Opening Remarks

Speakers:

- Ray Scheppach, Executive Director, National Governors' Association
- Rick Curtis, President, Institute for Health Policy Solutions

(Additional information about the speakers appears at the end of this section.)

Transcript:

MR. SCHEPPACH: I want to welcome everybody on behalf of the governors and state officials. I think we have a number of people from the federal government here and a pretty significant private sector group, and I want to thank all of you for coming.

Let me say that this whole issue of health care coverage is really a top priority of the nation's governors. We, after every election, have a new governors seminar where we teach governors newly elected to, in fact, be a governor in three days, which is a challenge and an interesting conversation and, of course, we don't have staff talking to governors. It's really governor to governor.

But, as part of that, we had an Executive Committee session last November, and we were trying to decide what we would share with the new administration in terms of impacting their policy, and we had a general discussion. What was interesting was this explosion, almost, of gubernatorial interest and concern about the uninsured. And by their term "uninsured," they were very concerned about the working poor.

Their feeling was that very low-income people oftentimes have decent benefits, and higher income people do, but it was really the working poor that were having significant problems. They obviously came at it more from Medicaid—looking at the huge amount of money there and the feeling that it could be used much more effectively to cover more [uninsured]. So we began to work on that issue more.

Secondly, I would like to say that we in NGA are doing more and more work on the new economy and the role of governance in it, and we increasingly come to the conclusion that we've got to do much more in terms of partnership with the private sector. Government is not good at buying technology. We're not overly flexible, but when we partner with the private sector, I think we can get the job done better, and so I think that we're going to move in that direction and the subject of this conference, I think, sort of combines those two things.

I'd also like to say that another real force going on is, of course, the financial pressures that states are under. Essentially, state tax structures right now were built for the manufacturing economy of the 1950s, not for an international high-technology service-oriented economy of the 21st century, and that has a lot of problems in it because essentially revenues are not growing, [not] keeping up with the growth in the economy, and without going into a lot of detail, some of the reasons are we don't tax services in our sales taxes and that's where most of the growth in the economy is.

Corporations are becoming much more sophisticated at where they take corporate profits. They take them overseas or in those states that don't have a corporate profits tax. So what you find is that, although it's been camouflaged during the strength of the economy in the last four or five years, we are now beginning to see those cracks again, and politically, it's very difficult for most states to increase taxes.

So we're into, I think, a long run, fairly slow growth rate on the revenue side, and when you compare that to what's happening, particularly on Medicaid … Although we went through two or three years with relatively low growth, we're back clearly into double-digit [growth] and I would expect us to begin to level out at 12 to 14 percent growth. Well, if you've got 12 to 14 percent growth in 20, 21 percent of your budget and only a two percent revenue growth, you can see we're back to where we were in the late '80s and early '90s, where Medicaid is essentially eating up every single dollar of additional tax revenues.

So there again from a fiscal standpoint, we've got to look for a lot of smarter ways of dealing with this problem, and I think working with the private sector more closely is one of the ways that we do that.

I also want to thank Packard Foundation for funding this. Their generous support is obviously very helpful and very necessary to do this. And second, I want to thank Rick for doing this jointly with us. It's always a pleasure to work with him. He does bring people to the table who are very substantive and who are on the ground doing real things. And so when we do those things together, I think we really have a good conference.

So, again, I want to thank everybody for coming. I appreciate it, and I'll turn it over to Rick.

MR. CURTIS: I'll just make a few brief overview remarks and then we'll turn it over to the people who really know what they're talking about. The first point here is, as you know, the Packard Foundation is a foundation that cares about covering kids and also cares about children in the context of families.

Many of you share the view that kids can often be well served having coverage in a family where the parents have coverage as well, and ideally, in a context where the parents have coverage through the same health plan. Research is starting to focus on this, and there are indications that kids are more likely to be covered and more likely to access health care services in this context.

Now, many of the states in this room are looking at or already have implemented programs to cover parents. But, given inclusion of $28 billion in the budget resolution for coverage of the uninsured, it also appears likely that there is going to be new federal funding available to cover parents, although the details aren't known yet. So, assuming Congress is wise enough to make funds available in a way that states can afford to use them, it seems likely that many more states are going to be moving to cover parents.

In this context, I just want to remind you at the beginning of this conference that, as family income moves up above poverty, more people have employer coverage than are uninsured. This chart shows the total non-elderly population and the percent that have employment-based insurance and that are uninsured, by family income relative to the federal poverty guidelines (FPG). If you look at children, if you look at parents, if you look at non-parents, the trends are similar.

Percent of Nonelderly Who Have Employment-Based Insurance (EBI) or Are Uninsured, by Family Income Relative to FPG, United States, 1999

% FPG	Total (millions)	EBI	Uninsured	Ratio
<100%	42.69	22%	36%	0.6
100% - 132%	13.97	38%	29%	1.3
133% - 199%	28.14	53%	27%	1.9
200% - 249%	20.12	68%	19%	3.5
250% - 399%	49.52	80%	11%	7.0
400% +	87.03	88%	6%	14.5
TOTAL	241.47	66%	17%	3.8

Source: IHPS analysis of the March 2000 Current Population Survey. "Income" means total income, before application of any programmatic disregards or deductions. Data analysis was supported in part by a grant from the California Health Care Foundation.

We show income ranges of 133 to 199 percent of poverty and 200 to 249 percent of poverty not only because some states have moved above 200 percent, but also because virtually all of you have income disregards that move your effective income threshold, relative to what a population-based survey data point would show, more towards 250 percent.

The important point here is: if you don't figure out ways to coordinate effectively with employer coverage, if you expand in a way that, basically, creates major disincentives for employment-based coverage, or incentives to shift to public coverage, you can—and you're going to hear research and findings on some history on this from Susan Marquis from RAND later—spend a lot of money on public program expansions and not necessarily reduce the number of uninsured. I know that's not what you're about.

The other general point I would make to you is, as Ray indicated, there is great potential for states to adopt policies that better coordinate with the private sector and successfully cover uninsured working families and their children. But I would admonish state officials that to succeed you need to think outside of the box - Sandra Shewry from California accuses me of having a principal occupation of making her head hurt by making points like I'm about to make.

Many of you understand that it's important, for the reasons I just mentioned, to coordinate with employment-based coverage. What people often don't understand is that, actually, children and parents under 250 percent of poverty are a substantial hunk of total employment-based coverage in this country.

(Cumulative) Percent of Children and Parents with Employment-Based Coverage Who Live in Families with Low- and Modest-Incomes (Relative to FPG)

	Children <19	**Parents**	**Kids and Parents**
<200% FPG	22.7%	16.6%	19.7%
<250% FPG	33.0%	25.8%	29.5%

Source: IHPS analysis of the March 2000 Current Population Survey. Data analysis was supported in part by a grant from the California Health Care Foundation.

About thirty (30) percent of children and parents with employer coverage are in families under 250 percent of poverty. So the point of that is, if you screw up, not only can you spend a lot of money not to cover the uninsured, you could really take a big hunk out of, and undermine the viability of, the employment-based system of coverage.

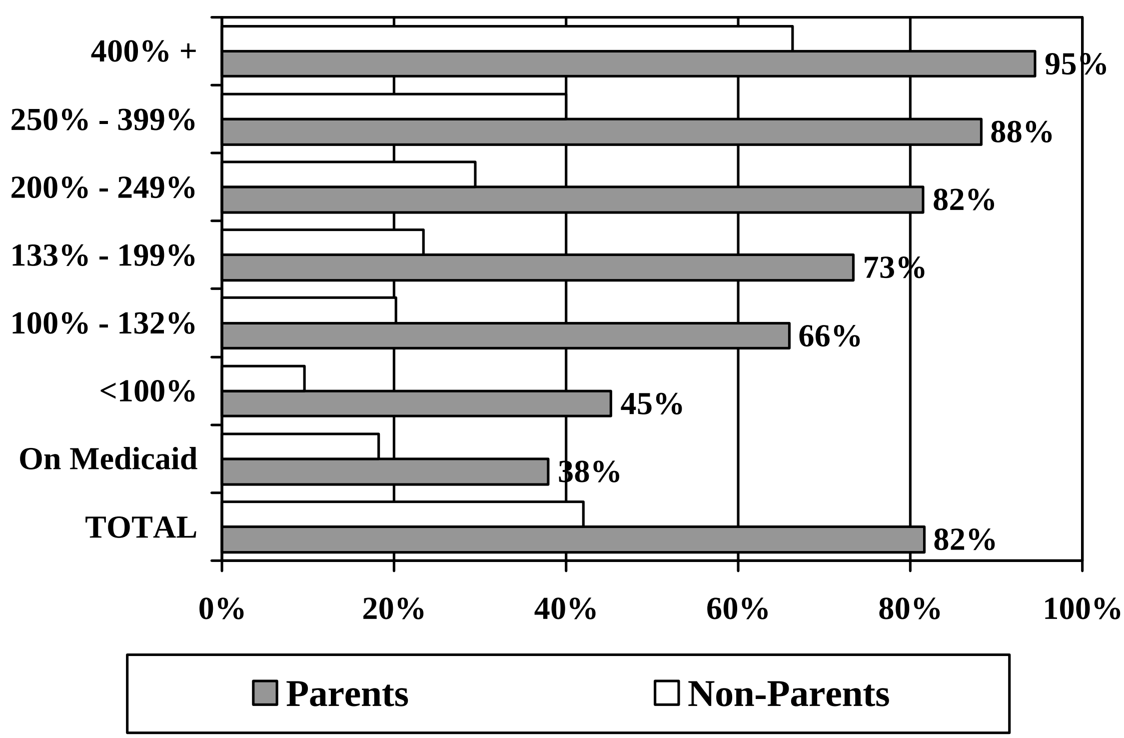
I am at risk of not being politically correct on either side here—but it's been of interest to me that people on the right were saying, several years ago, "Oh, my, if you go up the income scale with these public programs, you're going to cause employers and parents to drop private coverage." And now people on the left are saying about individual tax credits, "Oh, my, if you do this in the wrong way, what's going to happen is you're going to increase the uninsured population by eroding employment-based coverage." They're both right to worry.

And, fortunately, both sides are now more sensitive to this issue, and it's going to be up to the states to advise the federal government as these new bills are developed so that it can be done in a way that covers the uninsured rather than erodes coverage. Employers don't cover workers because they enjoy it. They don't cover workers because they love to spend the money. They cover workers in part because of a tax code provision enacted for anomalous reasons during World War II.

But a critical factor here is the broad-based social expectation and market demand for employers to offer and contribute to coverage. And people, according to the surveys, like having an employer sponsor basically representing them in this very confusing market called health insurance. But again, if we do this kind of thing wrong, you can see that it could cause a tremendous downward spiral in the viability of employment-based coverage.

Now, in terms of thinking outside of the box, an important thing to understand is that parents, as you go above poverty, by and large are married and in couples. We were surprised at this data. (We were just running data on two-parent versus one-parent families to help Sandra Shewry for technical budgeting issues in California.) This is not true of childless adults under 250 percent of poverty. But for parents, most are in two parent families. These aren't like the welfare parents states are used to covering in Medicaid. These are working lower middle class folks who are often very proud of their work and of not being reliant on government programs.

Percent of Parents and Non-Parents Who Are Married, by Family Income Relative to FPG: United States, 1999

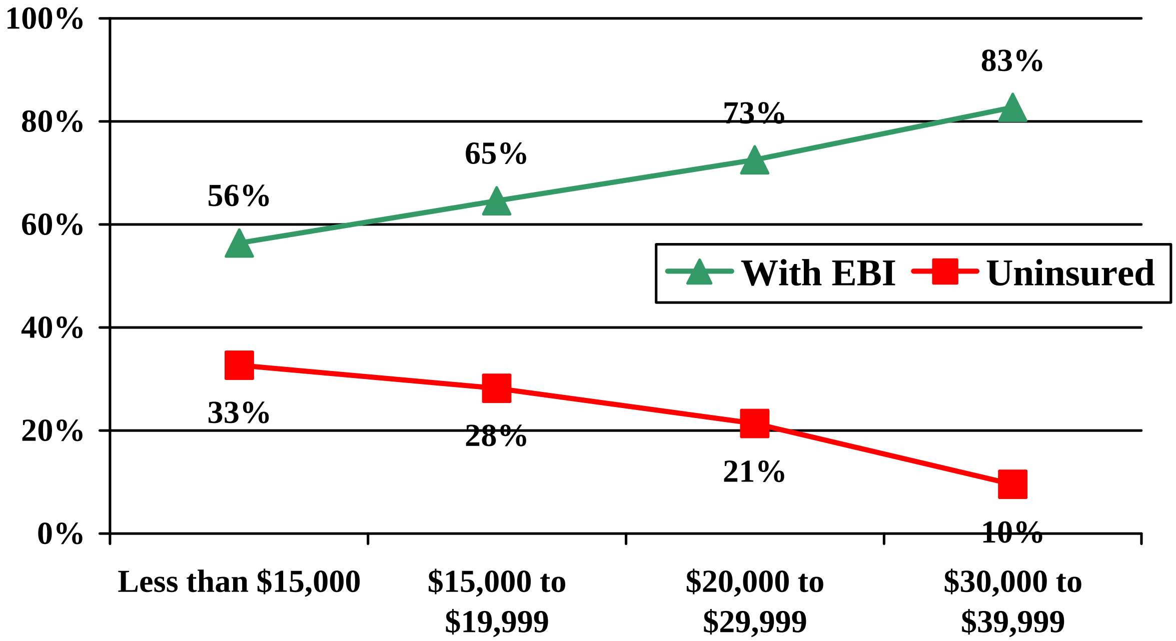


Source: IHPS analysis of the March 2000 Current Population Survey. Data analysis was supported by a grant from the California Health Care Foundation.

Another factor that escapes public program policy perspective: for purposes of social welfare insurance programs, we're all used to thinking about people in terms of percentage of poverty. It's seen as the equitable thing to do. But, in the employment-based sector, employers typically don't even know, and employees especially wouldn't want them to know, what the family's income is. What's determinant in that world is how much they pay the employee, and benefits such as health insurance tend to be tied to earnings and wages.

This chart looks at working parents between 133 and 199 of poverty and the difference in percentage of those that have employment-based coverage and the percent who are uninsured by wage or earnings per year.

Percent of Full-Time Full-Year Working Parents with Any Employment-Based Insurance (EBI) and Percent Uninsured, with Family Income between 133% and 199%FPG, by Earnings at Longest Job : United States, 1999



Source: IHPS analysis of the March 2000 Current Population Survey. Data analysis was supported by a grant from the California Health Care Foundation.

Fifty-six (56) percent have employment based coverage and 33 percent are insured where they earn less than $15,000 a year; 83 percent have employment-based coverage and only 10 percent are uninsured where they earn $30,000 to 39,999.

What's the import of that? Well, you might consider, when you're designing programs… Let's say you're designing sliding scale buy-ins for parents in your programs. The way things work in the employment sector is there's a tradeoff—long-term and in the big picture—between wages and health coverage.

The worker who is making $30,000 a year with health benefits very likely—let's say employers typically contribute two-thirds of the cost of family coverage—very likely could be making $34 or $35,000 in a job without health benefits. And in fact, in smaller firms, there could readily be an informal negotiation to drop health benefits and pay higher wages if you create the incentives for that to happen.

So what does that translate to? While most people in this room would initially be horrified at the prospect of having different contribution requirements—I saw some horrified gasps out there at the very suggestion of this a few moments ago—based upon a parent's individual earnings, in fact, given the way real world employee compensation works, that's arguably more equitable than not doing so. The idea is for the person making $34,000 a year without benefits to contribute enough to the public program to come out even with the person who makes less because of health insurance contributions. (And for the employer who contributes not to be at a competitive disadvantage for workers or for costs of production.)

Now, usually when states are talking about premium assistance—buying into coverage that's available to people who declined it and couldn't afford the employee's share—they're talking about people who decline coverage offered to them, and those people tend to be in firms above size 50 [employees]. About two-thirds of "decliners" are in those larger firms, although the percentage varies a bit from state to state. We distributed some state-level data at the working session yesterday that suggests the percentage is as low as half in a few states, but nationally, and in most states, decliners are more likely to be in firms above 50 employees.

Distribution of All Workers by Coverage Status and by Firm Size

Number of Employees in Firm:	All	<=50	50+	Memo <10
Employees (Ees) in All Establishments	100%	32%	68%	15%
Ees COVERED (thru own job)	100%	22%	78%	9%
Ees DECLINED Coverage Offered	100%	32%	69%	10%
Ees NOT ELIGIBLE for Coverage	100%	26%	74%	9%
Est DOES NOT OFFER Coverage	100%	87%	13%	56%

Source: Institute for Health Policy Solutions analysis of data (U.S. totals) from the 1998 MEPS Survey of Private-Sector Business Establishments, published by the U.S. Agency for Healthcare Research and Quality (www.meps.ahrq.gov)

So those of you who think that just coordinating somehow with the small employer market will solve the problem, because that's where most uninsured workers are, need to think again. If you want to reach decliners, and buy them into employer coverage, they tend to be in larger firms.

On the other hand, a number of states—and this is really an adjunct to welfare reform goals that Ray seemed to be implicitly alluding to—are interested in trying to get more small, low-wage uninsured firms to offer coverage. They want to shore up the social expectation and the market demand for employment-based coverage, shore up the expectation that that's where workers do get coverage, create an environment where benefits are gotten through work, increasing the probability there will be stability of employment, and that there will be an opportunity to grow on the job, to have career development.

And so, for those states interested in subsidizing coverage for low-wage small firms—and you will hear a couple of panelists talking about these kinds of ideas—of course the vast majority of people who work for a firm that doesn't offer coverage at all work for a small firm. So, for this purpose, it is appropriate and smart to concentrate on small firms.

So, these are observations that I'm relaying to you to underscore why you need to think outside of the box. The normal social welfare mind-set, if you're coordinating with employment-based coverage, isn't going to work. You've got to at least go part way, and I would argue a long way, towards accommodating, creating positive incentives for, and building on employment-based coverage. But if you do it right, I think you can cover a substantially higher proportion of the uninsured. And, you can do it in a way that serves working families well and serves children well.

About the Speakers:

Raymond C. Scheppach, **Executive Director, National Governors Association.**

Ray Scheppach was appointed executive director of the National Governors Association (NGA) in January 1983. As executive director, Ray oversees the day-to-day operations of the association and works closely with NGA's chair and vice chair and their staffs to help identify priorities for the nation's governors. Through NGA, the governors deal collectively with issues of public policy and governance at both the national and state levels. The association's mission is to provide a forum for governors to exchange views and experiences among themselves; assistance in solving state focused problems; information on state innovations and practices; and a bipartisan forum for governors to establish, influence, and implement policy on national issues. Prior to NGA, Ray worked for seven years at the Congressional Budget Office, serving the last two years as Deputy Director.

Under his leadership, NGA has risen to become one of the most powerful lobbying groups in Washington. NGA was ranked 12th by *Fortune* magazine in its 1999 annual survey of the most influential trade associations, labor unions, and interest groups. As an advocate for states' rights, Ray has testified before Congress on behalf of the nation's governors on numerous occasions. He has written numerous professional articles on various public policy issues and has authored and co-authored four books on economics, including co-writing the 1984 book *New Directions in Economic Policy: An Agenda for the 1980's*.

Ray is one of the country's foremost experts on the role of government in the new economy. He co-authored the NGA report, *Governance in the New Economy*, which examines the forces shaping the U.S. economy and influencing American governance; testified before Congress in support of wireless tax legislation, which President Clinton recently signed into law; and has guided NGA's efforts to radically simplify state sales and use tax codes to support e-commerce in the 21st century.

Ray received his bachelor's degree in business administration from the University of Maine, and his master's and doctorate degrees in economics from the University of Connecticut.

Richard Curtis, president of the Institute for Health Policy Solutions (an independent not-for-profit organization founded in early 1992), has an extensive background in health insurance strategies and issues. Areas of expertise include: developing policy approaches and private initiatives that are both in the public interest and viable in the private market, restructuring the health insurance market, designing consumer choice pooled purchasing strategies, and developing approaches to cover uninsured workers and children. Specific IHPS technical assistance work currently includes helping states design public-private measures to extend job-based coverage to uninsured children and workers, and assisting purchasing pool development to give small firms' employees meaningful choice of competing health plans, as well as to facilitate coordination of public and private funding for the uninsured. Other projects include policy development and analyses on a broad range of health insurance structures and coverage issues. Previous positions Mr. Curtis has held include: Director of the Department of Policy Development and Research, Health Insurance Association of America; founding Executive Director, National Academy for State Health Policy; and Director of Health Policy Studies, National Governors' Association (NGA). Other roles have included serving as an expert resource at the U.S. Senate Republican retreat on healthcare reform in 1993, and earlier that year chairing a technical working group for preliminary (Spring 1993) health system reform work for the White House Task Force. More recently he has been one of fifty invited participants in the 1999 and 2000 Health Sector Assemblies on coverage of the uninsured. During his tenure at NGA in the '80s, he served as Director of the Project on the Medically Indigent for the Academy for State and Local Government and was a contributing editor to *Business and Health* magazine.