



## Hot Issues

### State Premium Subsidy Programs

To make a significant dent in the number of uninsured Americans, we need to employ innovative ideas that leverage private health insurance market resources. Because the Congressional Budget Office's research indicates that 71 percent of the non-elderly uninsured and 97.5 percent of the non-elderly uninsured that go without health insurance coverage for more than one year indicate cost as the driving factor for their lack of coverage, and since health insurance costs for employers continually outpace the rate of inflation according to the Kaiser Family Foundation's annual employee benefit survey (which indicated a 7.7 percent average increase in 2006), addressing the issue of price is key to increasing coverage. A number of states have attempted to address this issue in some way by subsidizing private health insurance premiums. These programs vary significantly in terms of size, cost, structure and target populations. Here are snapshots of the types of subsidy programs that are currently available:

#### **Subsidizing Employer-Sponsored Coverage for Qualified Medicaid and State Children's Health Insurance Program (SCHIP) Beneficiaries**

One of the key problems associated with publicly sponsored health coverage assistance programs like Medicaid and SCHIP is crowd-out. Crowd-out is the substitution of public program coverage for private health insurance coverage. Policymakers have long struggled for a way to balance increasing participation in public coverage for those with a true economic hardship, while not providing an incentive for people to decline private employer-sponsored coverage if it is available to them. One way some states have addressed this issue is by providing subsidization of comparable employer-sponsored coverage for qualified low-income adults and families, if such coverage is available. The Bush Administration's [Health Insurance Flexibility and Accountability \(HIFA\) Waiver program](#), which offers states an expedited review of certain Section 1115 waivers that include a premium-assistance component, has helped to facilitate the development of such programs.

Examples can be found in Illinois and Wisconsin, among others. In Illinois, premium subsidies are part of the SCHIP program, All Kids. Parents of qualified children who have employer-sponsored coverage or other private health insurance available to them have the option of getting a [Family Care/All Kids Rebate](#) of up to \$75 per person per month if their private insurance covers doctor and inpatient hospital care.

Wisconsin's BadgerCare program includes both traditional Medicaid and SCHIP assistance, as well as a premium subsidy program. In some circumstances, the state will enroll a BadgerCare family in an employer-sponsored family health plan offered by the employer of a BadgerCare family member under the [Health Insurance Premium Payment](#) program (HIPP). HIPP will pay the family's monthly premium, coinsurance and deductibles associated with the family health plan and any BadgerCare covered services not covered by the family health plan through BadgerCare fee for service. To be eligible, the employer plan must be a major-medical plan that covers at least physician services, and employers must contribute between 40 and 80 percent of the cost of the monthly premium. Finally, the cost of coverage for the family -- which includes the employee's share of the premium, coinsurance, deductibles and BadgerCare services not covered by the employer health plan -- must be less than the cost of BadgerCare HMO coverage for the family.

Two of the states to recently take this approach are [Kentucky](#) and [West Virginia](#), where Medicaid waivers approved in 2006 that will be implemented in the next year include premium subsidies for qualified Medicaid beneficiaries who have access to employer-sponsored health insurance instead of requiring beneficiaries to participate in a public program to obtain assistance.

### **Subsidizing Individual Health Insurance Premium Costs**

Health insurance premium rates can still be financially out of reach for many individuals who would not traditionally qualify for Medicaid or SCHIP. Some states have tried to address this program by expanding their public-assistance programs to cover individuals with family incomes farther above the federal poverty level (FPL). For example, in 2006 Massachusetts expanded its [Medicaid program](#) to cover children with family incomes of up to 300 percent of the FPL (\$60,012 annually for a family of four). However, other states have attempted to address this issue by providing individuals with vouchers or other types of subsidies so they can purchase their own health insurance coverage privately through an employer or in the individual market.

In Utah, the [UPP program](#) helps make health insurance more affordable for working individuals and families. Funded with a HIFA waiver, UPP is for adults and children who do not currently have health insurance, and it helps pay monthly premiums in an employer's health insurance plan. Qualifications depend on family size and income, and if the structure of the employer's health insurance plan meets basic guidelines. The reimbursement amount is \$150 per adult and up to \$100 per child per month.

Washington has a fully taxpayer-financed program that provides affordable health care coverage through private health plans. [Basic Health](#) contracts with health plans all over the state to provide reduced-cost health care coverage to residents not eligible for other public care options and who make less than 200 percent of the FPL. Monthly premiums are based on age, income, family size

and the health plan chosen. Individuals pay their premium rates directly, with the premium subsidy already built into the reduced rate. While the program is geared mostly toward individual plans, the subsidy can also apply to qualified employer group coverage.

In Oregon, the [Family Health Insurance Assistance Program](#) has been very successful at targeting low-income uninsured families by using agents to enroll members. FHIAP gives subsidies to help pay the monthly cost of either private individual or employer-sponsored coverage. The amount of the subsidy depends on family size and income and can range from 50 to 95 percent of the premium. To qualify, individuals must meet the income guidelines and either have been uninsured for the previous six months or be transitioning off the state Medicaid program. Individuals who are receiving the subsidy for group coverage are reimbursed by FHIAP for their portion of the employer-sponsored premium. Individuals who use FHIAP subsidies to buy individual insurance are billed directly by the program for their share of the premium. Once approved for FHIAP, members are eligible to remain in the program for 12 months. Three to four months before the member's eligibility ends, FHIAP sends a new application and members may re-apply.

### **Subsidizing Health Insurance Coverage Costs for Small Employers**

Other states have tried to address the issue of making health insurance coverage more accessible and affordable by targeting small employers. The theory behind this approach is that many uninsured individuals, particularly those employed by small businesses, lack coverage because it is not provided as an employee benefit. According to the Kaiser Family Foundation's Employer Health Benefits Survey, while nearly all large businesses (those with at least 200 workers) offer health benefits to their workers, fewer than half of the smallest firms (three to nine workers) do. According to the same study, the primary reason why those small employers don't offer coverage is cost. A few states have attempted to solve this problem by offering to subsidize premiums for qualified small-employer groups in the state.

In Oklahoma, the voluntary [O-EPIC Premium Assistance Program](#) was recently expanded and works with health insurance agents. This program pays part of the health plan premiums for eligible employees working for qualified Oklahoma small businesses (50 or fewer employees - effective October 13, 2006). Eligible employees must have family incomes of less than 185 percent of the FPL, not be eligible for other public coverage programs and contribute 15 percent of the premium. Eligible employers must have less than 50 employees, be headquartered in the state, offer a qualified health plan and pay at least 25 percent of the eligible employees' premium. Both employers and employees must apply and be approved by the state, and then the state program reimburses the employer for up to 60 percent of the health plan premiums for eligible employees.

In Kansas, the health insurance premium assistance program for small businesses is in the form of a [tax credit](#). The 2005 Kansas Legislature approved a plan to provide an income tax credit for employers that have established a small-employer health benefit plan or made contributions to a Health Savings Account of a covered eligible employee after December 31, 2004. For those employers that established a small employer health benefit plan after December 31, 1999, but prior to January 1, 2005, an income tax credit is available for amounts paid during the taxable year on behalf of an eligible employee to provide health insurance or care. The credit is \$70 per month per eligible covered employee for the first 12 months of participation, \$50 per month per eligible covered employee for the next 12 months of participation, and \$35 per month per eligible covered employee for the next 12 months of participation.

The newest state premium subsidy program targeted at small employers is the [Kentucky ICARE](#) program. This pilot program, which began accepting applications on November 1 and will become effective on January 1, 2007, will help eligible employers with two to 25 employees pay health insurance premiums. To be eligible for ICARE, an employer must contribute 50 percent of the employee's premium and have an average annual employee salary of no more than 300% of the federal poverty level. The program will pay \$40 in subsidies per employee per month if the employer has not offered health coverage for the past 12 months, and the amount will decrease by \$10 per year over the life of the program. The program will pay \$60 per eligible employee per month for an employer group if at least one employee has a "defined high-cost condition," which will be determined by the state department of insurance. For employers receiving the high-cost condition subsidy, the amount will decrease by \$15 per year over the life of the program. The subsidies will only apply to employee premiums, not dependent premiums, although dependents can be included in eligible plans. All health insurers participating in the Kentucky small-group or group association market must participate in this new program, which will utilize agents to assist in the enrollment process.

### **Indirect Subsidies**

A final way a few states have attempted to privately offset health insurance costs is by indirectly making health insurance premiums more affordable through a reinsurance mechanism. The largest example of this is [Healthy New York](#). The state provides an indirect subsidy to groups of 50 or less employees by providing the private insurance carriers that offer the Healthy New York products a state-subsidized reinsurance mechanism that reimburses health plans for 90 percent of claims paid between \$5,000 and \$75,000 on behalf of a member in a calendar year. These products are also exempt from certain state mandates and are, on average, 15 to 30 percent less than traditional small-group market premium rates. The Healthy New York program is designed to encourage small employers that do not currently provide comprehensive group health insurance coverage to purchase reduced cost coverage for their employees. In order to participate in Healthy NY, (1) the employer must be located within New York

State; (2) the employer must have 50 or fewer eligible employees; (3) 30 percent of the employees must earn wages of \$35,500 or less (amount is adjusted annually for inflation); and (4) the employer must not have provided group health insurance coverage to its employees within the last 12 months. A small employer is considered to have provided health insurance if the employer has BOTH arranged for and contributed more than \$50 (or \$75 in certain counties) per employee per month toward health insurance. If an eligible employer opts to enroll, it must ensure 50 percent eligible employee participation, and that at least one participant earns annual wages of \$35,500 or less. A small employer may count employees who have health insurance coverage through another source, such as a spouse or another government program, toward the participation requirement. Furthermore, the employer must contribute at least 50 percent of the employee premium and offer Healthy NY coverage to all employees who are working 20 or more hours per week and earning \$35,500 or less.

### **For More Information**

For more information about state initiatives to provide individuals with subsidized access to health insurance coverage and how you can respond, please contact [Jessica Waltman](#), vice president of policy and state affairs. You can also contact any one of NAHU's state affairs directors: