Three routes to health reform in Connecticut

Prepared by the Economic and Social Research Institute

For the Universal Health Care Foundation of Connecticut

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How policies and estimates were developed

- Surveyed other states for reform ideas
- Conversations with Connecticut stakeholders
- Cost and coverage estimates developed by Prof. Jonathan Gruber of MIT, using microsimulation models like those employed by U.S. Treasury Dept, Congressional Budget Office, etc.
- Macroeconomic projections developed by the Urban Institute, using REMI model

Project goals

- ***Not our objective***: Recommending specific policies for implementation in Connecticut
- ***Our objective***: Informing public discussion by developing diverse examples of possible coverage expansions and estimating the likely results

Three basic approaches

1. Single state health plan serving all residents
   - A single payer, contracting directly with providers
2. State pool with competing private health plans
   - Market mechanisms used to expand coverage
3. Expanding the “health coverage safety net” for adults while requiring all parents to cover their children

Note: all options and numbers are limited to the non-elderly.

Each option:

- Covers all state residents or greatly reduces the number of uninsured
- Lowers health care costs per insured state resident
- Has a small, positive net effect on the state economy, increasing employment and state GDP
- Lowers overall employer costs for health coverage
- Increases household income available for purposes other than purchasing health insurance
- Avoids major increases in health care spending
  - Total spending on health care
  - State General Fund dollars

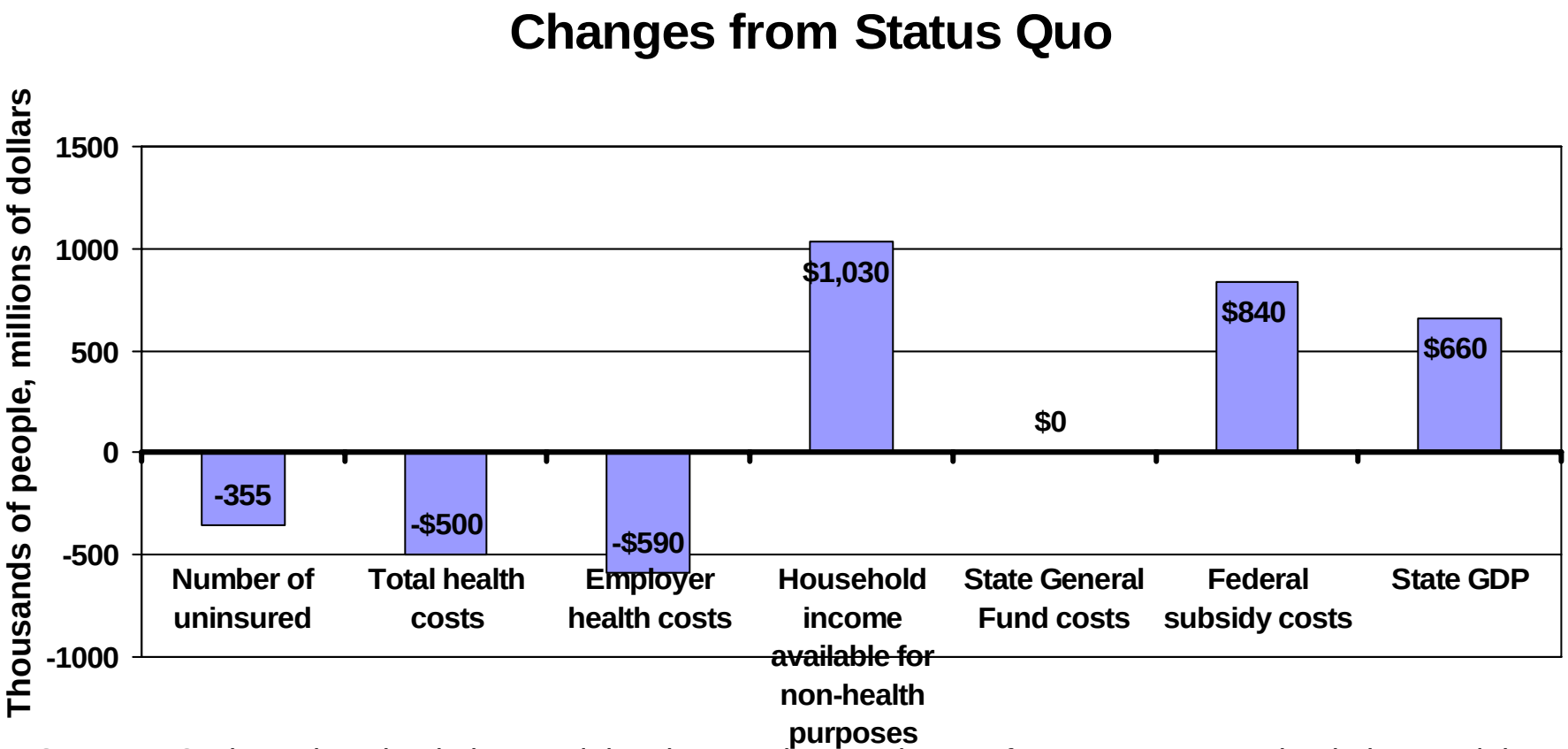
Approach One: One health plan serving all residents

- All state residents enrolled automatically
- State pays health care providers directly
  - Perhaps use an insurer to process claims
  - Health costs per insured drop by 16%
  - Single purchaser has leverage for quality improvement and cost control
- Covered benefits and cost-sharing are typical of current employer-sponsored insurance (ESI)
- Individuals and firms can buy additional services
- Low-income adults and HUSKY children receive supplemental coverage

Financing for Approach One

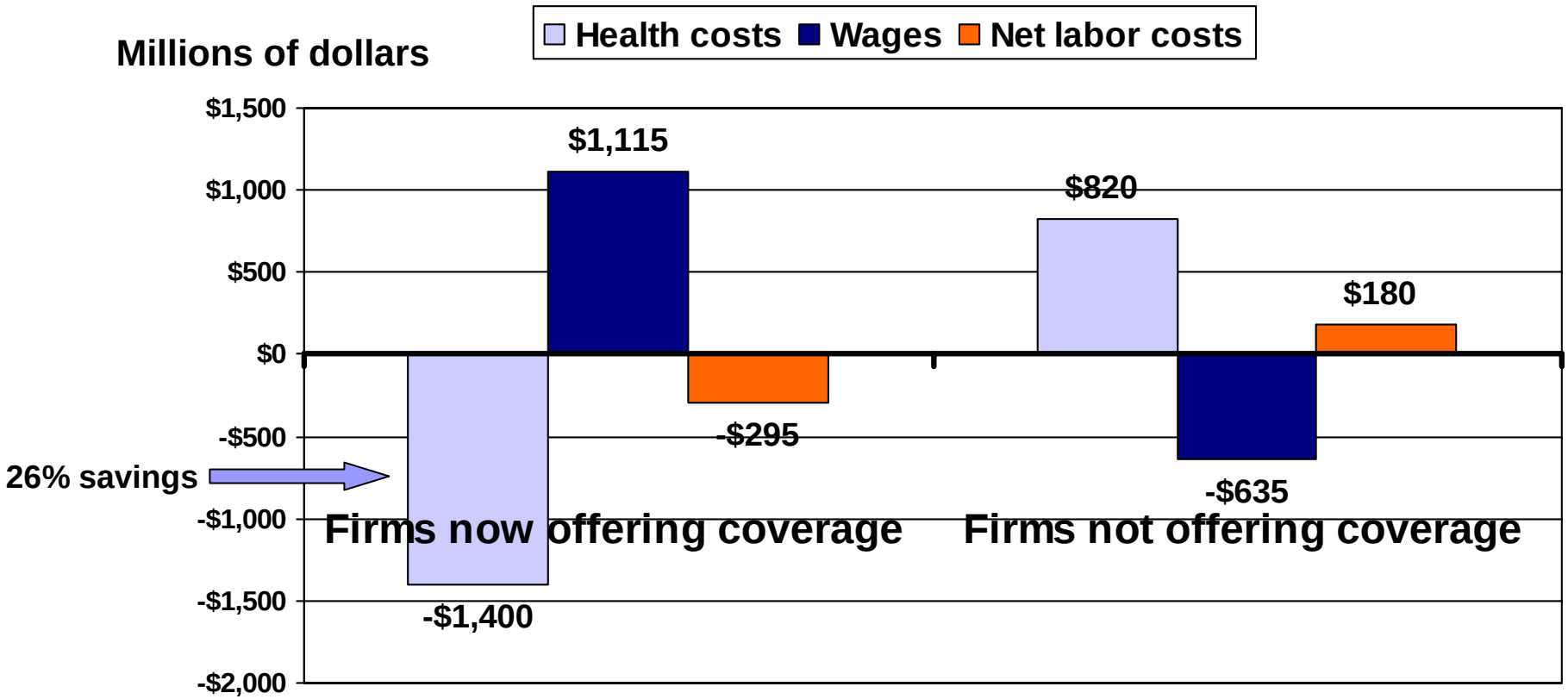
- Employer and employee contributions averaging 7.7% and 2.5% of payroll, respectively
  - Special protections for certain firms and workers
  - Currently - ESI costs an average of 13.3% of payroll
- Continuation of current General Fund levels for Medicaid, HUSKY, and SAGA
- Increased federal matching funding under Medicaid and SCHIP

Impact of Approach One



Sources: Gruber Microsimulation Model; Urban Institute estimates from REMI Macrosimulation Model; Calculations by ESRI, June 2006. Note: The estimate for increased state GDP represents the lower end of the range forecast by Urban Institute analysts.

How Approach One would change labor costs for various employers



Source: Gruber Microsimulation Model. Calculations by ESRI, June 2006. Note: wage offsets are at the mid-point of the range estimated by Dr. Gruber.

Approach Two: State pool with competing private plans

- **State pool offering competing private insurance covers all residents except:**
  - People offered ESI, who are automatically enrolled in ESI
  - Certain Medicaid beneficiaries who opt out of pool
- **Strong incentives for employers to discontinue coverage and to let their workers buy insurance through pool**
  - As a result, 61% of non-elderly residents are in pool
  - Health costs per insured drop by 12%
  - Pool has leverage to improve quality and transparency and to limit costs
- **Pool includes diverse plans**
  - Some plans are typical of current ESI
  - Others have high deductibles, HSAs
  - consumer demand
- **Low-income adults and HUSKY children enrolled Consumers choosing more expensive plans pay more**
  - Plans gain market share by controlling costs, improving quality, meeting in pool receive additional coverage

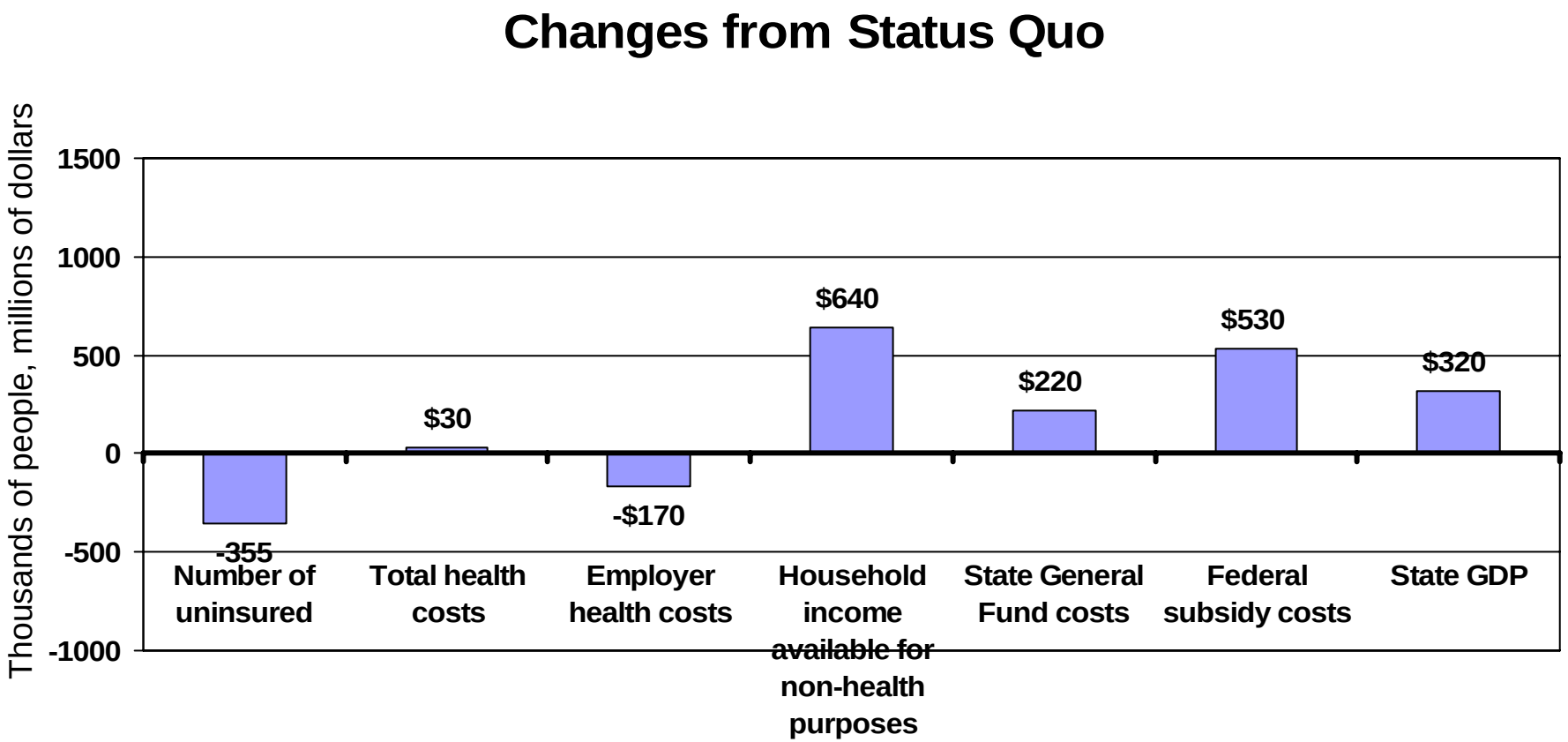
Financing for pool in Approach Two

- **Enrollee payments cover 0-30% of premiums**
  - Varies with income and choice of plan
- **Employers *not* offering coverage, whose workers are therefore covered through pool, pay 8.7% of payroll**
  - Special protections for certain firms
- **What happens to employers who offer coverage?**
  - Two risks:
    - Firms with healthy workers could stay outside pool, destabilizing the pool
    - Firms could avoid state-imposed costs by offering token health coverage
  - To avoid those risks, firms offering ESI must make "fail safe" payments if premiums (worker + firm payments) are < 11% of payroll
- **General Fund spending**
  - Medicaid, HUSKY, and SAGA continue at current state levels
  - $220 million General Fund subsidy to lower employer costs in pool
- **Increased federal matching funds under Medicaid and SCHIP**

Incentives for firms to discontinue ESI and let the pool cover their workers

- Today, at firms offering ESI, premiums average 13.3% of payroll
- Firms offering ESI under Approach Two would need to spend at least 11% of payroll on insurance
  - Combination of premiums and “fail safe” contributions
- Firms not offering ESI under Approach Two, whose workers would therefore buy insurance through the pool, would contribute 8.7% of payroll

Impact of Approach Two



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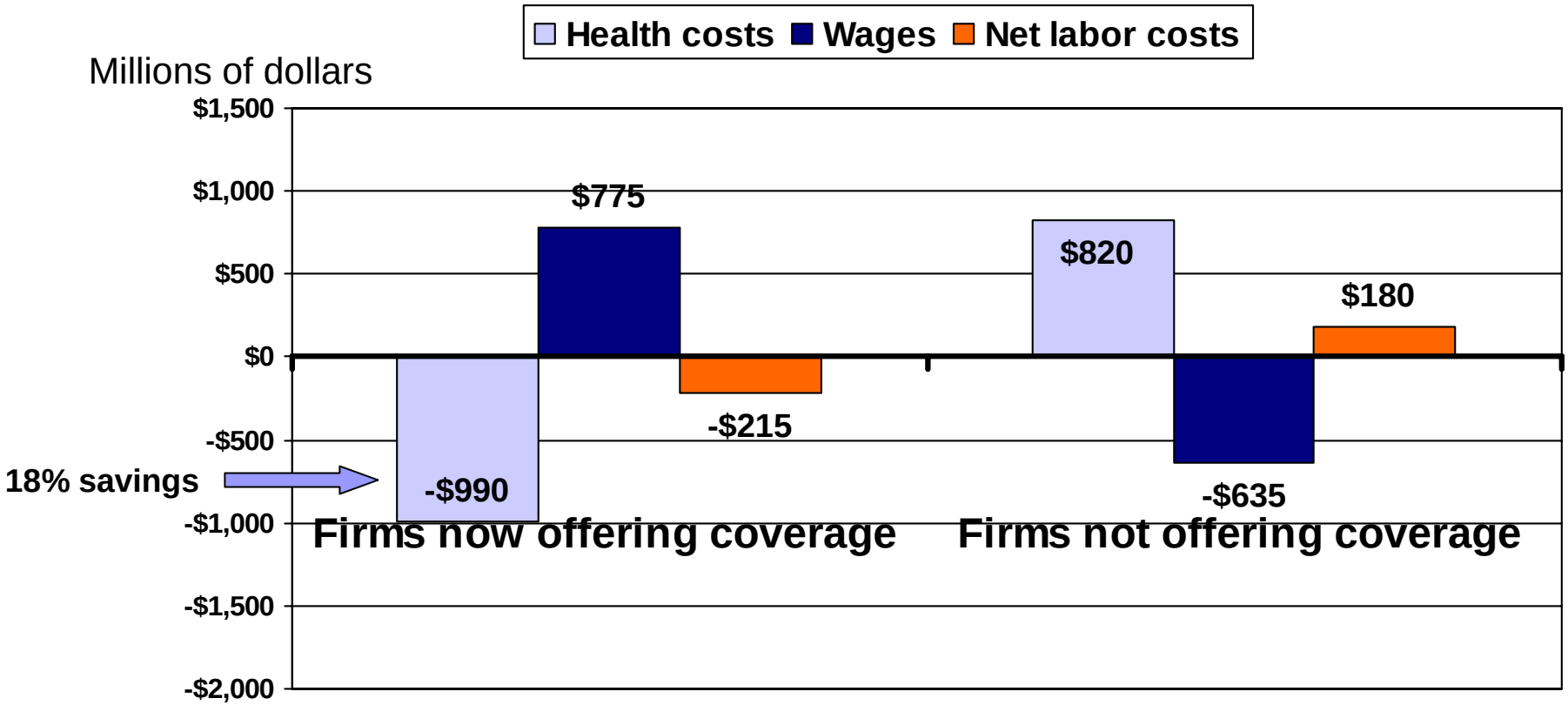
How Approach Two would change labor costs for various employers



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Approach Three: Expanding the Health Coverage Safety Net and Requiring All Parents to Cover Their Children

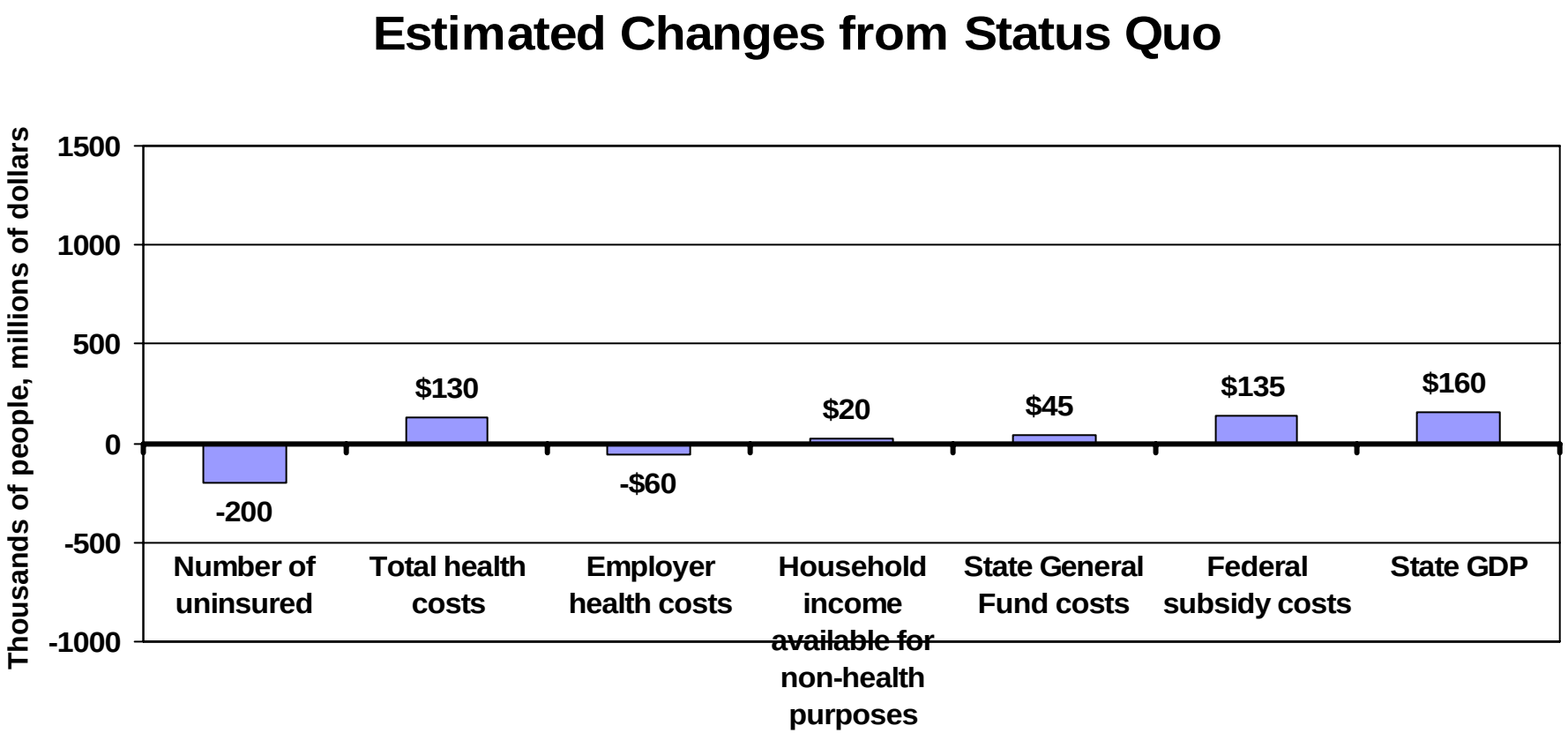
- **HUSKY covers adults up to 200% of federal poverty level (FPL).***
  - To lower costs, eligible adults above 100% FPL must enroll in available ESI. HUSKY pays worker share of premiums, supplements ESI.
- **State income tax credits cover uninsured adults 200-300% FPL**
  - Fully refundable
  - Advanced by state directly to insurer
  - Coverage through MEHIP, HRA, other pools
  - Covers 20%-85% of premium, depending on income and choice of plan
- **Firewalls prevent subsidies from undermining ESI**
  - Subsidies unavailable to most adults over 150% FPL who have access to ESI, who voluntarily drop coverage, or whose employers drop coverage
- **Parents required to cover their children**
  - HUSKY for children is subsidized up to 300% FPL (current law), including for immigrant children ineligible for federal matching funds
  - HUSKY available “at cost” above 300% FPL
  - Parents can instead cover their children through ESI or nongroup plans

*In 2006, the FPL for a family of three is $19,090.

Financing for Approach Three

- State General Fund spending
  - $5 million increase for HUSKY
  - $40 million for tax credits
- Federal matching funds under Medicaid and SCHIP

Impact of Approach Three



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