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Subsidy Payment Structure Alternatives (for Coordinating with Employer Coverage Under CHIP)

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Utilizing employer sponsored coverage is both a promising and challenging avenue to reach uninsured children in working families. One key challenge is to design and administer associated subsidies in a way that maximizes cost-effective coverage of children who would otherwise be uninsured and that avoids use of subsidy outlays for other purposes. Some state and federal officials assume that the best method would be to pay the subsidy to the employer on behalf of the child. This would entail the employer reducing the parent's (employee) contribution requirement by the amount of the subsidy.[1] In some cases, this approach could have substantial promise. (For example, where a low wage employer is otherwise uninsured and has a disproportionately large number of low income workers.) But for typical employers that offer health coverage, it will probably be extremely difficult (unlikely) for such an approach to successfully and cost-effectively cover significant numbers of uninsured children. Key problems that have been identified with this approach include:

- <u>Administrative burden</u>. In general, employers balk at government program roles that would entail management burdens and costs. To administer a subsidy, the employer would, among other things, have to alter normal employee payroll deduction amounts and procedures. Depending on the state's payment subsidy policies, the amount of the alteration might vary both among different families and over time. For typical employers who provide good coverage, this could be a major administrative aggravation that would not benefit the vast majority of their employee families. Feedback in several states suggests that most such employers would not be willing to assume such administrative roles.

- <u>Unfairly discriminating among employees</u>. Under CHIP rules, employees of like wages and income would have to be treated differently. Employers typically do not want to be seen as discriminating against some employees vis-à-vis others. To administer such subsidies, employers would be in the role of assisting employees who did not previously contribute towards children's coverage and denying assistance to their co-workers who were already covering their children. Many employers would refuse the subsidy administration role on this basis alone.

- <u>Confidentiality</u>. Directly involving the employer in subsidy administration would mean that the employer would know the worker's family income level and/or public subsidy program status. This could often discourage participation by parents of uninsured children who want to keep such information confidential and by employers who do not want to be in the position of knowing such sensitive private family information.

[1] Other variations would have a state pay subsidies to health plans, who would in turn reduce premium billing to the employer. However, this would not reduce the employer's administrative responsibilities. The employer would still have to adjust payroll deductions by the amount of the subsidy for each participating employee family.

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- Apprehensions about government role. Many business' view of and experience with (federal, state and local) government is as regulator. A program that entails employers administering a government program makes the employer an agent of the government. The prospect of such an administrative relationship makes many employers uncomfortable. Employers typically are apprehensive about the possibility that such a government health insurance program role could evolve into further government mandates regarding employer-sponsored health insurance.

- Crowd-out of Employer Contributions. If employers act as subsidy administrators, they will be acutely aware of the trade-offs between employer contributions and subsidy amounts. This could greatly exacerbate the likelihood that employer contribution policies would be design to minimize the employer's share. Children's advocacy groups are often very concerned about this possibility. (It is also reasonable to be concerned that a disproportionate share of employers who, despite the other problems noted above, "self-select" to administer such a program will be those who are incented by the opportunity to shift costs to the government.)

Because of these and other problems, some states believe that a program can be more successful if it directly reimburses the family for the applicable portion of the employee's contribution for coverage. This would make the program virtually effortless, and perhaps transparent, to the employer. However, there are apprehensions about potential abuse, i.e., concern that the money could be used for other purposes while the child(ren) remain uninsured.

To address this problem, there are a variety of approaches that might be used to verify participants actual enrollment in the employer's health plan. The approach that might work best in a given state will depend on a number of factors, such as characteristics of the state's employer health insurance market and administrative structures, and the state's existing arrangements and contracts for health plan coverage. Examples of enrollment verification options are:

- Where applicable, perhaps the most efficient approach is verification of health plan enrollment by intermediaries that already perform enrollment, disenrollment billing and plan payment functions in the employer market.
    - To perform enrollment verification and other functions for small employer plans, Massachusetts uses billing and enrollment intermediaries (BEI) that normally perform these functions in that state's small employer market. (To our knowledge, marketwide use of such entities is rare in other states.)
    - In a state that plans to initiate employer plan programs through a consumer choice health purchasing group (CHPG) (or similar HPC-like purchasing pool), the CHPG's administrative vendor might be used to verify enrollment. It would normally have such information since it typically already performs employer group billing and health plan enrollment functions.

- Verification of enrollment by the employer's health plan carrier or TPA. This could be a promising approach in a state where a large share of the employer market is concentrated with a relatively small number of carriers who are willing and able to perform this function (or where a number of health plans that participate in the state's public CHIP program also have significant employer market enrollment). In such cases, the state might coordinate with employer coverage only when a carrier that performs such verification is available.

- Another approach is to require the parent to submit to the state a copy of pay stubs that document employee contribution deductions. This is the approach that Oregon uses. (Oregon may develop a simpler approach, i.e., less burdensome for parents, where it can be developed and implemented -- e.g. Oregon's CHPG pilot program.)

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Under any of these scenarios, enrollment verification is based on capturing information routinely provided by employers, but in a way that is transparent to the employer. They would thus avoid administrative burden, unfair treatment of like employees, confidentiality and employer contribution crowd-out concerns associated with employer administration of subsidies.

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