

Affording Health Insurance for Small-Firm Workers and Dependents

***Health@Work*SM to Leverage Financing for Coverage Through Small Employers**

Introduction

In a time when State resources are severely constrained, an increasing number of small-firm workers and their families are uninsured and do not qualify for public program coverage.¹ Premium assistance to help low-income small-firm workers obtain work-based coverage could be designed to leverage other financing sources to greatly expand the reach of limited State tax revenues. A work-based premium assistance approach can:

- parlay employer contributions;
- access the substantial FICA and income-tax subsidies available to many low-income families for work-based coverage;
- attract the healthy distribution of risk necessary for a successful small-employer health insurance pool; and
- qualify for federal matching funds towards coverage of low-income workers and their families.

By using premium assistance to expand work-based coverage to low-income employees through small firms that make modest contributions, every dollar a State contributes towards subsidies can leverage many more dollars from these other sources. And, the program can be designed to greatly simplify administration of premium assistance for both employers and the State. For example, contracting health plans can offer qualifying coverage and recipient enrollment can be automatically tracked to streamline subsidy administration.

Why Is a Small-Employer Coverage-Expansion Strategy Using Premium Assistance or Tax Credits Worth Considering?

Targeting uninsured workers and families in small businesses makes sense because non-offering employers are overwhelmingly small businesses. A substantial majority of uninsured people are in working families and a majority of uninsured working adults work for an employer that does not offer coverage. Nationwide, three out of four jobs in firms that do not offer health coverage are in firms employing 24 or fewer workers (and more than half are in “micro” firms with 9 or

fewer workers).² In particular, small firms with a majority of low-wage workers cannot afford contribution requirements in the regular market and are most likely to be uninsured.

Based on experience from other pilot small-employer programs, key characteristics for success in reaching small employers include:

- Affordable, predictable and easily understood employer contribution requirements;
- A stable source of coverage and premium credits to assure participating employers they will not be left “holding the bag” for coverage they otherwise cannot afford to maintain;
- Simple employer roles that do not unnecessarily involve them in complicated administration; and
- Group coverage that is available (if group participation standards are met) for the employer and for all full-time workers in the group, whether or not they are subsidy eligible.

The experience from these other programs suggests that, while small employers with low-wage workforces cannot afford to pay usual going rate in the commercial health insurance market, many *are* willing to pay something toward coverage of their workers, perhaps on the order of \$60 per month per worker.

*Health@Work*SM is a hybrid financing approach designed to extend low-cost coverage through small firms that cannot afford conventional market rates, and to do so by targeting subsidies to low-income workers and families. The approach is a “hybrid” because, while it has some key features of employer-group coverage, it also shares some characteristics of individual and publicly subsidized program coverage. It can also facilitate whole-family coverage for children and their parents using innovative coverage venues such a private purchasing pools.

The *Health@Work*SM design reflects planning work in several States, as well as lessons IHPS has learned from its work on State premium assistance initiatives for lower-income workers and children, from its earlier work developing small-employer purchasing pools, and from the experience of pilot uninsured small-employer programs.

Health@WorkSM Small-Employer Pool Financing:

Here is how the *Health@Work*SM pool could make coverage affordable for target small employers, their workers and families:

- Small businesses with a significant proportion of low-wage workers (and at least one employee in addition to the owner) would contribute a predictable, defined amount they can afford.
- Low-income workers—whether or not they have children—would receive sliding-scale subsidies, but higher-income workers in the same firms would not be subsidized. Inclusion of childless workers is an important feature, because many small-firm workers are childless, and their employers will not participate unless a significant proportion of their workforce can qualify for tax or premium assistance.

- Also, the program could be structured to assure that both low- and high-income workers could take advantage of the employer-group rates, convenience of enrollment and payroll deduction through work, and significant federal tax subsidies available for their contributions.

A goal is to efficiently harness multiple financing sources on behalf of low-income small-firm workers and their families. The program would use limited State revenue expenditures to leverage federal Medicaid and/or S-CHIP matching funds (through HIFA/1115 waivers) along with private employer and employee contributions that in turn leverage significant federal tax subsidies available to these populations. Because the *Health@Work*SM design facilitates use of such broad-scale income-targeted federal financing sources, it should be more sustainable than direct state-only subsidies to uninsured small employers (i.e., that do not take into account workers' incomes).

To successfully reach uninsured workers through the targeted firms, employers' eligibility should be based on characteristics already known to them, such as the wage profile of their workers. Even though no premium assistance or tax credit funds would go to the employers themselves, employers' costs would be dramatically lower than in the current market.

Systemically, the key advantage of a *Health@Work*SM leveraged-financing approach is that it encourages and builds on, rather than crowds out, private employer contributions towards coverage, as well as individual contributions that are affordable relative to income. For the State, the key budgetary advantage of providing premium assistance for work-based coverage is leverage. Using premium credits, every dollar of State tax or program outlays can leverage many more dollars from private employer and worker contributions, federal tax subsidies, new federal Medicaid matching funds, and if desired, application of existing State and federal S-CHIP funds for eligible children participating in family coverage through the pool.

Notes

¹ Many low-income workers are not eligible for public programs like Medicaid or the State Children's Health Insurance Program ("S-CHIP") for one of two reasons. Either their incomes, while relatively low, are higher than the State's eligibility standard, or they do not meet the applicable categorical requirements. Able-bodied working adults without minor children at home ("childless adults"), for example, are generally not eligible for public programs no matter how low their income. Some States have programs that provide medical assistance to childless adults, but these programs generally do not qualify for federal matching funds under Medicaid or S-CHIP, except under a limited number of demonstration waiver programs. And very few States provide assistance to childless adults who are able to work.

² Unpublished Institute for Health Policy Solutions analysis based on *2002 Employer-Sponsored Health Insurance Data. Private-Sector Data by Firm Size and State*. July 2004. Agency for Healthcare Research and Quality, Rockville, MD. <http://www.meps.ahrq.gov/mepsdata/ic/2002/index202.htm>