

Approaches to Expanding Health Coverage in Michigan

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Categories of Uninsured

1. Low-income people eligible for public programs but not enrolled.
2. Low- and moderate-income people who can't afford "market price" for insurance.
3. Middle- and high-income people who can't afford coverage because they are high risk.
4. Higher-income people who can afford but don't buy coverage.

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Increase Enrollment Rates of Those Eligible for Public Programs

- Vigorous outreach, simplified enrollment, new enrollment locations, enroll with other public programs for the needy.

Pros:

- Potentially very needy people
- No new programs needed
- Feds pay more than half the cost

Cons:

- Still substantial state cost
- Not very easy to do

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Middle Categories Need to Have Lower Net Price — Possibilities

- Make coverage less costly or more efficient
 - E.g., Lower administrative cost, reduce waste & unnecessary care, bargain for better prices
- Reduce risk-related cost variation
 - E.g., community rating, reinsurance, high-risk pools
- Subsidies — *NEW ADDITIONAL MONEY*
 - Government: e.g., tax credits, public program expansion, reinsurance
 - Employer: e.g., employer mandate

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Tax Credits for Individuals

- Pros:**
- “Mainstream” coverage; no separate program.
 - Uses existing administrative procedures of tax system.
 - More acceptable to those wary of government (tax cut).
- Cons:**
- Incomes of many uninsured are so low that tax credit must be “refundable.”
 - Credit available only at tax filing wouldn’t help pay monthly premiums - must be “advanceable.” May be administratively difficult and costly.
 - Large credits required to create significant take-up effect, with higher budgetary cost.
 - Crowd out: some might drop coverage
 - Trade-off: Cover those already having coverage? Choice between horizontal equity, or high budgetary cost.

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Tax Credits for Employers

- Pros:**
- Depends on market forces and “mainstream” coverage.
 - Uses existing administrative procedures of tax system.
 - More acceptable to those wary of government.
- Cons:**
- Many potential firms are small and not very profitable; little income against which to apply credit — refundable.
 - Firms (and employees) might still find it difficult to afford coverage.
 - To be effective, credits would need to be large, with high budgetary cost.
 - “Crowd out” potential: firms already offering coverage might seek tax credits, with no net reduction in the uninsured.
 - May be less “target efficient” than individual credits.

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Purchasing Pools for Small Employers

- Pros:**
- Administrative savings, bargain for good prices (theory)
 - Cost to state is small—perhaps start-up money.
 - Politically acceptable generally, though often not to insurers and agents.
 - Allows small employers to give individual employees choice of health plans.
- Cons:**
- Most past pools have not captured large market share; so couldn’t offer lower prices.
 - Any savings will be insufficient to make coverage affordable for large numbers of uninsured people.
 - Pools have had trouble getting health plans to participate.
 - If permissive in accepting high risk groups, will not be able to compete with regular market.

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Subsidized Buy-in to State Employees Plan

- Pros:**
- Open to certain small, low-wage employers and low-wage individuals at same rates the state negotiates for state employees.
 - No new administrative structure; existing economies.
 - Enhanced bargaining power.
 - State has ability to use cost-control tools, since it controls the plan.
 - Fair way to spread subsidy costs - general revenues
- Cons:**
- Major “crowd out” potential: employers as well as employees might drop existing plan, knowing employees can join the state plan.
 - Need to cope with adverse selection (accept and pay, or protect against to some degree). Potentially costly.
 - State employees might oppose - need separate risk pool.

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Government-Subsidized Reinsurance

- Pros:**
- Costs of episodes of care above a threshold (e.g., \$100,000) are largely paid by government (e.g., 75%) [Healthy New York for small employers]
 - Increased affordability, especially for higher-risk groups.
 - “Socializes” high-cost cases, broadly spreading risk
- Cons:**
- Relatively poor “bang for buck”
 - Won’t lower cost much
 - Subsidizes costs that are currently being paid privately
 - Not well targeted to individuals needing help (although could limit to low-wage employers)
 - Reduces insurers’ incentive to control costs

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Employer “Play or Pay” Mandate

- Pros:**
- Employers not offering coverage pay a fee to cover cost of coverage for standard plan. Fee is waived for employers who offer coverage and pay specified percent of premium (California).
 - Low budget cost, but borne by employers and employees.
 - Builds on existing employer system.
- Cons:**
- Aids only people with jobs.
 - High degree of compulsion.
 - May cause loss of some jobs for minimum-wage workers.
 - Difficult for low-profit employers (may need subsidies).
 - Regressive tax burden.

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Extend Medicaid to Parents Below Poverty Income

- Pros:
- Group is arguably the most in need.
 - Federal government would pay ~ 57% of cost.
 - Administrative burden low because using existing system.
 - Parents and kids in same health plan.
- Cons:
- Some “welfare” stigma.
 - Political opposition to expanding Medicaid.
 - Creates a financial entitlement and a corresponding budgetary burden for the state.¹³

Parent Coverage (up to 200% of Poverty) Through SCHIP

- Option is not available in Michigan at present since Michigan’s unspent SCHIP allocation has been dedicated to the Adult Benefits Waiver for the Adult Medical Program.
- Pros:
- Federal government pays nearly 70% of cost.
 - Enrollment can be capped to control state cost.
 - Existing administrative system.
 - Employer Buy-In is an option.
- Cons:
- “Crowd-out” Issues
 - “Welfare” stigma

One-Third Share Plan

- Employees of low-wage business receive subsidized “first dollar” coverage for a benefit package that includes primary and preventive care, but has caps on total cost or days of care. Several models exist in Michigan.
- Pros:
- Affordable health care for low-wage workers.
 - Causes new contribution of new employer dollars.
 - Model already developed: has support from the Governor.
- Cons:
- Source of subsidy must be identified.
 - Requires intensive marketing.
 - Uneven availability if subsidy is locally funded.

Limited Benefit Plan (“Plan B”)

- Low-income individuals (for example up to 150% of poverty) who are not insured or eligible for Medicaid receive primary and preventive care, including pharmacy. No premiums; limited copayments.
- Pros:
- Provides basic health care to a large number of individuals at a low cost.
 - Opportunities to maintain health and improve health behaviors/lifestyle.
- Cons:
- Continues reliance on hospitals to fund the cost of acute and emergency care for the uninsured.
 - Creates disincentive to join employer-sponsored insurance or third-share plan for low-income workers.

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Individual Mandate for High-Income People

- People with incomes above some level (e.g., 400% of poverty) either get coverage or pay penalty (e.g., surcharge on income tax)
- Pros:
- High-income people account for significant share of uninsured.
 - Eliminates “free rider” problem when catastrophic costs incurred.
- Cons:
- High degree of compulsion.
 - Could create hardships if family is high risk.

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Single Payer and Variations

- Everyone automatically enrolled as a "right"—like Medicare for all.

- Pros:
- Universal coverage guaranteed
 - Complete portability within state
 - Greatly reduced administrative burden and costs
 - Increased equity: everyone, regardless of risk or income, has equal access; and system financed through taxes

- Cons:
- Very high budgetary cost (in large degree offset by reduced private costs)
 - Major change from status quo - providers, insurers
 - High degree of compulsion
 - Possible influx of sick people from other states

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Multiple Payer Variation

- Everyone enrolled in a single statewide purchasing pool but with multiple insurers offering coverage
- People pay premiums based on income
- Less disruption of status quo, but still universal coverage substantial administrative savings

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