

Institute for Health Policy Solutions

COORDINATING CHILDREN'S COVERAGE EXPANSIONS WITH EMPLOYER SPONSORED COVERAGE

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The following document describes a general approach to coordinating child health coverage expansions under the new State Child Health Insurance Program (Title XX I of the Social Security Act) with private health insurance. For more description or detail on the information presented below, two IHPS publications are available on the IHPS website at www.ihps.org. The publications are entitled *Employer Coverage and the Children's Health Insurance Program Under the Balanced Budget Act of 1997: Options for States*. (August 1997) by Mark Merlis and *Coordinating Children's Coverage Expansions With Employer-Sponsored Coverage* (March 1998) by Jean Hearne. A third paper that may be useful can be obtained by calling IHPS. It is *Extending Health Care Coverage for Modest-Income Children and Pregnant Women: Public (Medicaid) & Employer-Financed Coverage Lessons* (December 1996) by Ann Page and Rick Curtis.

Goals:

1. To cover more previously uninsured children than would otherwise be able to do with the public program alone.

By using private dollars (in addition to public dollars) through support of employer-subsidized health care coverage rather than offering only the public program, the State would be able to cover more children.

2. To coordinate coverage for families so that, when possible, they have "one-stop shopping." Such family friendly easily accessible approach could help reach more uninsured kids in working families.

Families in states with child health initiatives that do not coordinate with private sector

coverage could end up with multiple plans with different benefits and access rules and different providers. In those states, single parent families would have one plan for the parent and a different plan for their children while two-parent families could have a different plan for their child(ren) and potentially different plans for each adult.

3. To ensure that families use public coverage as last resort (discourage crowding-out.)

Ensure that families do not drop existing employer coverage or forego employer coverage in order to enroll in the public program ³/₄ the federal legislation specifically requires states do this.

4. To coordinate coverage for both large and small employers.

There are very different issues for large and small employers with respect to coordinating CHIP with employer coverage: the small employer market is fragmented and the large employer market has many organizations that are self-insured ³/₄ both present challenges. We want to make sure that the coordination is available for people regardless of the size of the employer.

Recommendation — Overview:

To establish a program that coordinates child health policies with employer-offers of coverage. Do this by creating incentives for families to purchase subsidized employer coverage as opposed to participating in a purely public program and, at the same time, create rules that would prevent families from dropping or foregoing private coverage in favor of public coverage.¹ This type of coordination with employer coverage was attempted by several Medicaid programs, however, their success was limited for a number of reasons — those lessons will help in designing workable programs under the State Child Health Insurance Program (CHIP).

Potential Market/Opportunity:

There are potentially a large number of families that would benefit from coordinating with employer-sponsored coverage. Preliminary analysis of 1996 Medicaid Expenditure Panel Survey (MEPS) shows that of uninsured children nationwide, 38% had parents who were themselves covered through employment or who worked for employers that offer health coverage (see Table I). Many of those may have had employer contributions available toward the cost of family coverage. In 1993, more than half of workers in firms offering health insurance coverage had an employer contribution of at least 50% available toward the cost of family plans (see Table II²). Moreover, eligible children are likely to be evenly distributed among small, medium, and large sized employers.³

Establish Subsidy or Voucher Program:

As incomes rise above poverty, many more children have employer coverage than are uninsured. (see Table II) As a result, policies that encourage parents or employers to shift the cost of insured children's coverage to the public sector could result in large new public expenditures with little or no net increase in the number of children covered. To encourage continued offers of coverage by employers, states could provide a subsidy for families toward the premium cost for a previously uninsured child, making it affordable for families to purchase employer coverage while still maintaining employer contributions. If children with access to employer-sponsored coverage are encouraged to enroll in that insurance (only when it is cost-effective to do so) employers may find pressure from employees to discourage them from discontinuing the coverage.⁴ States could use both financial incentives and eligibility policies such as firewalls⁵ to encourage employees to enroll subsidy eligible children onto the private employer-sponsored insurance instead of the public plan. States could include provisions that:

- Set minimum employer contribution for eligibility in coordinated program.
- Ideally, pay the families directly for their share of the premium.
 - ⇒ By paying families directly, rather than going through the employer, the employer would not be put in the middle of the process of changing employee deductions for qualified families. By having employers out of the loop, potential gaming of employer contributions may be reduced.
 - ⇒ Set the employee's remaining (non-subsidized) contribution of the premium at a level slightly lower than the required payment for the public program so that families will have an incentive to purchase employer-based coverage.
 - ⇒ Establish the subsidy based on family size and income and employer contribution.
 - Pay the carrier the difference between the employer's benefit package and the required minimum benefit package for programs qualifying for federal reimbursement.
 - ⇒ The State could qualify certain plans to offer this upgraded benefit package.
 - ⇒ The State would then negotiate with those plans regarding how much extra to pay — this should be a relatively straightforward exercise for an actuary.
 - Assure that children have timely access to coverage by making Title XX I eligibility a "qualifying event" for adding uninsured children to a worker's coverage rather than waiting for an annual open enrollment period.

Administrative Issues

There will be a number of administrative issues that the state will need to work out. Some of these include the following —

1. How to identify children who have access to group health insurance with an employer contribution toward such coverage.
2. How to do the income eligibility for families.
3. How to determine the subsidy levels and to obtain information on employer contributions for coverage.
4. How to pay families directly.
5. How to ensure that benefits and cost-sharing meet the CHIP rules.
6. How to obtain information from employers on the benefits package and costs of group policies (in order to pay the plan for the difference and ensure that children meet the law in terms of the benefit level of CHIP.)

Size of Employer

Large and Medium-sized Employers

- Set up program as described above. Negotiate with plans directly.
- Self-Insured Companies: It is more complicated to do this with a self-insured employer because the State would have to negotiate with the employer directly, thus increasing chances that the employers would be induced to reduce its share of the premium. However, many self-insured employers actually offer one HMO. In those cases, the State could negotiate with the plans directly. More work needs to be done to design a program for truly "self-insured" plans.

Small Employers

- The small employer market is much more fragmented than the large employer market. We may find that, in many instances, an uninsured child qualifying for CHIP subsidies could be the only one in a given small employer group. And in many states the small group market is comprised of many carriers and a myriad of benefit plans, so that the child may be one of very few with that particular health plan. As a result, it may be administratively difficult to set up a program as described above. Small employer-purchasing groups may offer a vehicle for coordinating CHIP and small employer coverage.
- Could make offering a CHIP approved benefit package a participation requirement as part of the purchasing group's contract agreement.
- Many of the administrative issues involved in coordinating coverage are resolved by using the purchasing group. For example, the group could obtain employers contribution policies as part of the required application process and

would eliminate one of the more difficult administrative challenges for the state. The purchasing group's administrative vendor could be contracted by the state to verify enrollment, pay the plan for the enhanced benefit package, etc.

Establish Firewalls

Make people ineligible for CHIP if they have recently (e.g. within the last nine months) had employer coverage. Establish limited exceptions to ensure that children are not penalized if they have lost coverage for reasons unrelated to employer or employee "gaming" of CHIP eligibility.

FOOTNOTES:

¹ The percentage of children with employer sponsored health insurance dramatically increases as family income rises. About 38% of children in families with income between poverty and 150% have employer sponsored coverage. That percentage rises to 58% for children in families with income between 150% and 200% of poverty.

² IHPS tabulations of data from the Robert Wood Johnson Foundation (RWJF) Employer Health Insurance Survey:

- Small (1 to 49).....34.9%
- Medium (50 to 499).....32.4%
- Large (500 and over).....32.5%

NOTE: MEPS employment data are by establishment size. Firm size for workers in private establishments was estimated using firm size/establishment size ratios of firms in the RWJF survey that reported offering health coverage. Because parents failing to secure coverage for their children may not be equally distributed among such firms, these estimates can only provide a broad idea of the possible distribution of uncovered children. In instances when both of a child's parents had access to coverage through their own employment, the child was assigned to the larger of the two establishments. The 5% of children for whom firm size was not identified were distributed according to the firm size of the 95% for whom firm size was identified.

⁴ Another form of crowd-out could occur when employers reduce their contributions toward the cost of the insurance coverage, shifting that portion of the premium to the state subsidy. States will need to establish policies to ensure that this type of crowd-out is minimized.

⁵ Firewalls are eligibility policies that seek to discourage individuals from dropping private coverage to obtain coverage through the public program. HHS is recommending that states that are establishing an employer buy-in program enact a 6-month uninsured period firewall. This type of firewall would require that individuals are uninsured for a period of 6-months before they may be enrolled in the subsidy program. We encourage states to establish limited exceptions to such a firewall to

ensure that children are not penalized if they have lost coverage for reasons unrelated to employer or employee "gaming" of CHIP eligibility.

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