

## *Institute for Health Policy Solutions*

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*On January 22, 1998, the Institute for Health Policy Solutions (IHPS) held a day long roundtable discussion to work through operational and administrative questions for states intending to establish subsidies toward the cost of employer sponsored health coverage. Attendees included executives from state health agencies, health plans, HMOs, and private industry. The goal was to assess alternate approaches for meeting minimum benefits standards and cost-sharing ceilings, pricing benefits, and making subsidy payments that are simple and will meet the overall purpose of such programs, to maximize health insurance coverage of uninsured children and their families. The following report was developed following the discussions and addresses approaches for meeting benefits and cost sharing standards of Title XXI; the State Child Health Insurance Program. All of the states attending the roundtable plan to implement subsidies toward the cost of employer coverage for children eligible for the federal-state health initiatives. Several of the states will expand their approach to subsidize the cost of covering other family members using funding from federal and state sources under a Medicaid 1115 comprehensive demonstration waiver or state-only funding under state legislation.*

### **ALTERNATE APPROACHES FOR PAYING CHILD HEALTH INSURANCE SUBSIDIES**

Working Group on Coordinating Financing Approaches to Cover Uninsured Children

States establishing employer health insurance purchasing credits or subsidies under the new federal state partnership programs, the State Child Health Insurance Initiatives, are faced with a number of challenging structural design issues. A fundamental question is how to structure the subsidy payments: whom to pay and how to verify enrollment before making payments. The objectives of a subsidy/credit approach are to design an program that optimizes coverage of eligible children. To best achieve the objectives the roles and responsibilities of the state, the health plans, private employers, and employee/parents should be consistent with their respective areas expertise and interests. The following flow charts reflect several alternate subsidy payment approaches. Each approach includes an attached page with the advantages and disadvantages that we have identified.

All of the scenarios outlined below include the following two assumptions: 1) the appropriate state agency conducts eligibility determinations, and 2) only the employee share of the premium contribution is subsidized. (This would be true in all of the participating sites except for Massachusetts. Their program, approved under a Medicaid Section 1115 comprehensive demonstration waiver, includes premium subsidies for certain employers.)

A major consideration in designing a subsidy payment approach is to develop structures that minimize employer and employee incentives to “crowd-out” employer contributions for health insurance and maximize cost-effective participation. Also important is how to

best allocate administrative tasks to parties based on their expertise and interests. The questions addressed in this document include:

- What should be the criteria for identifying workable approaches? Are some criteria more important than others?
- Based on those criteria, which approach seems most workable/least workable and why?
- What variations and/or refinements make sense?
- What advantages and disadvantages can be identified for each approach?

There are two types of “crowd out” that state policymakers should be considering in structuring subsidy approaches – the substitution for individuals’ payments for health insurance and for employers’ contributions for health insurance. Individuals who currently insure their children and who are income eligible for assistance under Title XXI could make a decision to discontinue paying for dependents coverage under their private policy and enroll their children in the public subsidy program or public plan. The second type of crowd out could occur if employers reduce their contributions for health insurance or establish policies that encourage eligible employees to seek care from the public program.<sup>1</sup>

Firewalls, eligibility policies that provide disincentives for families to switch from private insurance to the public plan, could be the best approach to receding the first type of crowd out. While there is some disagreement about the incentives that will be provided when states add a subsidy program to their child health initiatives, it is possible that requiring those with access to private insurance to enroll in that policy rather than the public program could help to minimize those decisions. (This may be particularly true for target families who have low family income and are unused to using the welfare system. The public plan may have a particularly unattractive stigma to the low income working population.) Although all of the possible scenarios could be subject to some degree of change in employer health contribution practices, we believe that payment approaches that rely on the employer to operationalize the subsidy (see scenarios X and X) are those most likely to see employer gaming. The more employers are aware of the trade of between their contributions and the subsidies that certain employees are eligible for the more they will engage in activities aimed at reducing their total liability for health insurance premiums. There are a number of ways for employers to change their total liabilities for premiums. The include:

- ◆ drop contributions toward cost of premiums for workers and/or dependents,
- ◆ eliminate contributions toward cost of dependents,
- ◆ find new policy is impetus to establish a cafeteria plan,
- ◆ change contribution policies for different classes of workers<sup>2</sup>,

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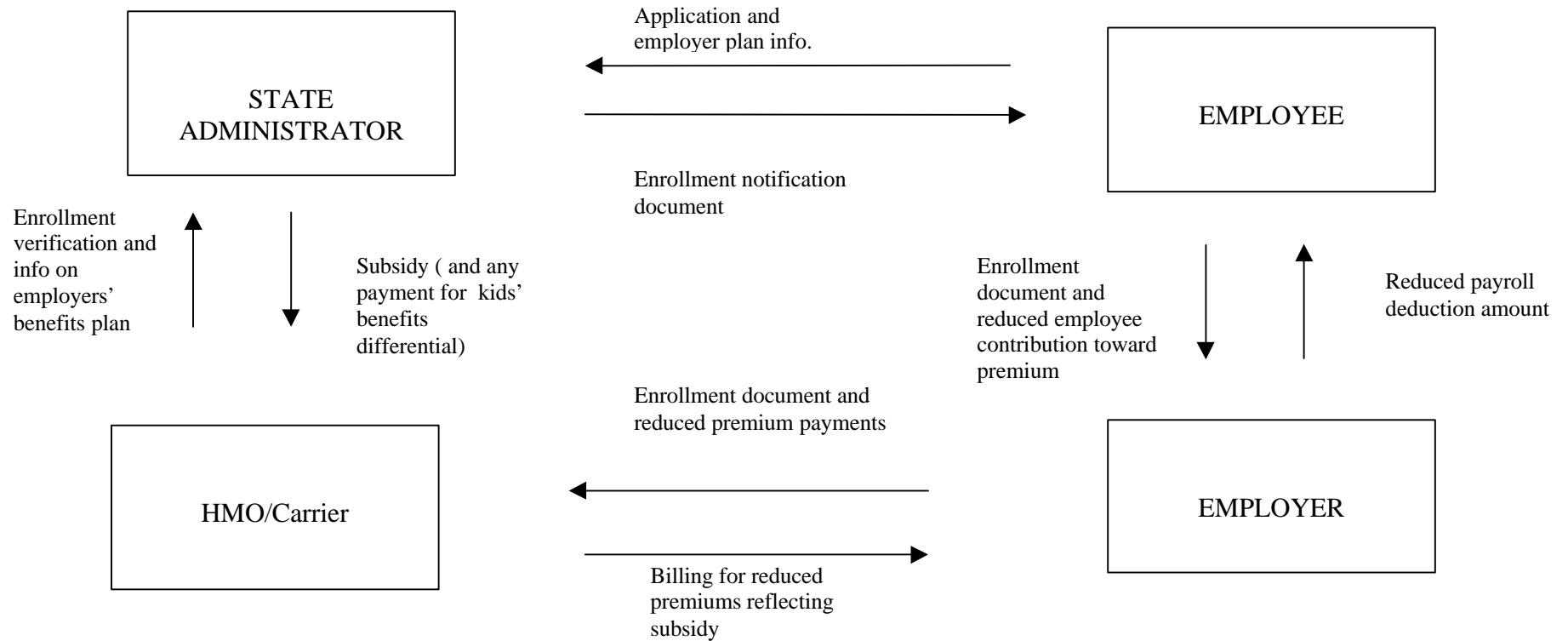
<sup>1</sup> Over the long term, the employer market could respond by

<sup>2</sup> It is unclear how much flexibility employers have in this area. IHPS plans to explore this subject further in a later paper.

- ◆ respond to a sentinel effect – employers may think about not making contributions at all.

United, on the other hand, United has problem receiving premiums from various sources and reconciling them. Membership systems more difficult- But still should be one time problem to deal with.

**Scenario 1:** State agency pays HMO/plan the subsidy (based on income and employer contribution amount). The HMO plan bills for and the employer pays plan reduced premium payment. Employer passes savings on by taking a reduced employee contribution amounts from paycheck.



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**Advantages.**

- Simple for state. They are billed by carriers for both upgraded benefits package and subsidies.
- Simple for beneficiary.
- Avoids image as “welfare program”.
- An active employer role means that any participating employer could provide needed benefit plan and contribution information.
- Greater appeal to the advocacy community due to reduced welfare stigma and greater ease of enrollment.

**Disadvantages.**

- Health plan billings and employer payroll deductions would be altered for every CHIP eligible child’s family. If the state sets subsidy amounts so that they vary by family income and family size, different family’s payroll adjustment will be different.<sup>3</sup>

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<sup>3</sup> Even in CA, where Healthy Families legislation would require employee contributions that differ for families in only two income categories this could get complicated. Those amounts are:

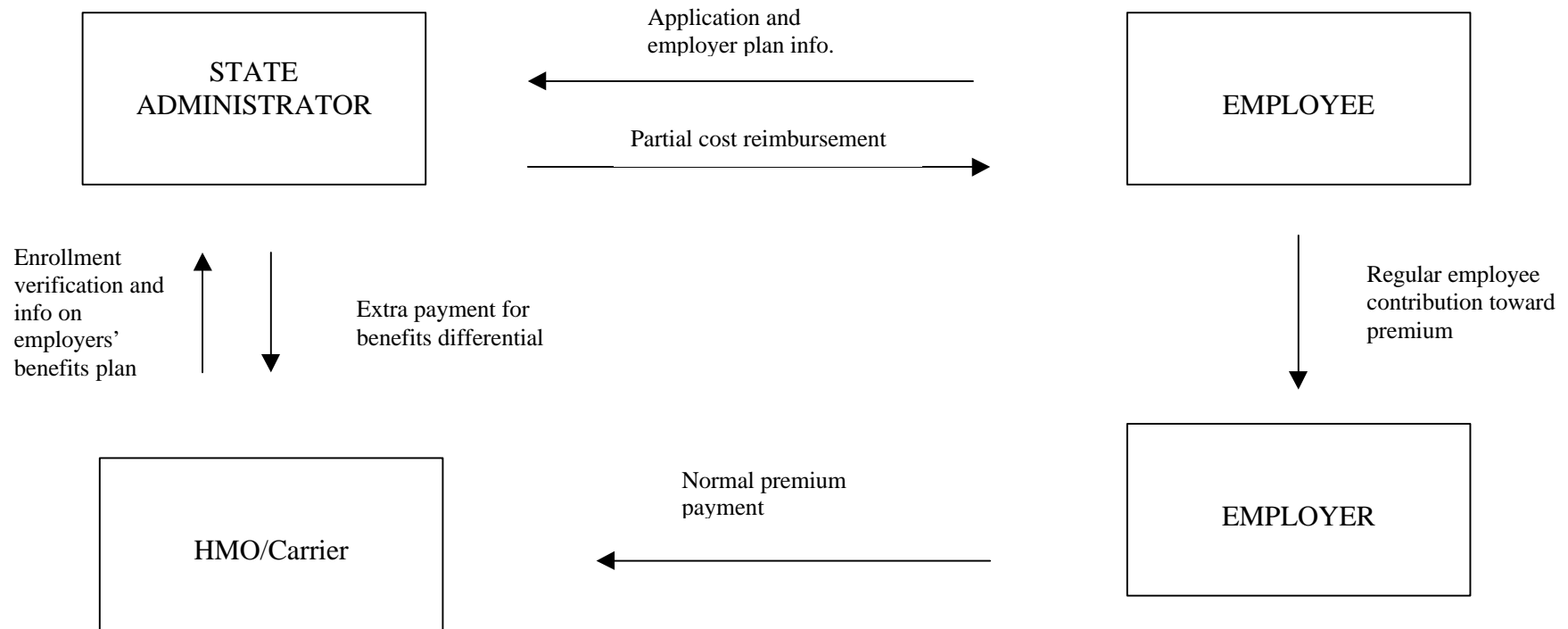
- |   |  |
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| For families under 150% of poverty:                       | - \$7 per month for single child families    |
|   | - \$14 per month for multiple child families |
| For families with income between 150 and 200% of poverty: | - \$9 per month for single child families    |
|   | - \$18 for families with two children, and   |
|   | - \$27 for multiple child families           |

In this case, employers would potentially have to make changes in the deductions for employees’ share of premium payments for a total of 5 schemes for each plan offered (assuming the prices of the plans offered are different from one another). The amounts would vary from employer to employer, based on each employer’s contribution policies. In states that set subsidy formulas based on a sliding scale with more than two family income categories, employers could potentially have to administer many more than 5 schemes.

Employers would need to administer at least two new schemes: 1) premiums reduced by subsidy for families with single children, and 2) premiums reduced by subsidy for families with multiple children.

- Confidentiality - employers and carriers know CHIP eligibility status and possibly total family income.
- Incentives for employers to change policies. This scenario puts employers in middle of process potentially making them much more aware of trade-off employer contribution amount and subsidy amount for dependent children.
- Low participation if process is too complex for employers.
- May result in a decreased premium bill thus having the potential of reducing the commission for agents.
- Perception of increased state bureaucracy may make it politically untenable.

- **Scenario 2.** State provides subsidy to employee as partial reimbursement for cost of premium.



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**Advantages**

- Health plan and employer billing and payroll deduction procedures unaffected.
- Transparent to employer – no extra effort, other than possible addition of children to plans during year.
- To reach beneficiaries, does not require employers to participate.
- Less work for agents and brokers.
- Optimizes use of employer contribution because employer participation is not required.
- Those who benefit and those required to do the work coincide.

**Disadvantages**

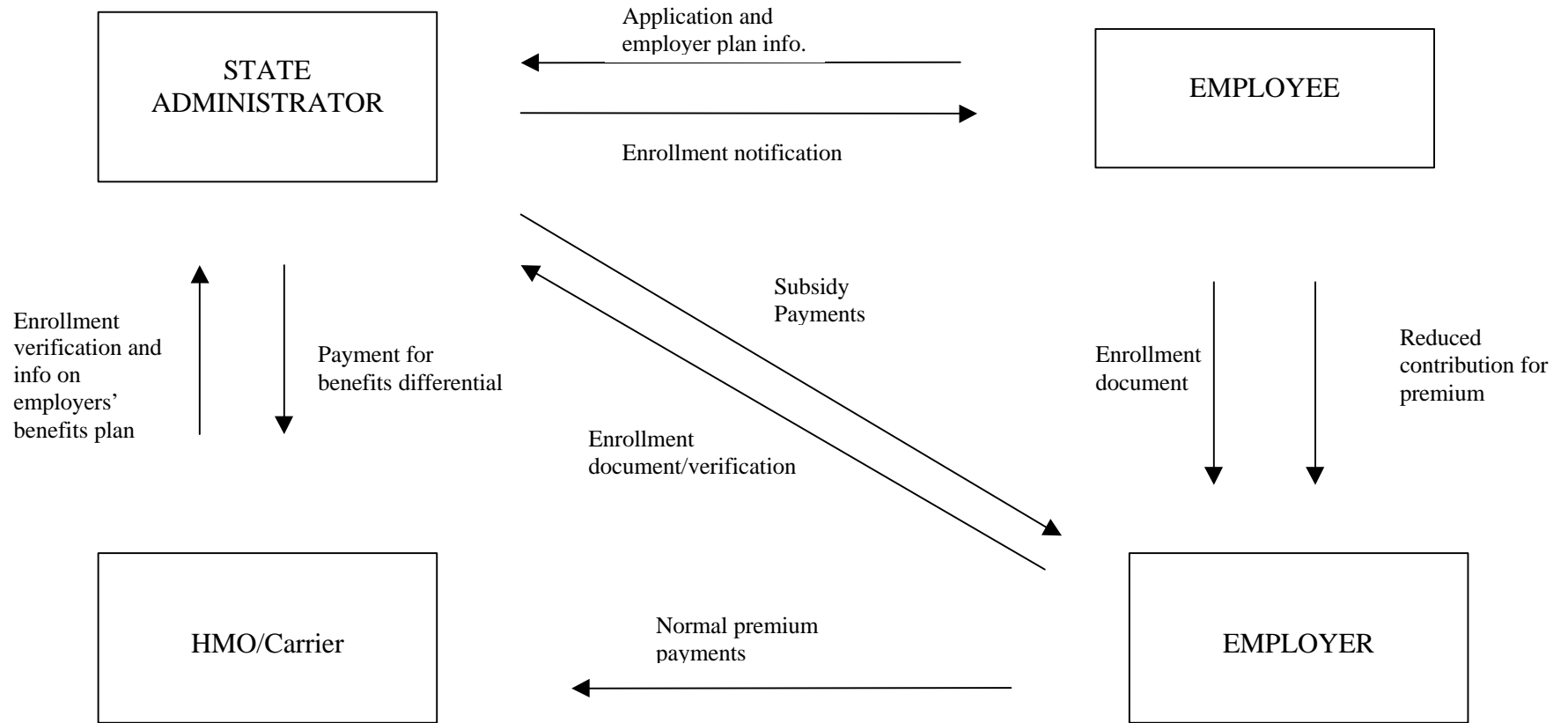
- Timing of reimbursement to beneficiary. If paid at beginning of month (before enrollment for that month has been verified), the state risks loss of funds and loss of federal matching for those lost funds. If paid at the end of the month, low-income families may have a problem coming up with the contribution amounts while awaiting reimbursement. While biweekly payroll makes payments into 24 smaller chunks, still may be difficult for families with very little discretionary income to pay.<sup>4</sup>
- States need to establish two payments systems - payments for subsidies to beneficiaries and payments for benefits upgrade to carriers for upgrade benefits.
- If employee is responsible for verifying eligibility, results in more work for the employee.
- Could be perceived as being similar to welfare, therefore making it politically undesirable.
- Advocacy group support may be lacking due to the work required of the employee.
- Federal government may dislike because the administrative costs can be buried.
- NOTE: Alternative third party administrators could be used to avoid the program being labeled as a welfare program such as payroll firms, a direct deposit subsidy card such as the MA idea.

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<sup>4</sup> Some potential ways to minimize the timing problems:

- a) Oregon approach- they will be paying at the beginning of the month and building losses into the budget for the subsidy program using state-only funds. (Other states might not have the ability to do this.)
- b) MA idea – after initial enrollment, provide beneficiary with a subsidy card. The card would be credited with a quarter’s worth of subsidy payment. Each month one month’s subsidy is released for withdrawal by enrollees. (This could improve the timing delay but not alleviate it altogether, since presumably the funds would be released only after enrollment is verified each month.)

**Scenario 3.** State provides cost reimbursement to employers.



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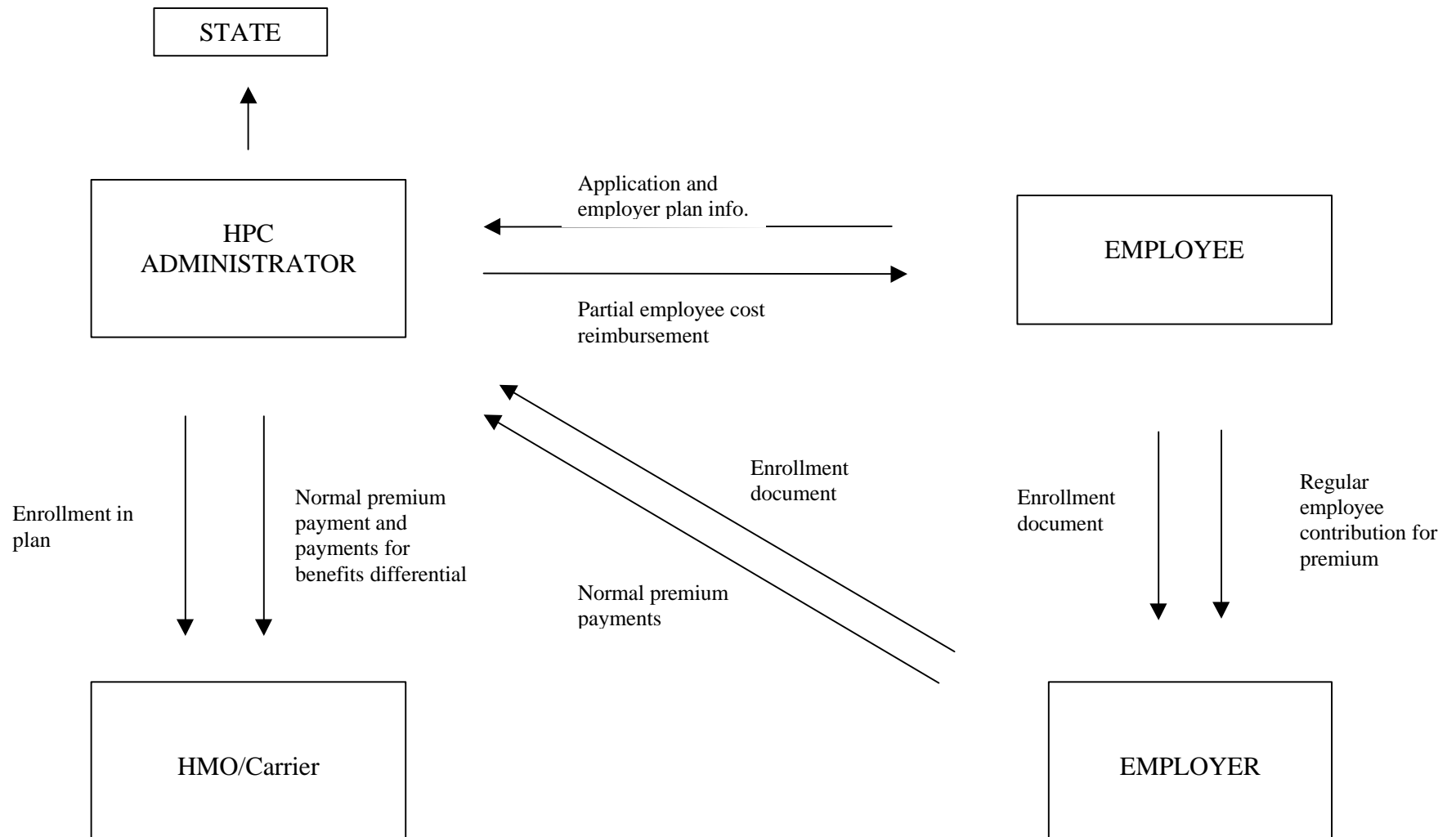
**Advantages.**

- One step simpler for employers to administer than scenario 1 since their payments to carriers do not change.
- May be simple for employers if they could reduce their tax or other quarterly payments to state by subsidy amounts.
- Simple for beneficiary.
- The ease of enrollment for the employee will appeal to the advocate community.

**Disadvantages.**

- Confidentiality - employers know CHIP eligibility status and possibly total family income.
- Tax disadvantage relative to receiving the subsidy directly, where it is likely to be deemed not to be taxable income but rather in the nature of welfare.
- Increased incentives for employers to change contribution policies.
- May provide incentives for employers with cafeteria plans to game contributions or to establish cafeteria plans.
- Employer payroll deductions altered for every CHIP eligible child's family. See scenario 1.
- Increased chance for employer abuse/fraud may make this scenario politically undesirable.

*Small employer purchasing group approach*



### *Small employer purchasing group approach*

#### *Advantages.*

- Administratively simple for employees/their family and employers

#### *Disadvantages.*

- Many states don't have HPC operating at this time.
- In states with HPCs, may only reach children whose parents work for firms participating in the HPC.