands; revisions of the standard plans to make them more appealing to employers, less expensive, and more consistent with other policies offered in today’s market; and stricter monitoring and enforcement of carrier activities to ensure uniform compliance.

#### *f) Agents Survey*

During the second year extension, SPG staff conducted a survey of group health insurance agents to obtain information related primarily to the small employer group market. During several focus group meetings and in discussions with agents attending the small employer insurance fairs, insurance agents repeatedly complained about carrier activities that penalized agents for writing certain types of small businesses, and appear to be in violation of legislative and regulatory requirements. However, very few agents were willing to go “on record” with a formal complaint due to concerns that the company would retaliate against the agent since closed complaint records are not confidential under Texas law. Carriers that participated in the survey mentioned above also acknowledged that agents were reluctant to identify specific companies, and suggested that TDI conduct an anonymous survey to protect agents’ identities.

The agent survey was initially sent to approximately 350 active agents. Due to a low response rate, an additional 300 surveys were distributed. Agents were encouraged to return the surveys anonymously, though many agents voluntarily included their name and contact information in case staff needed additional information. Where possible, agents were asked to include supporting documentation of certain activities, and were instructed to delete any information that would identify either the agent or the client. At the end of six weeks, SPG had received 94 completed surveys. Though the response rate was lower than expected, the agents that participated provided excellent information and frequently attached supporting documentation. Information on specific claims against various carriers has been provided to staff at the Texas Department of Insurance for appropriate investigation.

In addition to providing information on specific carrier activities, agents also responded to several general questions regarding the small employer market. Suggestions agents offered for increasing the number of insured small firms include:

- Develop cost-effective plans that provide employers with less comprehensive coverage and more affordable rates;
- Reduce participation and contribution requirements to allow more small businesses to meet carriers' requirements;
- Allow carriers to offer a benefit plan that does not include the mandated benefits required by law;
- Increase oversight of carriers' activities that are in violation of state law and are designed to discourage agents from submitting higher risk groups; and
- Assist and protect agents through better enforcement of laws and regulations related to agent commission payments that are intended to encourage agents to write more small businesses.

### **Working Group Participation**

Throughout this process, the SPG staff worked with a supportive stakeholder group officially referred to as the Oversight and Implementation Working Group. This diverse group of people represents numerous organizations that have a crucial interest in the provision of health care in Texas. Members of the Working Group include staff representing the Governor, Lt. Governor, and Speaker of the House; members of key health-related committees in both the Texas Senate and the Texas House of Representatives; the Director of the Texas Legislative Budget Board; state agency representatives from eight different agencies, including the Department of Health, the state Medicaid Office, the Children's Health Insurance Program, the Health and Human Services Commission, the Texas Health Care Information Council, and the Office of Public Insurance Counsel; other representatives of consumer organizations such as the Texas Mental Health Association, Consumers Union, and Advocacy, Inc.; provider representatives from the Texas Hospital Association and the Texas Medical Association; representatives of the insurance industry and agent associations; public health and indigent care coalition advocates; and public health policy researchers and experts. All Working Group meetings were broadcast via the internet and were open to the public.

### **Statewide Conference**

To provide all Texans with the opportunity to participate in the SPG process and to provide a forum for discussing the various policy options that were developed as part of this study, the SPG staff hosted a statewide conference on January 31 - February 1, 2002. The focus of the conference was to review all survey and research activities and discuss the potential options for expanding insurance. Presentations were made summarizing highlights of the surveys and focus groups, and a detailed overview was provided for each of the policy options under consideration. Nine breakout sessions were held on the second day to allow participants to discuss the policy options and to obtain feedback on the feasibility of each option. Though no consensus was obtained as to the best programs for expanding health insurance in Texas, the discussion generated some very worthwhile information and provided insight into some of the challenges that must be overcome to implement the various programs.

## **Development of Policy Options**

Throughout the process of developing policy options for expanding coverage, the Working Group and SPG staff maintained an open and receptive attitude towards a variety of public and private options. As time progressed, however, it became clear that developing consensus on possible solutions would require more detailed analysis and a long term commitment of significant resources. Changing economic conditions impacted the feasibility of several options, and Working Group members acknowledged that any program requiring additional funding was not realistic at this time. As such, the focus shifted from attempting consensus to developing a variety of options that would appeal to a broad audience, including low-cost alternatives that would require little if any state revenue as well as those that could be considered in the future as the economy improved. Though no single approach is being recommended at this time, the study yielded several options that have already been implemented and several others that are under consideration by the Texas Legislature. Options that received significant support from a majority of the Working Group include:

- Redesigning the two small employer standard benefit plans to make the plans more affordable and more attractive to both employers and insurers;
- Creating a statewide small employer purchasing alliance;
- Publishing a small employer rate guide;
- Conducting community “health insurance fairs” in cities throughout Texas to provide assistance to small employers and, perhaps, individuals seeking health insurance; and
- Expanding coverage under CHIP to allow parents to “buy-in” to the program.