

# Presentation to the House Select Committee on State Health Care Expenditures



Albert Hawkins, Executive Commissioner

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Health and Human Services Commission

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# Crowd Out in CHIP

## Presentation Overview

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- Definition and Background
- Policy Questions
- Texas CHIP Policies
  - Waiting Period
  - Cost Sharing
- Crowd Out Data
- CHIP Premium Assistance Program
- Conclusion and Indications for Further Study
- Appendix: Federal Poverty Guidelines for 2004



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# Definition and Background

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- Substitution of publicly funded health coverage for private sector coverage (also known as “crowd out”) generally refers to an effect that may occur when government-sponsored health coverage becomes available. Some individuals or families may opt to discontinue their current employer or group health coverage and enroll in no cost or lower cost governmental programs, such as Medicaid or the Children’s Health Insurance Program (CHIP).
- Crowd out has been a policy concern whenever states and the federal government have initiated large-scale changes or expansions in publicly funded health coverage, such as Medicaid eligibility expansions or more recently, implementation of CHIP.
- CHIP was intended to help states reduce their numbers of uninsured children and targeted families above Medicaid income levels. States and the federal government have a continuing interest in seeing that the coverage targets families with uninsured children, rather than families with existing private sector coverage who opt to switch to a less expensive, publicly funded option.

# Definition and Background, Continued

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- Crowd out has been more of a policy concern with CHIP than with Medicaid, since CHIP families have relatively higher incomes and are somewhat more likely to have access to employer-sponsored health coverage than Medicaid families.
- The potential for crowd out varies by state and region. The availability and affordability of group or employer-based coverage in a particular state are closely related to the consideration of crowd out in the CHIP program.



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# Policy Questions

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- What is the availability and affordability of employer based coverage in the state, particularly among smaller employers?
- What measures has the state taken to minimize crowd out?
- Have those measures been effective in limiting crowd out?
- Since it is unlikely that crowd out can be completely eliminated, is crowd out, as a percent of total caseload, within acceptable levels?



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# Texas CHIP Policies



# Texas CHIP Policies - Overview

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- To reserve CHIP resources for individuals with little or no access to affordable group or employer-based coverage, Texas has adopted policies designed to limit the number of families that might drop employer or group health coverage and enroll in CHIP.
- Senate Bill 445, 76<sup>th</sup> Legislature (the legislation that created the Texas CHIP program):
  - Established a waiting period for families with other coverage in effect at the time of application; and
  - Required families to share the cost for CHIP services, including point of service copays and enrollment fees or monthly premium cost sharing.
- HB 2292, 78<sup>th</sup> Legislature:
  - Expanded the application of the waiting period to all CHIP eligibles, with certain exceptions; and
  - Provided HHSC with more flexibility to increase cost sharing.

# Texas CHIP Policies - Waiting Period

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- Unless they meet an exception, new CHIP enrollees must wait for a three-month period before their health coverage is effective.
- The waiting period is based on when the child is determined eligible:
  - If the child is found eligible for CHIP on or before the 15<sup>th</sup> day of a month, the waiting period begins on the first day of that same month. Example: Eligibility is determined on January 5<sup>th</sup>: Waiting period is January, February, and March; health coverage starts April 1.
  - If the child is found eligible on or after the 16<sup>th</sup> day of a month, then the waiting period begins on the first day of the next month. Example: Eligibility is determined on January 18<sup>th</sup>: Waiting period is February, March and April; health coverage starts May 1.

# Texas CHIP Policies - Waiting Period, Continued

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- Exceptions to the waiting period:
  - Parents or guardian lost employment because of a layoff or business closing;
  - Loss of continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA);
  - Loss of coverage due to a change in marital status of a parent of the child;
  - Loss of child's Medicaid coverage because the family's earnings or resources increased or the child reached an age at which Medicaid coverage is not available;
  - Other circumstances resulting in the involuntary loss of coverage;
  - The family terminated health coverage because the cost for the coverage exceeded 10 percent of the family's income;
  - The child has access to group-based health benefits plan coverage and will participate in the CHIP premium assistance program administered by HHSC; or
  - HHSC has determined that other grounds exist for a good cause exception.

# Texas CHIP Policies - Cost Sharing

- Since it is a subsidized program, CHIP is very affordable, but it is not a free program. CHIP families share in the cost of the program.

(Note: “FPL” is Federal Poverty Level; Co-pay Caps are per six-month enrollment period):

<b>At or below 100% of FPL</b>	<b>Charge</b>
<b>Monthly Premium</b>	<b>\$0</b>
Office Visit	\$3
Emergency Room	\$3
Generic Drug	\$0
Brand Drug	\$3
Co-pay Cap	\$1.25% (of family’s income)
Facility Co-pay, Inpatient	\$10
Facility Co-pay, Outpatient	\$0
<b>101% to 150% of FPL</b>	<b>Charge</b>
<b>Monthly Premium</b>	<b>\$15 per mo./per family</b>
Office Visit	\$5
Emergency Room	\$5
Generic Drug	\$0
Brand Drug	\$5
Co-pay Cap	\$1.25% (of family’s income)
Facility Co-pay, Inpatient (per admission)	\$25
Facility Co-pay, Outpatient	\$0

# Texas CHIP Policies - Cost Sharing, Continued

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151% to 185% of FPL	Charge
<b>Monthly Premium</b>	<b>\$ 20 per mo./per family</b>
Office Visit	\$7
Emergency Room	\$50
Generic Drug	\$5
Brand Drug	\$20
Co-pay Cap	2.5% (of family's income)
Facility Co-pay, Inpatient (per admission)	\$50
Facility Co-pay, Outpatient	\$0
186% to 200% of FPL	Charge
<b>Monthly Premium</b>	<b>\$25 per mo./per family</b>
Office Visit	\$10
Emergency Room	\$50
Generic Drug	\$5
Brand Drug	\$20
Co-pay Cap	2.5% (of family's income)
Facility Co-pay, Inpatient (per admission)	\$100
Facility Co-pay, Outpatient	\$0



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# Crowd Out Data

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Application Data – January 2003 to December 2003:

- Average monthly total enrollment during this period was **496,094**.
- Average monthly new enrollment was **21,295**.
- On average, about **1%** of monthly new enrollment consisted of children in families that applied after dropping other health coverage and waited out the waiting period. **This statistic reflects crowd out: private coverage was in effect, but was dropped in order to enroll in CHIP.**

# Crowd Out Data

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Application Data – January 2003 to December 2003, Continued:

- **One-half of 1%** of monthly new enrollment was exempted from the waiting period due to the cost of their employer or group insurance being over 10% of their family income.
- About **8%** of monthly new enrollment was exempted from the waiting period for other permitted reasons (termination of coverage, parent lost employment, COBRA ended, etc.) **Situations where access to employer or group coverage was lost do not reflect the common definition of crowd out.**

Note: The changes to the waiting period required under HB 2292 were not in effect for the first nine months of this period.



# Crowd Out Data

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## Consumer Surveys:

- Information from (statistically valid) CHIP consumer surveys, conducted by the Institute for Child Health Policy (CHIP's External Quality Review Organization) indicates that among families who were enrolled in CHIP in Texas for 12 months or longer:
  - **24% reported access to employer-based family coverage**
  - **81% of those with access to employer-based coverage said they could not afford that coverage.**
  - The cost of employer-based coverage was reported to be, on average, **11% of family income.**
- Similar findings were obtained in ICHP's surveys of the Florida CHIP population.
- Other policy research suggests that when health insurance costs exceed 10% of family income (the CHIP threshold for an exemption from the waiting period) health insurance costs become unaffordable for low-income families (*The Financial Burden of Self Paid Health Insurance on the Poor and Near-Poor*, Gabel, Hunt, Kim, KPMG Peat Marwick, 1998).

# Crowd Out Data

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## Availability and Affordability of Private Sector Insurance:

- The question of crowd out in CHIP needs to be considered in the context of the decreasing availability and the increasing cost of employer and group coverage.
- In Texas, low-income workers tend to be employed by smaller employers who are facing difficulties in securing affordable employee health coverage.

# Crowd Out Data

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## Availability and Affordability of Private Sector Insurance:

- In a Texas survey of small employers (Texas Department of Insurance, State Planning Grant Survey, 2001):
  - For small insurers who offer insurance:
    - 27% reported insurance cost increases of 51% or more;
    - 36% reported cost increases ranging from 26% to 50%; and
    - 2% noticed a decrease in the number of employees who cover their children and were sure the decrease was due to CHIP enrollment.
  - For small employers who did not offer health insurance:
    - 62% indicated that they had not purchased coverage because it was too expensive;
    - 7% said they were willing to offer coverage, but that their employees could not afford their share of the premium; and
    - 4% said they were unable to obtain coverage because one or more employees had a pre-existing condition that made the group uninsurable.



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# CHIP Premium Assistance Program

# CHIP Premium Assistance Program

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- CHIP premium assistance programs are designed to use state and federal CHIP funds to pay part or all of the costs of enrolling CHIP-eligible individuals into private employer or group insurance.
- When cost-effective, premium assistance may offer modest savings on what it would have cost to enroll a child in regular CHIP and has the added benefit of insuring additional family members through the subsidy of an “employee and children” or an “employee and family” premium.
- HHSC is developing a CHIP premium assistance program through the use of a federal Health Insurance Flexibility and Accountability (HIFA) waiver, which encourages states to use the private insurance market to provide health coverage for Medicaid and CHIP enrollees.
- HHSC’s proposal is similar to an Illinois program: Any family with CHIP-eligible children will be offered (in lieu of enrollment in regular CHIP) a flat subsidy to be used towards the cost of health insurance offered through an employer or other group coverage.

# CHIP Premium Assistance Program, Continued

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- Under the Texas proposal:
  - If a CHIP family enrolls their children in their employer or other group coverage, they will receive a flat subsidy of about \$150 per month. At least one parent would also be enrolled, since most employer coverage offers “employee plus children” or “employee plus family” options.
  - A continued employer contribution to the cost of coverage will be required.
  - Point of service cost sharing (doctor’s office, prescription copays, etc.) will be whatever the group plan requires.
  - A CHIP family’s participation in premium assistance will be optional.
- Status of Proposal:
  - November 17, 2003 – Proposal made available for public comment.
  - December 23, 2003 – Public comment period closed.
  - March/April 2004 – Submit formal waiver application to federal government (estimated federal approval time of four to six months).



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# Conclusion and Indications for Further Study

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- Substitution of public sector health insurance for private sector coverage will continue to be a concern for large public health insurance programs, such as CHIP.
- The amount of crowd out in the CHIP program, based on the available data, does not appear to exceed expected levels.
- HHSC will continue to monitor crowd out for changes in this trend and for any implications for changes in crowd out policy.
- HHSC will promote the CHIP premium assistance program as way to help families stay with their employer or other group coverage and as a way to support employers' efforts to maintain health insurance coverage.





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# Appendix: Federal Poverty Guidelines

*2004*

# Federal Poverty Guidelines

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## Based on Annual Income

<u>Family Size</u>	<u>100%</u>	<u>133%</u>	<u>150%</u>	<u>185%</u>	<u>200%</u>
1	9,310	12,382	13,965	17,224	18,620
2	12,490	16,612	18,735	23,107	24,980
3	15,670	20,841	23,505	28,990	31,340
<b>4</b>	<b>18,850</b>	<b>25,071</b>	<b>28,275</b>	<b>34,873</b>	<b>37,700</b>
5	22,030	29,300	33,045	40,756	44,060
6	25,210	33,529	37,815	46,639	50,420
7	28,390	37,759	42,585	52,522	56,780
8	31,570	41,988	47,355	58,405	63,140

At 100% of poverty, for families larger than 8, add \$ 3,180 for each additional person.

# Federal Poverty Guidelines, Continued

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## Based on Monthly Income

<u>Family Size</u>	<u>100%</u>	<u>133%</u>	<u>150%</u>	<u>185%</u>	<u>200%</u>
1	776	1,032	1,164	1,435	1,552
2	1,041	1,384	1,561	1,926	2,082
3	1,306	1,737	1,959	2,416	2,612
<b>4</b>	<b>1,571</b>	<b>2,089</b>	<b>2,356</b>	<b>2,906</b>	<b>3,142</b>
5	1,836	2,442	2,754	3,396	3,672
6	2,101	2,794	3,151	3,887	4,202
7	2,366	3,147	3,549	4,377	4,732
8	2,631	3,499	3,946	4,867	5,262

At 100% of poverty, for families larger than 8, add \$ 265 for each additional person.

Source for Guidelines: U.S. Department of Human Services.

*Federal Register*, Vol. 69, No. 30, February 13, 2004, pp. 7336-7338.