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## Summary of the Premium Offset Program in MO HealthNet (SCS/SB577) and Recommendations to Promote Participation of Low-income Workers

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### Summary of the MO HealthNet Premium Offset Program in SCS/SB577

- MO HealthNet Division can implement a premium offset program subject to appropriations.
- Any individual who has been uninsured for one year is qualified for the premium offset program.
- Both the employer and employee must pay their shares of the premium to enroll. “Their shares” is not defined.
- Participants in the premium offset program are not eligible for MO HealthNet wraparound services.
- Individuals who are eligible for the program after the appropriation is exhausted will be placed on a waiting list.
- The Department of Social Services may apply for a federal waiver and/or state plan amendment to implement the premium offset program. This means that state and federal funds that have been used to provide Medicaid insurance for very low income individuals will be diverted to fund this program.

### Current Appropriations Recommendations for the Premium Offset Program

	Governor’s Recommendation	SB 577 Fiscal Note*	House Appropriations Committee Recommendation
General Revenue	\$10,000,000	\$10,000,000	\$8,000,000
Federal	\$16,470,000	\$16,470,000	\$13,175,225
Other	\$1	\$1	\$1
<b>Total</b>	<b>\$26,470,001</b>	<b>\$26,470,001</b>	<b>\$21,175,226</b>

\*The fiscal note for SB577 was based on the state and federal funds representing one-third of the cost of insurance for an individual. The employer and employee would pay for the remaining two-thirds.

## Recommendations for a Cost-Effective Premium Offset Program

### 1. High Enrollment is Essential

High enrollment is critical to overcome the high administrative costs of operating premium offset (PO) programs. If the PO program is “subject to appropriations,” it can impede enrollment and make the cost of administering the program prohibitive.

#### **Affordability Increases Enrollment**

##### *Other states’ experience:*

To date, enrollment in PO programs has been relatively low, and those who do enroll in PO programs tend to have higher incomes (Alker, 2005). This is primarily because PO programs are often not affordable to low-income workers. SCS/SB577 does not include any language that limits contribution (premiums and cost sharing) requirements of the employee. The primary reason that individuals decline employer sponsored insurance (ESI) is high cost.

A recent study by the State Health Access Data Assistance Center reported that that in 2004, 21.7% of Missouri’s uninsured workers did not participate in ESI because it was too expensive (SHADAC, 2005). While state contributions through a PO program will lessen the financial burden on the employee, affordability must be included as an essential component of the PA program to ensure higher enrollment.

##### *Developing reasonable premium cost guidelines to assure affordability:*

In 2006, the average total cost of employer sponsored insurance (ESI) was \$4,242 for an individual and \$11,489 for a family (Claxton, et al., 2006). On average, employees pay a premium equal to 16% of the total cost (\$56.56 monthly) for individual coverage and 27% (\$258.50) for family coverage (Claxton, et al., 2006). To assure affordability the Missouri Budget Project suggests limiting the employee’s share of the premium to 16% of the total cost of the premium or 5% of the employee’s income (whichever is less).

**Note:** Private insurance costs are increasing at a faster rate than Medicaid (Alker, 2005). If this continues, it may not be cost-effective to subsidize private insurance rather than provide direct coverage through Medicaid.

##### *Developing reasonable guidelines for cost sharing:*

Employer Sponsored Insurance generally has higher cost sharing requirements than public insurance (Alker, 2005). Thus, even if the premium is affordable to employees, cost sharing requirements may limit access to necessary care for enrollees.

Federal Law (§457.560) limits the aggregate cost sharing for families with children with incomes from 101-150% of federal poverty level in the SCHIP program to 5% of family income. If the premium cost is limited to 5% of family income (in the recommendation above), the Missouri Budget Project suggests that total cost sharing for employees be limited to no more than 7% of their total income.

### 2. Employer Participation is Critical

To implement an effective PO program, employer-sponsored insurance must be available. However, ESI is not available to many low-income workers. According to a survey conducted in

2004, 27.5% of Missouri's uninsured workers did not qualify for ESI (SHADAC, 2005). Furthermore, the survey found that only 33.8% of working Missourians earning incomes below the poverty level are offered ESI (SHADAC, 2005). A national study showed that access to ESI for adults under the poverty level was only 18% for parents, and 7% for nonparents (Williams, 2003).

***Other states' experience:***

States report that active employer outreach and education is critical to the success of PO programs. This increases enrollment because employers are more likely to offer plans eligible for PO to employees when they feel comfortable working with the state (Krause, 2006; Williams, 2003). Furthermore, states that gather information about ESI plans and potential enrollees are better able to find eligible employees who are willing and able to participate in the program (Krause, 2006).

States cannot require employers to provide information about PO programs to their employees. However, conducting outreach and building relationships with employers as well as doing research to find out which ESI plans would be eligible will likely increase enrollment.

**3. Employer Open Enrollment Periods Limit Access**

Often ESI plans only accept new enrollees annually during the open enrollment period. In order to enroll in or change an ESI plan, an employee must experience a "qualifying event." Typically, qualifying events include births, adoptions, marriage, or divorce (Krause, 2006). The Missouri Budget Project recommends adding "becoming eligible for a premium offset program" as a "qualifying event" so that as soon as Missourians are eligible to participate in the premium offset program, they will be able to enroll in their employer-sponsored insurance plan.

**4. Target the Eligible Population by Income Level Rather than Insurance Status**

Most states that successfully implement PO programs target the population by income level (Williams, 2003). This strategy ensures that those who are participating in the premium offset program will actually need assistance paying for health care coverage due to affordability reasons.

Premium offset programs are designed to help individuals who cannot afford health care coverage access ESI. Using income levels to target that population rather than insurance status will better reach the Missourians that premium offset programs could serve best.

In SCS/SB577, to be eligible for the premium offset program, an individual must be uninsured for one year. A waiting period of this length may result in uninsured working Missourians waiting nearly two years before being eligible for the premium offset program. Some states allow individuals to be covered by group health insurance at the time of application. Of the states with waiting periods, the waiting period during which the individual must not have group health insurance typically does not exceed six months (Williams, 2003).

This long waiting period also could have perverse incentives. For example, a low-income individual or family that chose to pay for ESI and cut back significantly on other living expenses would not be eligible for the premium offset. However, an individual or family in the same

financial situation who chose not to purchase ESI would be eligible for the premium offset. The only way for the former individual or family to become eligible would be to go without health care coverage for one year, thus disrupting coverage and forcing vulnerable Missourians to make a choice between being uninsured for a year and then receiving assistance, or continuing to struggle to afford to pay for ESI on their own.

### **5. Benefits Must be Adequate**

According to a recent survey report in 2004, 36.7% of uninsured working Missourians reported that they declined ESI either because they did not want or need insurance, or the benefits offered were inadequate (SHADAC, 2005).

SCS/SB577 does not require the ESI to meet any minimum benefit package requirements. Additionally, the current legislation will not provide eligible enrollees with MO HealthNet wraparound coverage to cover the benefits not included in the ESI. If the ESI benefit packages are not adequate to meet the needs of eligible individuals, employees will not enroll no matter what the cost.

**Successful implementation of a premium offset program must ensure that enrollment is high, plans are affordable, employers actively participate, and the ESI coverage provided is adequate. Without these key features, the money the state will spend to subsidize ESI could be better spent on direct public health insurance coverage for more Missourians.**

*The Missouri Budget Project is a statewide, nonprofit, nonpartisan organization that informs the public about the state's budgetary and tax policy options and their impact on low-income Missourians.*

### **Sources**

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