

FACT SHEET

March 2006

Cover Missouri Project: Report 9

Increasing Health Insurance Coverage in Missouri Through Subsidies

The majority of Missouri's uninsured population is low income. The Current Population Survey (CPS) for 2003 and 2004 reports that 59 percent of Missouri's uninsured population, or 355,000 people, had incomes below 200 percent of the federal poverty level (FPL). Most of the low-income uninsured in Missouri live in families with at least one worker, i.e., families with one or more full-time workers comprise 68 percent of the uninsured; families with one or more part-time workers comprise 14 percent of the uninsured.

Contributing factors to the uninsurance rate for the employed include a lack of and/or the cost of employer-sponsored insurance. Low-income workers, those earning below 200 percent of FPL,* comprise 22 percent of Missouri's workforce but account for 52 percent of the uninsured. One approach for increasing the insurance rate for these Missourians lies in creating targeted income-based insurance subsidies. This fact sheet presents excerpts from a research study by the same name that discusses the policy implications of targeting insurance subsidies using two different approaches: 1) employer subsidies and 2) individual and family subsidies.

Employer Subsidies

Employer subsidies (i.e., the amount paid by the state to supplement an employer's health insurance costs) can be structured in a variety of ways. They can be direct subsidies that employers would apply for from the state when offering coverage; they could be structured as tax credits with companies applying a specific percentage of their premiums as a credit against the year's tax liability; or they could be designed so that the government pays a percentage of the premium in conjunction with a minimum employer contribution.

*200 percent of FPL was \$38,614 for a family of four in 2004.

There are several potential problems with the employer subsidies approach, including:

- Substantial government subsidies would be required to significantly increase employer-offered health insurance.
- The target population, low-income workers, would not always be the primary beneficiary. Many individuals with low wages are not in low-income families (i.e., a low-wage worker may have a highly paid spouse and thus may be an inappropriate target for limited state resources).
- Subsidies targeted to small firms would miss many low-wage workers in larger firms who do not have access to employer coverage.
- Unless generous, subsidies would not likely change the cost and type of insurance offered by employers. The major reason for the recent decline in employer coverage is that insurance has become more costly and less affordable.
- Subsidies could potentially displace private coverage. Unless subsidies are targeted to workers with the lowest wages, it would be hard to avoid giving subsidies to many of those who are currently covered.

Individual and Family Subsidies

An alternative to employer subsidies is to directly provide subsidies to individuals and families on an income basis. Research suggests that providing subsidies to individuals and families effectively subsidizes the uninsured and reduces the displacement of existing private coverage.

Individual and family subsidies can be provided directly to individuals (e.g., vouchers) or can be structured as refundable tax credits. The voucher approach would require individuals, upon confirmation of eligibility, to visit a state administrative office and have their subsidy level determined. Thereafter, they would receive a subsidy, or voucher, to supplement the purchase of insurance. In the case of the tax credits, the approach is similar. An individual would go to a state administrative office to determine their estimated tax credit and receive funds (or vouchers) in advance of purchasing coverage. Over- or under-payments of credits advanced during the previous year could be reconciled as part of the tax filing process.

Potential problems associated with individual and family related subsidies include:

- Determining the amount individuals at different income levels should be expected to pay toward their health insurance coverage.
- Overcoming the stigma attached to receiving government support.
- Answering the question: should subsidies simply be income-related or should they also subsidize high-cost individuals who already pay high premiums and would benefit the most from subsidies?
- Minimizing “crowd-out.” Crowding-out occurs when existing public programs designed to extend coverage to the uninsured prompt some privately insured persons to drop their private coverage and take advantage of the expanded public subsidy.
- Increasing the state’s administrative burden of determining eligibility and signing up new individuals and families.

Recommendations

For subsidies to effectively decrease the number of uninsured in Missouri, this study recommends the following policy approaches:

- Insurance subsidies targeted at individuals and families and only minimally at employers.
- Employer subsidies targeted at firms with fewer than 25 workers with an average wage of less than \$10 per hour. Employers would be expected to pay a minimum of 50 percent of the premium for coverage of workers and spouses, up to a predetermined cap.
- State-established income-related tax credits available for workers and spouses with incomes up to 300 percent of FPL. These subsidies would be available only to individuals purchasing through a pool, such as the state employees’ health plan (for more details see *Cover Missouri Project: Report 7: Expanding Coverage Through the Missouri Consolidated Health Care Plan (MCHCP)* from this series).

About This Fact Sheet

The information presented here is taken from *Cover Missouri Project: Report 9: Increasing Health Insurance Coverage in Missouri Through Subsidies*, written by John Holahan, PhD, Director of The Urban Institute's Health Policy Center in Washington, DC. Report 9 is part of a series of research papers about the uninsured in Missouri prepared by The Urban Institute and published by the Missouri Foundation for Health.

The complete report is available online at 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 or toll-free at 1-800-655-5560.



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