A summary of health policy work for the Universal Health Care Foundation of Connecticut

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Topics for today’s presentation

- Overview of prior work – two rounds of policy development
- Round 2 results
- Round 1 results
Overview of work
Overview of work

- Preliminary round: mapping current system
- Round 1: 3 options to expand coverage
  - One health plan serving all state residents
  - Using health insurance purchasing pool with competing private plans to serve the uninsured
  - Expanding Medicaid and HUSKY
- Round 2: 2 options to cover all residents under age 65, consistently with IOM principles
  - One self-insured plan serving all state residents
  - Enroll all residents in a health insurance purchasing pool with competing private plans
Differences between first two rounds

- Employer responsibility
  - First round: all firms were asked to make payments, calculated as percentage of payroll
  - Second round: lower payments from smaller firms
    - In determining level of employer responsibility, excluded the first $265K of payroll (the average for companies with 10 employees)

- Health insurance purchasing pool
  - Round 1: Employers encouraged to drop coverage and insure workers through the pool
  - Round 2: Pool covers all non-elderly residents
Round two results
Common policy elements in round two

- All state residents enrolled in a new health insurance system, covering benefits typical of today’s employer-sponsored insurance (ESI)
- Extra help for low-income people
- Financing
  - Firms, based on payroll, sparing small firms
  - Individuals, based on income
  - Small amount of General Fund money
  - Significant new federal Medicaid funds
Projected savings – per capita costs per insured resident

- Single, self-insured plan – 15.6 savings
  - Reduced administrative costs with self-insured plan
  - Lower administrative costs for providers
  - Leverage to lower provider prices
  - System management

- Purchasing pool – 9.4 percent savings
  - Incentive for consumer to choose less costly plan
  - Leverage to lower premiums
Changes from status quo, by policy option: Thousands of people, millions of dollars per year

<table>
<thead>
<tr>
<th>Number of uninsured</th>
<th>Total health spending</th>
<th>Employer costs</th>
<th>Household income usable for other needs</th>
<th>State General Fund costs</th>
<th>Federal matching funds</th>
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<tbody>
<tr>
<td>-1500</td>
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Source: Gruber microsimulation model, 2007.
Round one results
Macrosimulation

- Very small effects, relative to state economy

- Impact on net jobs
  - Single state plan: 6,000 to 11,000 increase
  - Purchasing pool: 2,000 to 6,000 increase

- Impact on state GDP
  - Single state plan: $660 million to $830 million increase
  - Purchasing pool: $320 million to $470 million increase

- Reason for positive effects – lower labor costs for business
Policy design challenge: a permeable pool

- Key feature: new insurance system covers those without access to ESI
  - In other words: employers choose whether their workers go into the pool

- Encourage employers to drop coverage, pay pool to cover workers. Why?
  - More leverage = lower premiums
  - More in pool = more portability
  - More employer dollars in pool = more matching federal funds
Policy challenge: the permeable pool

- ERISA forbids direct mandate or regulation of employee benefits
- Danger that employers will stop paying for coverage, shift costs to taxpayers
  - Willie Sutton effect: ESI is where the money is.
- Danger that employers will encourage their high-cost employees to use the public system
  - Self-reinforcing, negative cycle: higher risk increases premiums, drives out lowest-cost enrollees, further increases risk and premiums, drives out remaining lowest-cost enrollees, etc.
How our policy addressed those challenges

- Employers charged X% of payroll
- Credit against charge:
  - Employer and employee premium payments
  - If workers covered through pool, pro rata share of federal and state dollars in pool
  - In other words, guaranteed lower cost in pool
- Further credit against charge if firm achieves savings in buying coverage
Conclusion

- Health care reform can yield clear benefits to each overall stakeholder group & total economy

**Within** key stakeholder groups, mixed picture:

- Employers
  - Costs increase for companies that don’t pay for coverage today.
  - Costs fall for those that cover workers today.

- Providers
  - All achieve administrative savings.
  - Some gain income, others lose income.

- Real policy design challenges if firms or individuals can choose between current coverage and new system