

## FACT SHEET

March 2006

### Cover Missouri Project: Report 7

## Expanding Coverage Through the Missouri Consolidated Health Care Plan (MCHCP)

Providing affordable health insurance for employees is a challenge for most employers, but it is especially difficult for small businesses. Firms with 50 or fewer employees are too small as single buyers to have any bargaining power in dealing with health insurers. Recognizing the limitations that small employers encounter when buying health coverage on their own, small business advocates have long been interested in mechanisms that would allow such firms to buy health insurance collectively. The expectation is that such joint purchasing would give small employers the advantages that large employers enjoy, i.e., sufficient market share to negotiate more favorable premiums and to persuade insurers to take steps to improve quality and services. This fact sheet presents excerpts from a research report by the same name that presents an in-depth discussion of a possible method for Missouri to increase access to health insurance coverage.

Utilizing the state employees' health plan, MCHCP, to attain sufficient market share offers significant advantages for Missouri's small businesses, including:

- market "clout" with insurers and leverage to get favorable prices, as well as encourage insurers and providers to take steps to improve both the quality and value of medical services;
- existing contracts with insurers that would ease the effort needed to persuade insurers to serve small employers in a collective purchasing arrangement;
- an already established administrative apparatus; and
- administrative economies of scale that only a large purchaser can realize.

### The Missouri Consolidated Health Care Plan

MCHCP is a separate, stand-alone state entity created by statute and organized under the direction of a 13-member board. It provides coverage to over 105,000 members, including state employees as well as employees of various municipal organizations. Its administrative costs, as a percent of premiums, are about 1.6 percent. This compares favorably to the 25 percent that is typical for smaller employers. Because MCHCP already provides coverage not just for state employees but also for a variety of municipal employers, it is logical to consider it as a candidate to serve small non-governmental employers as well.

Before considering how the state employees' plan might serve small employers, it is important to be clear about the objective of such a policy. The major objective is to make coverage available at a lower price. Achieving that objective could have two positive results:

- it could make coverage more affordable for firms that already offer coverage and thereby help to prevent further erosion of employer-sponsored insurance, and
- it could induce some firms that do not currently offer coverage to begin doing so.

Clearly, making coverage more affordable by taking advantage of the state's purchasing power would cause some firms to begin offering coverage and could prevent others from dropping it. However, policymakers should not assume that the price reductions which might be achieved will "solve" the problem and cause most small employers and their employees to purchase coverage. Substantial subsidies will be required to lower the price to where a large proportion of lower-wage employers and their employees find coverage affordable.

### Key Design Decisions

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Implementing a policy that allows small employers to buy coverage through MCHCP requires answering a number of design questions. Three closely interrelated questions are especially important:

- Which small businesses should be eligible to participate?
- Should the state subsidize the cost of coverage?
- How should the state address the likelihood that the pool could attract a disproportionate number of higher-risk firms?

The most obvious approach would be to open up participation to all small firms, e.g., all firms with 50 or fewer employees. Which firms among this group would find the new option most appealing? The answer depends upon how the state's premiums compare with those generally available to small employers. If the state plan is less expensive or offers better value in other ways, it may appeal to a large number of these small employers.

One group that might be especially interested is "higher-risk" firms. Many of these are small employers who could afford to buy coverage if they could buy it at the "average" small-group price but who do not have that option because their workforce is comprised of people who have higher-than-normal risk, e.g., individuals who are older or have a history of illness or chronic disease. Insurers vary premiums according to their assessment of the group's risk of incurring high medical expenses (although state law limits the extent to which they can do this). Firms with high-risk individuals are "rated up" and thus may not be able to afford coverage. If they could buy coverage at the same rate that the state pays, many would find it affordable. The state insures so many employees that it is able to "spread" the risk; that is, the high costs incurred by high-risk state employees and their dependents are offset by the low costs incurred by low-risk employees and family members. Ultimately, the premium rate balances out to reflect the cost experience of a "normal-risk" population. Unlike the state, small firms do not have enough insured people to accomplish such risk-spreading.

## Adverse Selection

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Unfortunately, opening up the state plan to all small firms and making coverage available at the same premium rates that are available to state employees could pose a serious problem: if the state attracts a disproportionate number of high-risk firms (called “adverse selection”), it will find that its average claims costs rise more rapidly than they would otherwise. The possibility that the state employees’ plan could experience adverse selection is likely to make state employees very reluctant to entertain the idea of combining the newly insured firms into the existing risk pool without some mechanisms for protecting the interests of the original enrollees. The issue with adding higher-risk enrollees to an existing pool lies in the potential for either increased costs or reduced benefits for the original group. Serving this new group of people may also cause administrative costs to rise. Although the state undoubtedly benefits from administrative economies of scale, serving very small employers would be more costly for insurers than serving the state as a single employer group; and those costs would be passed on to the state and perhaps in part to enrollees. The issue of adverse selection is one that should be discussed and planned for in preparation for a program to assist small employers in attaining health insurance coverage for their employees. Adverse selection can be addressed in a variety of ways (discussed in detail in the full report), including:

- a separate risk pool for small businesses,
- extended contracts for all firms that enroll in the new program,
- medically underwriting firms that apply for coverage,
- subsidizing the premiums of higher-risk firms, and/or
- subsidizing premiums directly.

## Additional Design Decisions

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Other important design elements must be considered when planning a program to offer coverage to small employers. A thorough discussion of these issues can be found in the full report; however, some of the additional questions that must be resolved include:

- How many different health plans should be part of a program for small businesses?
- If multiple plans are offered, should individual employees within the same firm be able to choose different health plans?
- What benefit package options should be available to small firms that choose to participate in the state plan?
- How would the new program be marketed to employers, employees, and insurance agents?
- How will insurance agents and brokers be recruited and educated regarding this new program?

## Summary

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Expanding the state employees' health plan to include small employers offers Missouri the opportunity to stabilize and expand the number of state residents with health insurance. The full report offers a detailed discussion of the complex set of decisions necessary to create this type of coverage expansion for Missouri.

## About This Fact Sheet

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The information presented here is taken from *Cover Missouri Project: Report 7: Expanding Coverage through the Missouri Consolidated Health Care Plan (MCHCP)*, written by Elliot Wicks, PhD, Economist and Policy Analyst at Health Management Associates (HMA). Report 7 is part of a series of research papers about the uninsured in Missouri prepared by The Urban Institute in Washington, DC, and published by the Missouri Foundation for Health.

The complete report is available online at [www.mffh.org](http://www.mffh.org). Printed copies of this Fact Sheet are available upon request while supplies last. Please contact the MFH Health Policy staff at [info@mffh.org](mailto:info@mffh.org) or toll-free at 1-800-655-5560.



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