



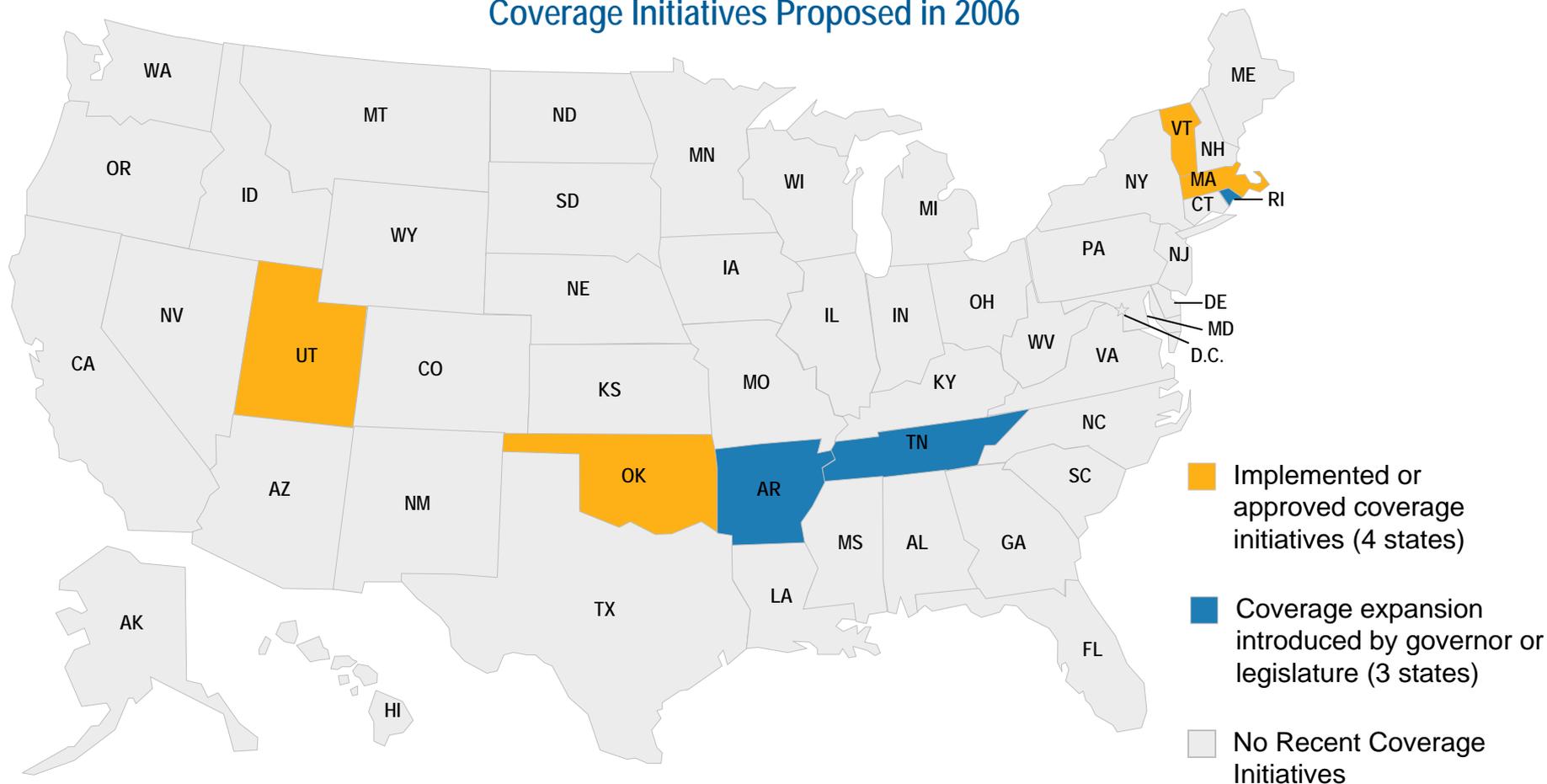
# Elements of State Coverage Reform

June 4, 2008

Caroline Fisher  
Avalere Health LLC

# In 2006, Only a Few States Were Considering Proposals to Expand Coverage to the Uninsured

## Coverage Initiatives Proposed in 2006

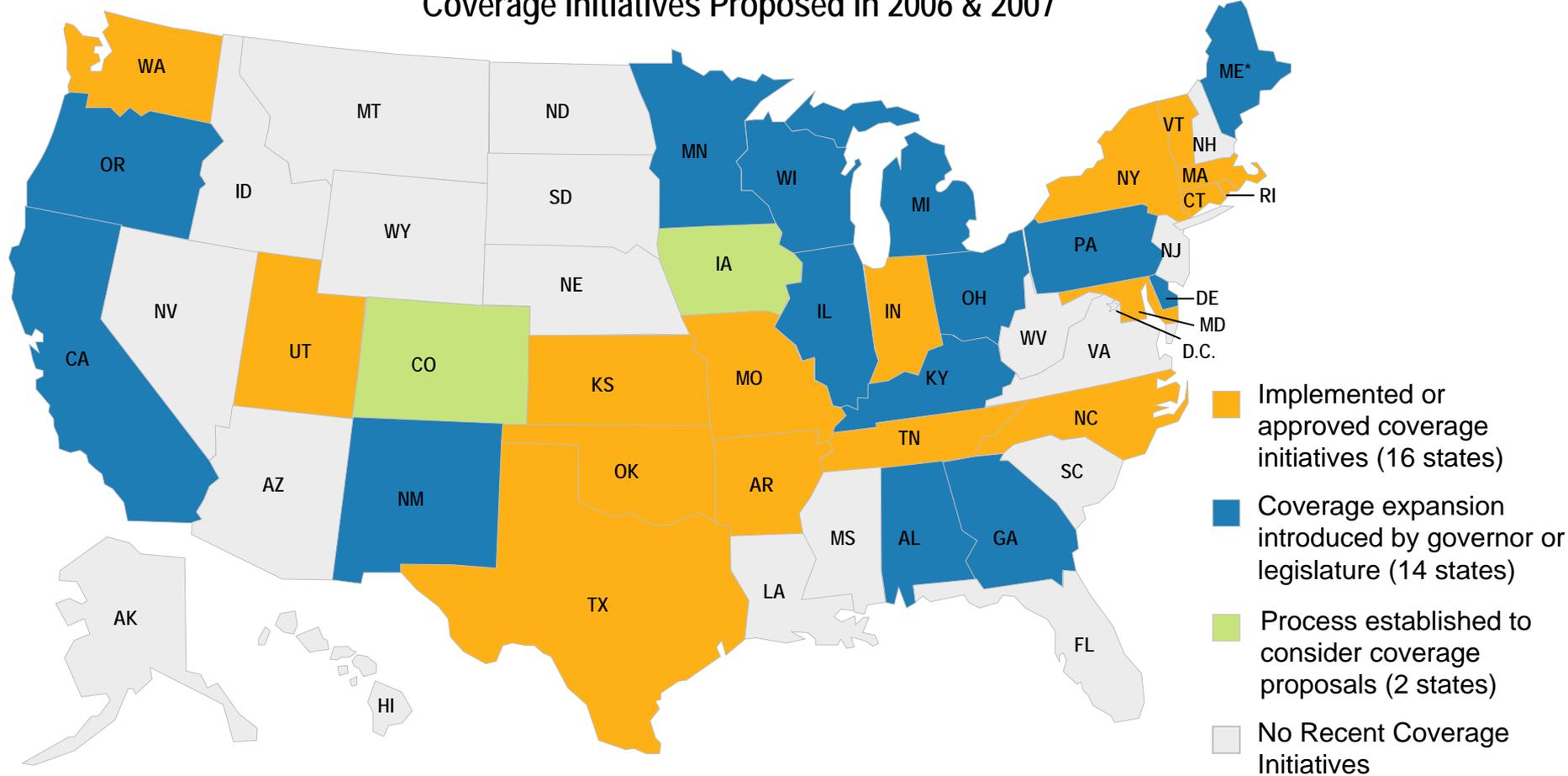


Note: State initiatives to expand coverage to children only are not included in this map.

Source: Avalere Health research and tracking, updated as of 6/6/07.

# In 2006 and 2007, Many States Followed with a Total of 30 Introducing Plans to Expand Coverage for the Uninsured

Coverage Initiatives Proposed in 2006 & 2007



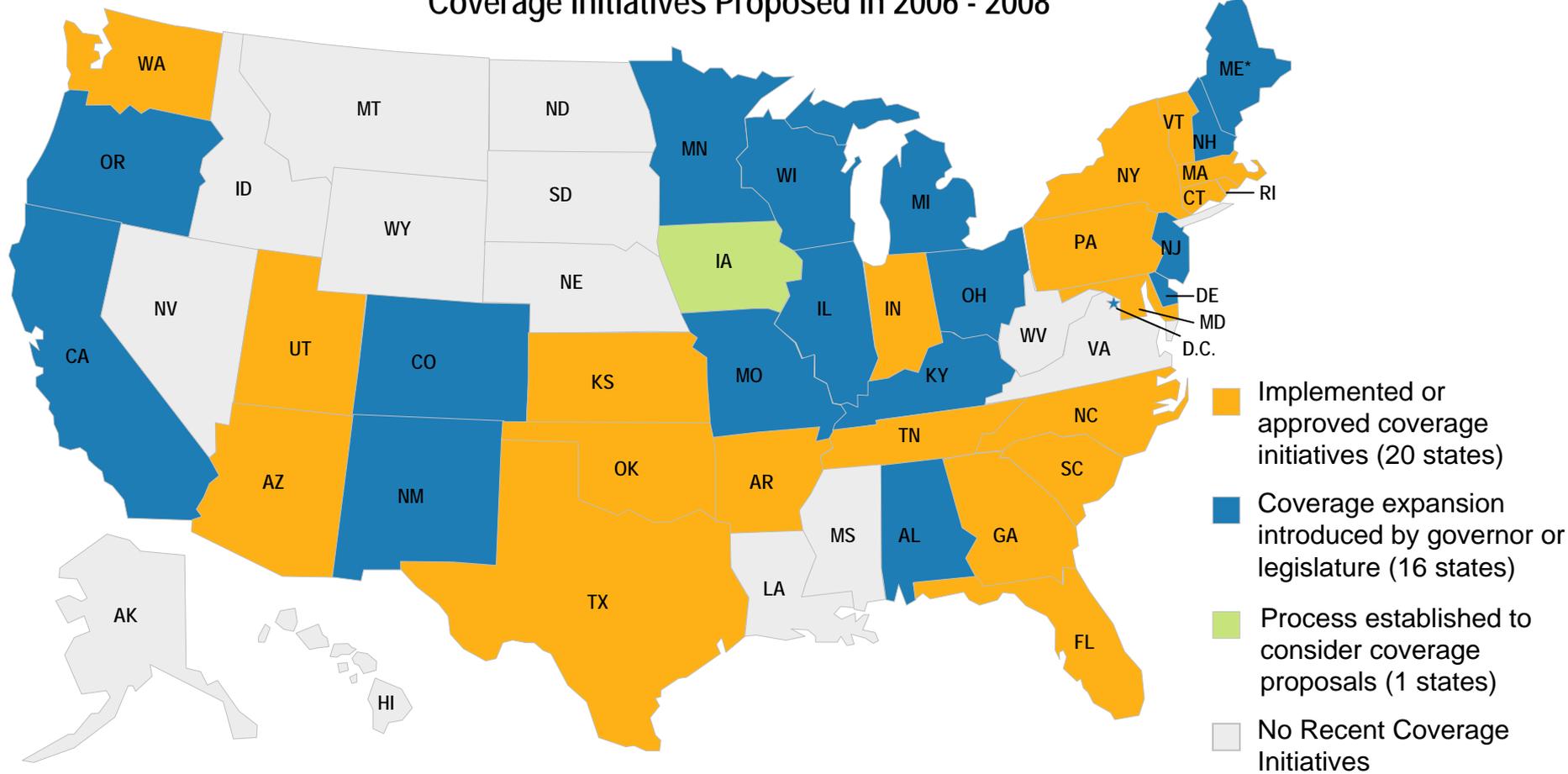
\*Maine is proposing updates to its Dirigo Health plan, which was created in 2003.

Note: State initiatives to expand coverage to children only are not included.

Source: Avalere Health research and tracking, updated as of 12/5/07.

# As of June 2008, 37 States Have Introduced Plans to Expand Coverage for the Uninsured

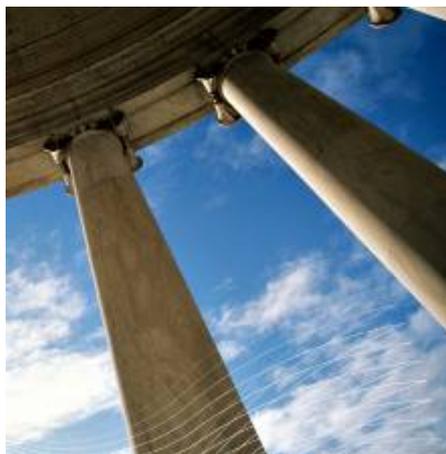
Coverage Initiatives Proposed in 2006 - 2008



\*Maine is proposing updates to its Dirigo Health plan, which was created in 2003.

Note: State initiatives to expand coverage to children only are not included.

Source: Avalere Health research and tracking, updated as of 05/29/08.

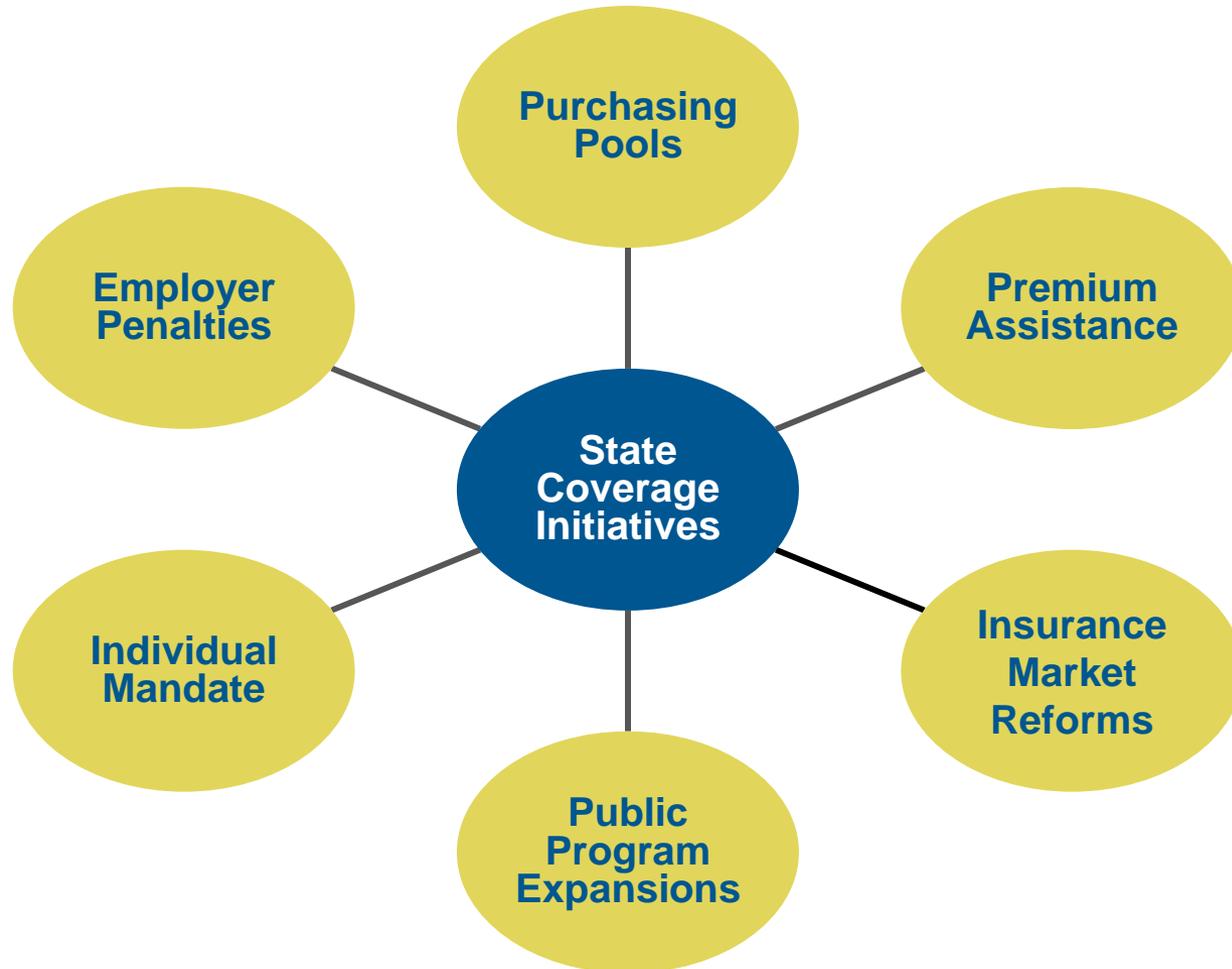


## Overview of State Strategies to Cover the Uninsured



The intersection of business  
strategy and public policy

# Common Mechanisms States Use to Expand Access to and Take-Up of Insurance



# Purchasing Pools can Lower Premiums in the Individual and Small Group Insurance Markets

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- **Purchasing Pools (a.k.a. health insurance exchanges):** Group multiple insurance markets together to improve the risk pool and reduce the cost of individual coverage
  - » Intended to stabilize the individual and small-group markets by increasing the number of people included in the risk pool
  - » Provides a centralized location where individuals and employees of small businesses can access many different health plan options

## Advantages

Improved risk-pool will lower costs for high-risk individuals and organizations

Reduces administrative burden for small employers by offering one-stop-shopping

Requires no state funding beyond initial administrative costs

Provides portable insurance products that can move with employees between jobs

## Disadvantages

Requires the establishment of a new agency or organization to run the purchasing pool

May encourage insurers to offer more scaled-down benefit packages

Without an individual mandate, purchasing pools may be subject to adverse selection

# Premium Assistance Makes Coverage More Affordable for Low-Income Residents

- **Premium Assistance:** Subsidizes the cost of private coverage for low-income individuals
  - » States offer premium subsidies to help low-income individuals pay health insurance premiums
  - » Typically implemented with sliding scale premiums based on income
  - » Some states only offer premium assistance for individual coverage options, while others allow residents to use the subsidies towards employer-sponsored insurance

## Advantages

- Increases the number of residents with private insurance coverage
- Encourages take-up of employer-sponsored coverage
- States can often receive federal Medicaid matching funds for some residents
  - » Medicaid will pay for premium assistance for qualifying individuals

## Disadvantages

- Very expensive
  - » Premium assistance is the most expensive component of state proposals
  - » Typically must be offset by new revenues from employer penalties, new taxes, etc.

# Insurance Market Reforms Help Ensure that Coverage Is Available and Affordable for Most Residents

- **Insurance Market Reforms:** Revise the rules governing private insurance to make coverage accessible and reduce premiums, particularly for high-cost individuals
  - » Guaranteed Issue – Require plans to accept all patients, regardless of health status
  - » Community Rating – Limit variation in premiums across all enrollees
  - » Merge Individual & Small Group Markets – Spread risk among a larger number of people
  - » Reinsurance – State insures private plans against very high cost claims

## Advantages

Ensures that all residents have access to private coverage

Reduce premiums for chronically ill individuals

Helps protect insurers against high cost patients

## Disadvantages

May increase premiums for better-risk residents and small groups

Without an individual mandate, lower-risk residents may be less likely to purchase insurance

Private insurers may oppose expanded regulations/requirements

# Public Program Expansions are Used to Cover Low-Income Residents for Whom Other Options are Not Affordable

- **Public Program Expansions:** Rely on Medicaid and SCHIP to expand coverage to very low-income adults and children
  - » States can also decrease the number of uninsured residents by increasing Medicaid/SCHIP enrollment among already eligible individuals via improved outreach
  - » In some cases, states are permitting higher-income individuals to “buy-in” to the Medicaid program if they do not have access to employer-sponsored insurance

## Advantages

Offers comprehensive, low-cost coverage to qualifying individuals

Systems are already established, including participating plans and providers

Medicaid is accustomed to serving low-income individuals

- » Other private plans may not have experience with this population

## Disadvantages

Higher Medicaid and SCHIP eligibility levels cause increasing crowd-out

- » Expansions typically require no contribution from employers and minimal contributions by beneficiaries
- » Some may opt-out of employer coverage in favor of the lower-cost public program

# Individual Mandates May be Necessary for States to Achieve Universal Coverage

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- **Individual Mandate:** Require some or all residents to have a minimum level of health insurance coverage
  - » States determine minimum creditable coverage requirements
  - » Typically enforced through the tax system – with individuals losing their personal income tax deduction if they are uninsured
  - » Targets higher-income, healthy individuals who would otherwise forego insurance

## Advantages

Reduces adverse selection

- » Improves the risk-pool by including healthy, lower-risk residents
- » May decrease the overall cost of coverage

Universal coverage reduces costs due to uncompensated care

## Disadvantages

Mandates can be difficult to enforce

- » State penalties for lack of insurance may not be high enough to compel compliance

Available coverage options may not be affordable for some residents

# Employer Penalties Help Fund State Coverage Initiatives and Discourage Crowd-Out

- **Employer Penalties:** Penalize employers that do not offer and/or contribute to health insurance coverage for their employees
  - » Penalties may be a fixed per-worker annual assessment or a percentage payroll tax
  - » Because offering employers are considered to subsidize uncompensated care costs through higher premiums, employer penalties help spread the burden of coverage across all employers

## Advantages

Encourages employer-sponsored coverage

Discourages employers from dropping coverage

Generates funding for state coverage initiatives

- » Often used to pay for premium assistance

## Disadvantages

Highly controversial and may generate strong opposition from employers in the state

May violate the Employee Retirement Income Security Act (ERISA)

- » Penalties may be overturned in court

Penalties may not be high enough to change employer behavior

# 25 States and DC are Projected Budget Shortfalls for FY 2009

State	Projected Budget Gap for FY 2009 (millions)	% of FY08 General Fund
Alabama	\$784	9.2%
Arizona	\$1,700	16.2%
California	\$16,000	15.4%
DC	\$96	1.5%
Florida	\$3,400	11.0%
Illinois	\$1,800	6.6%
Iowa	\$350	6.0%
Kentucky	\$266	2.9%
Maine	\$124	4.0%
Maryland	\$808	5.5%
Massachusetts	\$1,200	4.2%

State	Projected Budget Gap for FY 2009 (millions)	% of FY08 General Fund
Minnesota	\$935	5.5%
Nevada	\$565	7.8%
New Hampshire	\$50 - \$150	1.6 – 4.8%
New Jersey	\$2,500 – 3,500	7.6 – 10.6%
New York	\$4,900	9.1%
Ohio	\$733 - \$1,300	2.7 – 4.7%
Oklahoma	\$114	1.6%
Rhode Island	\$380	11.2%
South Carolina	\$260	2.4%
Vermont	\$59	5.1%
Virginia	\$1,200	6.9%
Wisconsin	\$652	4.8%

Louisiana, Michigan, and Mississippi also project shortfalls for 2009, but details are not available.

Source: Center on Budget and Policy Priorities, "22 States Face Total budget Shortfall of at Least \$39 Billion in 2009; 6 Others Expect Budget Problems," March 14, 2008.



# State Budget Shortfalls May Impact Existing or Proposed Health Programs

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- States may be less likely to implement proposed coverage expansions for the uninsured
  - » Coverage expansions that are approved may be more limited in scope
- States may be less likely to approve public program expansions (i.e., Medicaid or SCHIP)
  - » Recently, the Bush administration has released several pieces of regulation or guidance that make it harder for states to expand these programs
- Many states may look for budget offsets in their health programs
  - » Savings may be achieved by limiting eligibility, enrollment, or benefits

Despite budget challenges, states continue to propose and approve smaller coverage expansions. However, large scale proposals like Massachusetts seem less likely to succeed in the near future.

# Key Issues for States Pursuing Coverage Expansions

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<p data-bbox="525 448 606 516">1</p> <p data-bbox="403 568 683 715"><b>Scoring and Budget Projections</b></p> <p data-bbox="355 765 716 1008">Determine how much a coverage expansion will cost and how many people will benefit</p>	<p data-bbox="921 448 1002 516">2</p> <p data-bbox="809 568 1107 665"><b>Political Compromise</b></p> <p data-bbox="768 765 1130 1008">Negotiate a proposal that is acceptable to all stakeholders in the state</p>	<p data-bbox="1319 448 1400 516">3</p> <p data-bbox="1205 568 1534 665"><b>Marketing and Enrollment</b></p> <p data-bbox="1180 765 1541 1008">Notify residents of the new coverage option and encourage them to enroll</p>