WORKING
PAPER

Expanding Coverage to the Uninsured of Louisiana

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WR-311

October 2005

RAND HEALTH

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Key Findings

- Options for expanded coverage to Louisiana's labor force include an employer mandate, purchasing pools and health savings accounts
- Options for expanded coverage to individuals include expansion of current Medicaid programs, health savings accounts and individual mandates
- Each option can be initially explored for Hurricane survivors but are likely to be more successful if implemented statewide

Overview

"Access to healthcare is an important contributor to individual and population health; monitoring access helps drive overall public health improvement…and serves as a foundation for the future of our State."

-Greater New Orleans Health Planning Group

According to the 2002-2003 Current Population Survey[1], approximately 19.3% of Louisiana residents do not have healthcare coverage. The majority of this group is between the ages of 19 and 64. Forty-four percent (44%) of the population has incomes more than 200% below the federal poverty level. Medicaid provides coverage for 16% of Louisiana residents and 12% of the state's elderly citizens (2004 Louisiana Department of Health and Hospitals). The high number of uninsured is due to a variety of causes, including lack of employee health coverage, especially among small businesses owners; dramatic increases in the cost of health insurance premiums; and an incremental increase in the unemployment rate.

Lack of insurance not only harms the health and financial status of the uninsured and their families, but also creates tremendous costs to society as a whole: the United States spends nearly $100 billion per year to provide health services to the uninsured; hospitals provide about $34 billion worth of uncompensated care a year; over 30% of emergency department visits by the uninsured are considered non-urgent (National Coalition on Health Care).

The Louisiana Governor's Healthcare Reform Panel, which convened prior to the hurricane, has been exploring solutions to the insurance issue, including both incremental and universal approaches. The events surrounding Hurricane Katrina have made the debate around healthcare coverage even more complicated and all the more salient, thus bringing this issue to the forefront of the reconstruction planning process.

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[1] *Current Population Survey, March 2003 Supplement*

In this brief, we outline policy options for the State of Louisiana to consider both in responding to needs raised by Katrina and in achieving its longtime goal of increasing access to high-quality, affordable healthcare. We discuss policy options for the State of Louisiana in three areas: 1) employer mandates, 2) individual mandates and other options for increasing coverage of individuals, 3) options targeted toward individuals returning to Louisiana or changing jobs within the area. For each topic, the brief discusses options for promoting or expanding insurance coverage and advantages and disadvantages of each option.

Each option described below has common elements, including an expansion of current services as well as the possible extension of the role of third party payers. Although implementation of one of these options alone would result in a significant reduction in the number of uninsured, a combination of several options over time could provide the State with greater leverage to relieve the burden that is placed on the healthcare system when people lack affordable, high-quality healthcare coverage. Without insurance reform, the State will continue to face growing healthcare need, which in turn will increase the pressure on hospitals, clinics, providers and third-party payers.

In considering the policy options described below, the State may want to refer to the five principles developed by the Institute of Medicine's Committee on the Consequences of Uninsurance to guide reforms to extend health insurance to Americans: universality, continuity, affordability, sustainability, and the promotion of access to efficient, high-quality care.

Options for Health Coverage Among Louisiana's Labor Force

Reconstruction efforts will allow traditional industries such as the Port of New Orleans, tourism, and the petrochemical industry to re-establish over the long term. The presence of businesses and the ability to attract future employers are important to the long-term economic sustainability of both the hurricane-affected areas and the remainder of the state. Currently, contractors are acquiring federally subsidized grants and contracts to clear out debris, re-build structures, etc. These contractors are not under any federal regulation to provide healthcare coverage to their employees. Any of the options described in this section could be applied to give the state leverage to increase healthcare access to the federally-subsidized workers in the state and/or to increase access more generally among the overall labor force.

Option 1: Employer-Mandated Coverage

An employer mandate would require that all or most employers provide health insurance coverage to their employees and their dependents. The State might consider combining an employer mandate with an individual mandate to achieve more comprehensive access to care for the state's residents. An employer mandate can take several forms:

1) Employers are required to offer health insurance to workers but it is up to each worker to "take up" coverage that each employee and his or her dependents have coverage; this coverage may consist of a specifically-mandated benefits package

2) Employers are required to mandate that each employee, but not his or her dependents, must have coverage.

Hawaii is currently the only state with an employer mandate (the Prepaid Health Care Act of 1974). The mandate stipulates that employees must have health insurance but that no more than 1.5% of a full-time employee's wages may be applied towards that insurance. Dependents are not covered and there are problems with the enforcement of the mandate, with the result that some employees continue to lack coverage.

A crucial issue facing any state enacting an employer mandate is the preemption clause of the Employee Retirement Income Security Act of 1974 (ERISA), which prohibits states from enacting laws related to employee benefits. The pay of play option below addresses some of the current strategies which address the implications of ERISA.

Option 1A: Employer Mandate for New Businesses Subsidized by Relief Funds
In the post-Katrina context, the State of Louisiana might consider adopting a mandate requiring any new incoming businesses subsidized from relief funds (e.g., FEMA related contractors) to provide health insurance. If desired, the State could choose to expand this provision over time to the remainder of Louisiana's employers.

Advantages:

- **Expanded coverage.** Incoming contractors would be required to provide some level of coverage even if they are only in the state for a short period of time
- **Limited costs to state.** Costs do not appear explicit in terms of state or federal budgets.

Disadvantages:

- **Worker costs.** Over the long run, mandates are paid for by workers and their dependents, who absorb lower wages or lose coverage (Jensen et al., Milbank Quarterly Study).
- **Lack of incentives for small business.** Small businesses will have less of an incentive to come to the New Orleans area since they will be forced to purchase insurance. A study conducted by the Robert Wood Johnson Foundation revealed that approximately one-third of small businesses (1-4 employees) did not offer coverage compared with 93% of large businesses (50 or more employees).
- **Limits on coverage.** Part-time employees could be exempt from employer mandates, while non-workers would not be affected.
- **Enforcement.** As discussed above, an employer mandate may not be enforceable because of ERISA. A mandate would also be difficult to enforce.

Option 1B: Employer Mandated Coverage with a "Pay- or-Play" Option
As noted above, the preemption clause of ERISA may limit the kinds of employer insurance mandates states can adopt. An approach that is likely to avoid this problem, though it has not yet been tested in court, is a mandate that does not require employers to offer insurance, but requires them to pay a tax to the state ("pay") and offers a credit for

the amount spent on health insurance to those employers that do offer it ("play"). Revenues from those who pay instead of play would be combined with other revenues to provide insurance to those not covered through their employers.

One result of the pay-or-play structure is that employers offering coverage have a strong incentive to make sure their coverage is comprehensive enough at least to equal the value of the tax. Employers spending less on premiums than the amount of tax would be required to pay the difference to the state. In other words, premium payments would offset the tax liability dollar-for-dollar, but the total liability of the employer would be equal to the tax. The effect of the pay-or-play structure would vary with the levels of the payroll tax rate.

Some states have considered or enacted options of this sort. Massachusetts is currently considering such a law. On October 5, 2003, Governor Gray Davis signed into law the California Health Insurance Act of 2003 (also referred to as SB2), which requires employers with 200 or more workers either to pay into a fund that will provide coverage to their workers or to pay for 80% of the premium costs for their workers and dependents (effective January 1, 2006). Medium-sized employers (between 50 and 199 workers) would be required either to pay into the fund or pay for 80% of the premium costs for their employees by January 1, 2007.

Advantages:

- **Flexibility.** Pay-or-play allows businesses to have options such as purchasing coverage as employers or paying into a pool.

Disadvantages:

- **Potential disincentive.** A pay-or-play mandate could dissuade some businesses from re-entering the area.
- **Insurance pool.** Adverse selection into the pool might become a problem in industries which choose to pay rather than play because their employers are in high-risk professions with large damage liability.
- **Financial viability.** The financial viability of the pool without health risk ratings are unlikely. Health risk ratings ameliorate adverse selection into purchasing pools.

Option 2: Small Business Employee Coverage Through Purchasing Pools

Small businesses have traditionally played a large role in the economic development of communities in and around the New Orleans area. Restaurants, small independent hotels and motels, and convention-related vendors have all been fixtures in Louisiana, but have often found it difficult to provide health insurance for their employees. Most of New Orleans' businesses are small, with an average of 10 to 30 employees. Due to high administrative and other fixed costs, small business employers often must pay insurance costs that are on par with those paid by their larger counterparts.

The State of Louisiana might consider establishing voluntary or mandated insurance pools to facilitate small business health insurance coverage. A purchasing pool could reduce the administrative cost of coverage in the small group market and offer small business owners easier access to a broader choice of health plans. In addition, the pool's administrative entity could serve as the administrator of tax credits, thus eliminating the complexities of providing subsidies in a dispersed and varied market.

Advantages:

- **Ability to pool risk.** Purchasing pools are attractive to employers with high concentrations of low-wage workers because these employers would be able to pool their risk with that of other similar businesses and reduce the premiums that would be incurred without a pool.
- **Economies of scale.** Pools allow for economies of scale in administrative costs and potentially provide purchasing power clout to negotiate good rates, thus lowering prices and making more small employers willing to offer coverage
- **Access to more products.** Pools can allow employees access to a range of products that small businesses might otherwise not be able to offer on their own.
- **Increased demand.** The option could expand demand in a mandated context and expand the size of the purchasing pool, thereby reducing costs per worker.

Disadvantages:

- **Limited ability to expand coverage.** Under purchasing pools, employer decisions to offer coverage are still optional, which means that some businesses will choose not to participate.
- **Costs.** To date, most of the purchasing pools have not been able to capture market share and are not able to offer significantly lower prices so they haven't really stimulated demand.

Option 3: Small Business and Self-Employed Coverage through Health Savings Accounts

A health savings account (HSA) is a tax-sheltered savings account similar to the IRA, but earmarked for medical expenses. Deposits are 100% tax-deductible for the self-employed and can be withdrawn by check or debit card to pay routine medical bills with tax-free dollars. The State of Louisiana, in conjunction with third-party payers, could establish HSAs for small businesses or self-employed individuals who have no health insurance. Contributions to the HSAs would be sheltered from state taxes. Larger medical expenses would be covered by a lower-cost, high-deductible health insurance policy, which could be negotiated by the State. The State could mandate that any amount not used from the account rolls over into the next year and continues to gain interest on a tax-favored basis to supplement retirement. Deposits into HSAs could be made by either the individual or the state. The HSA could also be applied to promote individual coverage, as described in the next section.

Advantages:

- **Lower out-of-pocket expenses.** RAND researchers have found that, under certain arrangements, both the healthy and the sick might face lower after-tax out-of-pocket expenses for care with MSAs/HSAs.[2]
- **Choice.** HSAs allow for a high degree of patient freedom of choice in choosing providers, services, etc.
- **Cost control.** HSAs control costs by placing added responsibility on consumers.

Disadvantages:

- **Risk pools.** If large numbers of healthy individuals and families acquire HSA plans and move out of existing health insurance risk pools, the individuals and families who remain behind would likely be those who are relatively sicker. The evidence for this is mixed, and people with high medical expenses could end up paying lower out-of-pocket expenses with a HSA compared to a traditional plan.
- **Reluctance to use care.** People with HSAs may be reluctant to seek care since the costs would be deducted from their accounts. The evidence supporting this is weak, but demonstration projects have not yielded a sufficient amount of experience with this issue.
- **Gap between deductible and account maximum.** Traditionally there is a fixed deductible up until which expenses must be paid out of pocket. The maximum amount that can be saved in a HSA can be substantially less than a deductible for a particular policy. The gap between the maximum amount that can be held in the savings account and the deductible may deter low income individuals from getting needed care.
- The long term economic impact of HSAs is unknown at this time and it is difficult to predict what the impact on an individual's personal finances will be, particularly for people of lower socioeconomic status

Individual Mandates and Other Options to Increase Healthcare Coverage for Individuals in Louisiana

Option 1: Individual Mandates

Under an individual mandate all residents of a state would be required to have insurance. The individual's contribution toward his or her insurance would be adjusted based on income level. Co-payments would be incurred for healthcare, and the mandate would be enforced through the tax system by either automatic contributions or tax credits. An automatic enrollment system could be needed to ensure universal enrollment. A statewide health insurance mandate would require a mechanism to allow providers to link electronically with a state enrollment system, payment system, etc. Individual health insurance mandates would require an increase in government spending, but would reduce costs to low-income individuals since risk pools would increase significantly. To date,

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[2] Emmett B. Keeler et al., "Can Medical Savings Accounts for the Nonelderly Reduce Health Care Costs?" *Journal of the American Medical Association* 275, no. 21 (June 5, 1996): 1666–71).

individual health insurance mandates have been proposed in Massachusetts, Oregon, and Wisconsin without success.

An individual mandate would not necessarily replace employer coverage; in fact, some form of employer-based insurance could still remain attractive for middle- to high-income employees who would benefit from the tax credits afforded by employer-based coverage.

Option 1A: Individual Mandate with Sliding Scale Subsidies
Under this version of an individual mandate, the State would subsidize individual coverage on a sliding income scale. For example, the State could determine a series of household income levels that would correspond to various percentage subsidies of basic healthcare packages. These packages could either be overseen by the State alone or by a collaboration of selected third-party payers. This option would offer flexibility to the State, which would not have to assume a centralized single-payer model. However, given the dynamic circumstances regarding the influx of persons returning to Louisiana, it is difficult to estimate the economic impact of the plan to the state in the short term, though it would likely provide an overall financial benefit to the state in the long term.

Option 1B: Individual Coverage Through Purchasing Pools
An individual purchasing pool (similar to small business purchasing pool option) is a voluntary way of expanding choice to individuals while providing beneficial tax subsidies through the cooperation of the Department of Revenue. The details and advantages remain similar to those for employers. This could be part of a mandate that makes it easier for individuals required to buy coverage to navigate the system.

Advantages:

- **Expanded coverage with joint responsibility.** An individual mandate would achieve "universal coverage." This co-sharing payment system would avoid the perception that medical services are free.
- **Incentive for former residents to return.** An individual mandate would provide a strong incentive for displaced individuals currently residing outside Louisiana to return.
- **Possibility of expansion.** An individual mandate could serve as a transition from an employer mandate adopted by the state for federally subsidized contractors during the reconstruction period.

Disadvantages:

- **Employer disincentives.** An individual mandate could cause employers to avoid paying for their employees' insurance.
- **Quality of care.** Low-premium/high-deductible plans might prevail, which could potentially drive down the quality of healthcare delivered. This possibility could be alleviated through a state-mandated standard establishing a minimum level of benefits.

Option 2: Health Savings Accounts for Individuals
The State of Louisiana might also consider offering HSAs to individuals. These would be similar in scope to the HSAs described above and would have similar advantages and disadvantages. Responsibility for registration, enrollment, etc., would differ for individual HSAs, and the accessibility might be limited for underserved populations in Louisiana since (as mentioned earlier) the evidence around the benefit of HSAs to the sick, poor and elderly is mixed.

Option 3: Expansion of Current State Medicaid programs to 250% of the Federal Poverty Level
The State might also consider expanding health insurance coverage to individuals by expanding current state Medicaid programs. Other states have found this approach to be challenging given fiscal uncertainty, but the State of Illinois has increased its coverage among working parents through FamilyCare—its SCHIP premium-assistance program—between December 2002 and December 2003. The expansion was part of a HIFA waiver that was approved in September 2002. Under this waiver, Illinois also expanded the eligibility level for KidCare, the state's SCHIP program, from 185 to 200 percent of the federal poverty level (FPL). In addition, state officials raised eligibility for FamilyCare in increments from 49 to 133 percent of the federal poverty level—which is expected to add 56,000 parents to the FamilyCare rolls.

Advantages:

- **Improved coverage for some.** Expansion of Medicaid programs would means expanded overage for children and families.

Disadvantages:

- **Excluded populations.** Expansion of Medicaid programs would not expand coverage for single adults or adults with no children.

<u>Options Targeting Individuals Returning to the State of Louisiana or Changing Jobs within the Area</u>

One of the numerous challenges faced by the State is the changing nature of the population over time and the need for flexibility when developing a plan for access to healthcare. In this situation, the needs will vary for individuals and/or families as they either return to the area or change jobs. The State might consider insurance options that make insurance coverage portable or target returning residents.

Option 1: Portability Insurance Coverage
Portability provisions have been enforced in several states (e.g., Kentucky, Washington) in order to give people coverage which follows them regardless of employment status. The State of Louisiana could consider asking two or three of the major health insurance carriers to develop low-cost basic healthcare packages, which the State would offer to returning residents or residents who are between jobs due to the hurricane and who lack coverage through COBRA or another mechanism (usually because their previous

employer did not provide coverage). To pass cost savings onto the consumer, the State would need to subsidize premiums in part, with the rest covered by the insurance carrier. The State might consider allowing individuals who take new jobs to fold the provisional health insurance coverage into the plans offered by the new employer or to continue to use this coverage.

Advantages:

- **Incentive to return.** Portable coverage provides an added incentive for people to return to the affected areas in Louisiana while still seeking gainful employment.
- **Continuity of care.** Such provision would help develop a culture in which health care does not stop and start with employment and/or COBRA coverage, but follows the individual over time and through life circumstances.

Disadvantages:

- **Increased risk.** High-risk individuals may be the most likely to purchase such coverage, thus costing the state more money in the long run
- **Subsidies.** Portability provisions might require subsidies from the state in order to keep prices down.
- **Limitations on coverage.** Under the option described, portability provisions would apply only to a targeted group: returning individuals or people between jobs in the affected area. Depending on the State's intentions in providing a portability provision, limitations on coverage might be considered advantageous.

Option 2: Targeted Care Packages Financed Through the State or Third-Party Payers

The State might also consider offering targeted healthcare coverage packages available either through employers or individual purchase. The concept of targeted care packages has been around since at least the 1980s, when managed care programs introduced benefit packages targeted to specific groups such as young professionals with small children. States such as Utah have adopted similar targeted plans (the Utah Primary Care Network). The targeted plans have abbreviated services and a limited scope, but help meet the needs of basic coverage for uninsured persons.

Building upon precedents set by states such as Utah, the State of Louisiana might offer a primary care benefit package to state residents who meet qualifications based on either income or a combination of income and household size. The State could negotiate with one or several carriers to offer a plan, which might limit coverage to a maximum number of outpatient visits and prescriptions as well as set a maximum dollar amount on laboratory services, radiological studies, etc. Coverage packages might be made available for a limited time for re-entering individuals or even on a permanent basis to ensure coverage for all individuals.

Advantages:

- **Expanded coverage.** Targeted packages would provide basic primary care coverage, which could incentivize a return to the area for lower wage workers, for example.

Disadvantages:

- **Capacity.** In Utah, the state quickly reached capacity on enrollment into this program and it has been difficult to deal with the increasing need for such coverage.

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