

# Small Employer Health Insurance Coverage Issues

## Covering the Uninsured and the NC Health Care Safety Net

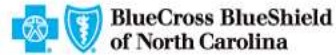
North Carolina Institute of Medicine

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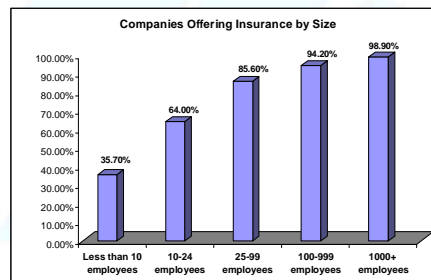
# Small Business Insurance Facts

## Nationally

- Only **36%** of companies with fewer than 10 employees offer health insurance compared to 96% of companies with 100+)

## North Carolina

- Only **29%** of companies with fewer than 10 employees offer health insurance (compared to 99% of companies with 100+)
- About **34%** of workers in the smallest firms (less than 25) are uninsured compared to 10% in the largest firms



Source: "Increasing Health Insurance Coverage of Workers in Small Firms: Challenges and Strategies", The Urban Institute and US Senate Finance Committee, 10/25/07, "Covering the Uninsured" 4/06 NCIOM.

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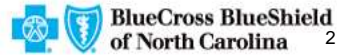
## The Importance of Small Business in North Carolina

- Small business is important to North Carolina's economy
  - ✓ 77% of North Carolina businesses have fewer than 10 employees; 94% have fewer than 50 employees
  - ✓ Between 1998 and 2002, small businesses (under 100) created 83,000 net new jobs, which was 60%-74% of annual net job growth
- Despite the importance to the state's economy, NC ranks poorly (40<sup>th</sup>) on the Small Business Survival Index for least friendly states for small businesses.
  - ✓ Study ranks 29 government imposed or related costs impacting small businesses
  - ✓ Sample of lowest ranking criteria for North Carolina:
    - Personal Income Tax (44<sup>th</sup>)
    - Capital gains tax (46<sup>th</sup>)
    - Unemployment tax (37<sup>th</sup>)
    - Number of health insurance mandates (39<sup>th</sup>)
    - Crime rate (37<sup>th</sup>)
    - State gas tax (38<sup>th</sup>)

Source: BusinessNC.com, Small Business & Technology Development Center's 2007 State of Small Businesses and Entrepreneurship, and Small Business & Entrepreneurship Council's Small Business Survival Index ranking, 10/06

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## Challenges That Small Employers Face

- Higher administrative costs of insurance than larger firms
- Often, workforce has lower wages
- More difficulty keeping pace with increasing health care trend than larger employers due to scale
- Limited ability to spread poor health care risk within the group
- Significant administrative burden to owner
- Difficult distribution and enrollment processes

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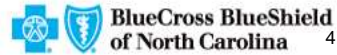
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## Approaches to Cover More Small Employers

- Several approaches have been undertaken nationally to help provide or continue coverage to small businesses. These are often used in combination and include:
  - ✓ **Benefits approaches** to reduce cost (e.g., increased member cost share, carve outs, limited benefit plans, fixed benefit plans)
  - ✓ **Network approaches** to reduce cost (e.g., lower reimbursement, tighter networks)
  - ✓ **Private / public shared approaches** (e.g., premium assistance, reinsurance, tax credits)
  - ✓ **Eligibility qualification** (e.g., income qualification, go-bare periods)
  - ✓ **Rating requirements** (e.g., guaranteed issue, modified community rating, purchasing cooperatives)
- Approaches aimed at improving access to health care for employees of small businesses were actively discussed in legislative sessions of at least 20 states in the last year

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## Four Sample Programs

- The following will briefly highlight four sample programs targeting employees of small businesses
- These four programs provide a sense of the range of variation, from a simple, premium assistance program within the existing market structure to more complex, market reform strategies



All programs share the premise that subsidizing low incomes is a critical step toward solving the uninsured problem

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## Program Name: Insure Oklahoma!

**Type of program:** Premium assistance toward private plans

**Highlights:**

- Private plans must meet minimum coverage requirements
- Comprehensive (hospital, physician, lab, Rx)
- Out of pocket maximum must be < \$3,000
- Office visit copay must be <\$50
- Rx deductible must be <\$500

**Eligibility:**

- For companies with <50 employees
- Employers must contribute at least 25% of employee's premiums
- Employee's household income must be <200% FPL

**Premiums:**

- Employer pays 25% of employee premium
- Employee pays 15% of premium, but capped at 3% of family income
- Example: For a \$420 monthly premium plan for an employee who makes \$22,000 / year: Employer pays \$105 (25% of \$420); Employee pays \$55 (capped at 3% salary); Insure Oklahoma pays \$260
- Funded through Tobacco tax

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## Program Name: CoverTN (Tennessee)

**Type of program:** State designed limited benefit program with subsidization

**Highlights of CoverTN Plan (Plan A):**

- Preventative Care – no copay (1 visit per year)
- Doctor visits – \$15 (up to 5 per year)
- Hospital (inpatient) – \$100 copay, up to \$10,000 in services per year
- Outpatient Hospital - \$100 copay for ER, non-emergency, \$25 for other services
- RX - \$10 generic, \$25 brand
- Annual maximum - \$25,000/year

**Eligibility:**

- For employees that work for companies with <25 employees, where 50% or more workers make <\$41,000/year and they have not offered insurance for the last six months OR have paid less than 50% of the employee premium
- Self-employed are eligible but must pay 2/3 of the premium

**Premiums:**

- Three share between the state, employer, and the individual
- Total cost averages \$150. Cost to the individual ranges from \$34-\$99 (adjusted for tobacco use, BMI, and age)

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## Program Name: Commonwealth Choice and Commonwealth Care (Massachusetts)

**Type of program:** Standardized plans available through an online exchange. Available with premium assistance (Commonwealth Care).

### Highlights:

**Commonwealth Choice:** (market access for employers and individuals >300% FPL)

- Three comprehensive health plans (Gold, Silver, and Bronze), designed by the state, are made available by six different insurers through the Connector website
- Individuals can pick their plan, enroll online, and the Connector will collect premium contribution from their employer

**Commonwealth Care:** (subsidization for individuals <300% FPL)

- Four Medicaid plans are available to uninsured individuals with incomes <300% FPL.
- State provides sliding scale premium assistance ranging from \$0 - \$105 / month

### Eligibility:

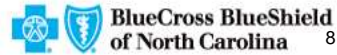
- **Commonwealth Choice:** Small businesses and individuals
- **Commonwealth Care:** Individuals <300% FPL

### Premiums:

- **Commonwealth Choice:** \$146 - \$570 / month (before any employer contribution)
- **Commonwealth Care:** 0-150% FPL: \$0; 151-200% FPL: \$35/month; 201-250% FPL: \$70/month; 250-300% FPL: \$105/month

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## North Carolina High Insurance Risk Pool

- North Carolina High Insurance Risk Pool (NCHIRP) will guarantee access to health insurance for North Carolinians with high-risk health conditions starting January 1, 2009
- Available to those who do not have access to an employer or government program who have either been declined coverage or are offered a sub-standard rate
- Premiums will be between 150-200% of the standard risk rate (average cost of individual coverage)

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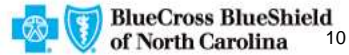
## Ideas to Discuss Going Forward...

- Evaluate premium assistance approaches for lower income adults (employed by small business and otherwise)
- Increase dependent age
- Increase small employer tax credits
- Evaluate small group definition to consider removing groups of one
- Explore the potential use of employer-based health reimbursement accounts for employee health care expenses in the individual market
- Study administrative efficiency improvements for employers <5
- Encourage pilot programs to increase innovation and uncover new approaches
- Encourage incentives for healthy behaviors

No solution is sustainable in the long-term, in terms of basic affordability, until overall medical cost is brought in line with general inflation

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