

Show Me Series: Report 10

Expanding Insurance Coverage For Workers in Small Businesses: Lessons from Massachusetts and California

The most common form of health insurance coverage in the United States is obtained through employer-sponsored insurance (ESI). A number of variables effect the likelihood of obtaining ESI including: income (low-income individuals are much less likely than high-income people to be offered insurance by their employer); size of the employer (as firm size increases so does the likelihood of receiving an offer for ESI); and the cost to the employer of providing health insurance (small employers pay higher prices than large employers for the same benefits). In an effort to increase ESI coverage and decrease the numbers of uninsured, state legislatures across the country have begun to tailor policy initiatives to small businesses. This fact sheet highlights conclusions from a report focusing on the effectiveness of such policies with particular attention to the applicability to Missouri of recent health reforms in Massachusetts and California.

Increasing Health Coverage Through Mandates and Subsidies

Employer Subsidies

Evidence suggests that even generous employer subsidies (i.e., providing a tax credit for a certain share of the employer's costs of providing health insurance) would not increase employer offers of insurance, and that such subsidies would risk eliminating a considerable amount of current spending on private insurance coverage.

Individual Subsidies

Research indicates that subsidies targeted to individuals: effectively direct resources to those in need; displace fewer private dollars spent on health insurance; and, if designed to be income-related, can limit an individual's health care spending (on premiums or premiums plus out-of-pocket costs). The challenge is to design a program that is equitable to different income levels, attracts significant numbers of participants, and minimizes "crowd-out." Crowd-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.

Employer Mandates

Even a well-designed employer mandate (i.e., requiring employers to contribute toward their employees' health insurance premiums) would not solve all of the coverage problems facing a state. This is because some workers would choose not to enroll in coverage even when it is offered to them. Also, because the Employee Retirement Income Security Act of 1974 (ERISA) prohibits states from regulating self-insured employer plans, no matter how well designed, any employer mandate program faces potential challenges in court.

Individual Mandates

Under an individual mandate, individuals are required to purchase insurance coverage meeting at least a minimum set of state defined standards. Individual mandates do not face political opposition from small- and medium-sized businesses (a significant problem with employer mandates), nor do they face potential legal action under ERISA. However, implementing an individual mandate can create an incentive for firms with large numbers of low-income workers to drop coverage so that their workers could take advantage of new subsidies outside the workplace. Also, there exists the possibility that firms currently offering ESI would face financial difficulties as more workers begin to accept ESI offers.

Insurance Purchasing Pools

Successful reform includes strategies to guarantee insurance coverage that meets the health care needs of the target population. A critical component of these strategies is the creation of a purchasing pool. A purchasing pool allows employers and/or individuals to collectively purchase health insurance. Purchasing pools offer the possibility of lower premium costs by bringing smaller groups together to achieve the buying power of large groups. There are a number of options and design issues that should be considered when creating an insurance purchasing pool:

- Who would be eligible to purchase coverage in the pool? Small businesses or individuals (those with and without employer offers or only those without such offers)?
- Will subsidies only be made available to those purchasing through the pool?
- How will premiums be determined? Will risk adjustment be used for all health insurance plans participating in the pool? Will mechanisms be used to spread risk across those purchasing inside and outside of the pool?
- What benefits will be offered? Will insurers have to offer standardized benefit packages to participate? Will benefits be comprehensive, limited, or will both types of coverage be offered?

Recommendations for Missouri from Massachusetts and California

Based on an analysis of the California proposal and the Massachusetts reform initiatives, the authors[†] draw the following conclusions and recommendations for Missouri:

- Providing income-related subsidies to individuals targets those in need, reduces the cost of insurance to the individual, and involves less risk of displacing existing coverage. California has proposed to make individual subsidies available for the population that falls below 250 percent federal poverty, while Massachusetts has enacted a subsidized insurance program for low-income individuals and families below 300 percent federal poverty.
- Employer mandates may be met with opposition from small- to medium-sized businesses and may provoke legal challenges. Both California and Massachusetts use limited versions of employer mandates, with Massachusetts imposing a considerably lower burden on businesses than the California proposal. In Missouri, an approach similar to the one used in Massachusetts would be advisable.
- Obtaining coverage for all workers in small businesses necessitates an individual mandate, which gives rise to the challenges of compulsion and enforcement. An individual mandate should be accompanied by a subsidy schedule that makes coverage affordable for those who would otherwise choose not to purchase coverage. Massachusetts and California couple individual mandates with individual subsidies.
- Purchasing arrangements, such as a purchasing pool, are necessary to guarantee accessible and affordable coverage for subsidized and/or unsubsidized small-business workers. Massachusetts and California have developed purchasing arrangements where insurers offer coverage, subsidies can be determined, and people can be guaranteed a purchasing source for coverage. Through the Missouri Consolidated Health Care Plan (the state health employees' plan), the Missouri Health Insurance Pool (the state's high risk pool) and the managed care plans that participate in Missouri's MC+ for Kids Program, Missouri already has a number of purchasing entities that could be adapted to serve this function.
- Ensuring broad-based sharing of health risk is a very important component of guaranteeing access to adequate and affordable coverage for all. Within the unsubsidized portion of the Commonwealth Health Insurance Connector (Massachusetts' purchasing pool intended to bring together small businesses and individuals without access to ESI to facilitate their purchasing of adequate and affordable private insurance) multiple benefit packages of differing levels of comprehensiveness are expected to be made available. While this scenario seems ripe for risk segmentation (i.e., the healthy being attracted to less comprehensive plans, the less healthy to more comprehensive plans, thus leading to premiums spiraling upwards for the comprehensive plans), the Massachusetts plan has several strategies in place to prevent such a phenomenon. Instead of charging premiums for each plan as a function of the specific health risks of those that enroll in that plan, the Connector bases premiums on what they would cost if a much broader population were enrolled.

Considerations

For the majority of small-business workers lacking health insurance, an affordable employer plan in which they can enroll is not available. Thus, to increase employer-based coverage among small businesses, state governments should focus on increasing the number of small-business employers offering coverage, on expanding eligibility for currently excluded workers in offering firms, and on making coverage options affordable for low-income workers. These policy goals demand a comprehensive reform effort that includes purchasing pools, individual and employer mandates, and income-related subsidies targeted to individuals. Missouri policymakers can draw lessons from the way Massachusetts and California balance these policy tools in order to effectively expand ESI for small businesses.

About This Fact Sheet

† The information presented here is taken from “Show Me Series Report 10: Expanding Insurance Coverage for Workers in Small Businesses: Lessons from Massachusetts and California” prepared at The Urban Institute by Linda Blumberg, PhD, and John Holahan, PhD. The complete report is an online publication available at www.mffh.org.

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