

Estimated Cost and Coverage Impacts of Three Policy Proposals to Expand Health Insurance Coverage For Children in California



Executive Summary

November 15, 2005

Prepared for The California Endowment

Introduction

The Lewin Group estimates about 877,000 of California's 10.5 million children will lack health insurance in 2006. During the past year, a number of policy proposals have been developed that attempt to expand health coverage for children in California. This study estimates the cost and coverage impacts of three proposals to expand health insurance coverage, with particular emphasis on the effect these approaches would have on children. The analysis is intended to assist policymakers in designing proposals that maximize coverage with the funds available. It should be noted that each of these proposals are in varying states of development and may be revised throughout the policy debate. The proposals examined include:

- **Escutia/Chan bill AB 772/SB 437:** Senator Martha Escutia and Assemblymember Wilma Chan have introduced a bill, designated AB 772 and SB 437, designed to increase coverage of children under the Medi-Cal and Healthy Families programs;
- **The New America Foundation Proposal:** This proposal would require children to have coverage, expand coverage for the undocumented and provide tax credits to lower-income families who purchase private insurance for their children;
- **Richman/Nation bill AB 1670 and AB 1671:** Assemblymembers Keith Richman and Joe Nation have introduced a bill requiring all Californians to have insurance. It also expands Medi-Cal to cover adults living below 200 percent of the federal poverty level (FPL), provides tax credits to small low-wage firms, and simplifies enrollment for Medi-Cal and Healthy Families.

This is part of a series of analyses of proposals to expand coverage of children in California, sponsored by The California Endowment and performed by The Lewin Group.

Children's Coverage and Health Spending

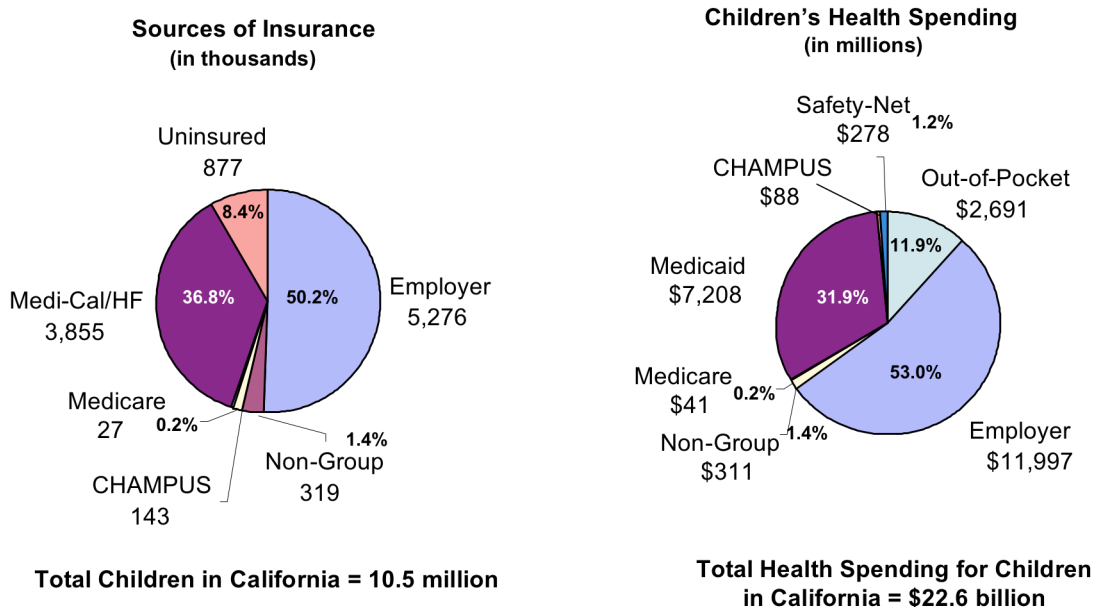
By 2006, projections indicate there will be about 5.4 million uninsured people in California, including 877,000 children and about 4.5 million adults. About 50.2 percent of the 10.5 million children in California would be covered under an employer health plan (*Figure ES-1*). Another 36.8 percent of California children will be covered under the Medi-Cal or Healthy Families programs.

About 8.4 percent of all children in California are uninsured. However, most of the 877,000 children who are uninsured actually have access to insurance but have not enrolled. Using data

from the 2003 California Health Interview Survey (CHIS), it is estimated that by 2006, roughly 500,000 of the 877,000 uninsured children in California will be eligible for, but not enrolled in Medi-Cal or Healthy Families.¹ Estimates also show that there are about 140,000 uninsured children in families where a parent has declined employer-sponsored (ESI) coverage offered through work.

Total spending for health services for children in California will be about \$22.6 billion in 2006. Medi-Cal and Healthy Families will cover about \$7.2 billion (21.9 percent) while employer plans will cover about \$12 billion in spending. Safety-net programs will finance an additional \$278 million in services to children. Overall, about 11.9 percent of the health care provided to children in California will be paid by families out-of-pocket.

Figure ES-1
Sources of Insurance Coverage and Spending by Payer for Children in California in 2006



Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

Proposal Provisions

The Escutia/Chan bill and the New America Foundation proposal are primarily concerned with expanding children's coverage, while the Richman/Nation bill seeks to expand coverage for both children and adults. The Escutia/Chan bill would increase children's coverage voluntarily by increasing eligibility for Healthy Families to 300 percent of the FPL regardless of their immigration status (currently 250 percent of the FPL), and taking several steps to simplify the enrollment process including "express lane" eligibility and self-certification of income (*Figure ES-2*). However, the bill would not create a mandate to take coverage.

Like the Escutia/Chan bill, the New America Foundation proposal extends full Medi-Cal/Healthy Families coverage to children regardless of their immigration status. This proposal

¹ E. Richard Brown and Shana Lavarreda, "Job-Based Coverage Drops for Adults and Children but Public Programs Boost Children's Coverage," Health Policy Brief, February 2005, The UCLA Center for Health Policy Research.

also includes tax credits for purchases of private coverage for children in families living below 400 percent of the FPL. These tax credits are available for purchases of non-group coverage and the amount of worker contributions for children's coverage under employer-sponsored insurance (ESI). It also creates a Healthy Families buy-in program that will provide Healthy Families benefits to children in any California family for a community rated premium.

The Richman/Nation bill extends Medi-Cal eligibility to all adults living below 200 percent of the FPL and takes steps to simplify enrollment for children and adults. However, there are no expansions in Medi-Cal/Healthy Families eligibility for children. The bill also provides a tax credit to small employers of low-wage workers as an incentive to start offering coverage to their workers. The tax credit is limited only to firms that have not provided coverage in the past 12 months.

The Richman/Nation bill is the only one of the three proposals that includes a financing provision. The bill creates an assessment on the value of all benefits provided by insurers and third-party administrators of self-funded insurance plans. The assessment would be structured so that revenues equal 2.33 percent of all private insurance spending in the state, including HMOs and self-funded plans.

**Figure ES-2
Proposals to Expand Health Insurance Coverage for Children in California**

	Escutia/Chan Model	New America Proposal	Richman/Nation Model
Eligibility expansion for children ²	Cover children between 250% and 300% FPL	None	None
Eligibility expansion for undocumented children	Full Medi-Cal/Healthy Families coverage for undocumented children through 300% of FPL	Full Medi-Cal/Healthy Families coverage for undocumented children through 250% of FPL	Medi-Cal expansion for all adults living below 200 percent of the FPL (parents and other adults)
HMO payment rates	Use current composite rate for non-disabled adults and children	Renegotiate composite rates to reflect expected cost for newly enrolled children	As under current program
Individual tax credit	None	Refundable tax credit for private coverage for children below 400% FPL <ul style="list-style-type: none"> • \$400 per child under 250% FPL • Credit phasing-down to \$100 for people between 350% and 400% of FPL Credit for non-group and child portion of family ESI payment	None
Employer tax credit	None	None	Tax credit for firms that start offering coverage <ul style="list-style-type: none"> • 50 or fewer workers • 60% of workers below 200% of FPL • Have not provided insurance in 12 months Tax credit amount not specified
Buy-in to Healthy Families	Pilot program only	Healthy Families buy-in at actuarially fair community rate	None
Children's Coverage mandate	None	Parents must cover children or lose tax exemptions for children	All Californians required to have coverage or face possible tax penalty
Adult coverage mandate	None	None	All Californians required to have coverage or face possible tax penalty
Automatic enrollment	None	Default enrollment in Healthy Families buy-in through schools, tax returns and providers	None
Enrollment initiatives for currently eligible	<ul style="list-style-type: none"> • Outreach • "Express-lane eligibility" • "Seamless bridge" • Self-certification of income • Electronic eligibility processing 	<ul style="list-style-type: none"> • Outreach 	<ul style="list-style-type: none"> • Outreach • "Seamless bridge" • Electronic eligibility processing
Purchasing pools	None	None	County-level pools: <ul style="list-style-type: none"> • Alternative plans • Adjusted community rating

² Children age 6 through 18 below 133 percent of FPL are moved from Healthy Families to Medi-Cal.
Source: The Lewin Group.

Impact on the Number of Uninsured

The Escutia/Chan bill seeks to expand children’s coverage through voluntary means such as streamlining the application process and further expanding Medi-Cal/Healthy Families eligibility for children (i.e., increases Healthy Families eligibility to 300 percent of the FPL and expands coverage for undocumented children). This bill would cover about 250,500 uninsured children (*Figure ES-3*). Of these, about 211,000 would enroll through the eligibility expansions, while another 39,500 children would enroll as a result of the administrative simplifications. In addition, about 4,000 uninsured Medi-Cal eligible parents of newly enrolled children would also take coverage.

Figure ES-3
Change in Number of Uninsured Californians Under Alternative Proposals in 2006

	Children		Adults		Total	
	Number (1,000s)	Percent of Uninsured	Number (1,000s)	Percent of Uninsured	Number (1,000s)	Percent of Uninsured
Uninsured Californians in 2006 Under Current Law						
Number Uninsured	877.0	100.0%	4,563.0	100.0%	5,440.0	100.0%
Reduction in Uninsured Under Each Proposal						
Escutia/Chan	250.5	28.6%	3.7	0.1%	254.3	4.7%
New America without mandate	115.3	13.9%	--	--	115.3	2.1%
New America With Mandate – As Proposed	857.6	97.8%	43.4	1.0%	900.9	16.6%
Richman/Nation without Mandate	121.7	13.9%	1,337.2	29.3%	1,458.9	26.8%
Richman/Nation With Mandate – as Introduced	548.7	62.6%	3,141.9	68.9%	3,690.6	67.8%

Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

The New America Foundation proposal employs a mandate for parents to cover their children, together with penalties for noncompliance and automatic enrollment of uninsured children through schools, providers and the income tax system. It also expands coverage for the undocumented and provides a tax credit for children’s premiums for families living below 400 percent of the FPL. It is estimated that this proposal would cover about 857,600 of the 877,000 uninsured children. The 19,000 children who remain uninsured would include those who have no contact with schools (pre-school age), providers or the tax system during the year.

The analysis indicates that the mandate and the default enrollment system are crucial to the success of the New America Foundation proposal in achieving near universal coverage of children. For example, if the bill were implemented without the mandate and automatic enrollment, we estimate that this proposal would cover approximately 115,300 children.

The Richman/Nation bill would cover about 3.7 million uninsured Californians, including about 548,700 children. Thus, it covers only about 67 percent of uninsured Californians, despite the mandate for all Californians to have insurance under the bill. This is largely because the penalties for not having coverage are quite weak, limited only to possible forfeiture of tax refunds owed, if any. There is also no procedure for automatically enrolling children in default health plans, and there are no new direct subsidies for children’s coverage.

Estimates for the Richman/Nation bill reflect the Medi-Cal eligibility expansions for adults to 200 percent of the FPL and the tax credit for small employers who provide insurance to low-wage workers. However, it includes no expansion in Medi-Cal/Healthy Families for children, including the undocumented. It is estimated that small business tax credits would cover only about 137,000 workers and dependents, which reflects studies showing that for small low-wage firms, changes in the price of insurance have little effect on the employer's decision to offer coverage.

Program Costs

The costs of the three proposals were estimated for 2006 through 2008, including the amounts that would be paid by the state and federal governments in each year. These estimates (*Figure ES-4*) reflect lags in enrollment in 2006 and 2007 as people learn of their potential eligibility and apply. They also reflect the fact that uptake in enrollment will occur more rapidly in these programs if accompanied with a coverage mandate. It is assumed that these lags in enrollment disappear by 2008.

The Escutia/Chan bill would cover about 250,500 uninsured children at a cost of \$575.0 million in 2008. Because much of the increase in Medi-Cal and Healthy Families enrollment under the bill is eligible for federal matching funds, the federal government would pay \$153.1 million, leaving the state to pay the remaining \$421.9 million. The New America Foundation proposal, which covers nearly all uninsured children in the state, would cost about \$1.9 billion in 2008, with the federal government paying \$298.4 million and the state paying \$1.6 billion.

Figure ES-4
Program Costs Under Coverage Expansion Proposals 2006 – 2008

	Escutia/Chan AB772/SB437			New America Foundation Proposal			Richman/Nation AB1670 & AB1671		
	State Cost	Federal Cost	Total Cost	State Cost	Federal Cost	Total Cost	State Cost	Federal Cost	Total Cost
Costs Under Proposal									
2006	\$175.9	\$61.3	\$237.2	\$1,220.0	\$137.9	\$1,357.9	\$4,038.8	\$572.0	\$4,610.8
2007	\$385.6	\$134.3	\$519.9	\$1,543.7	\$286.9	\$1,830.6	\$7,250.4	\$1,185.0	\$8,435.4
2008	\$421.9	\$153.1	\$575.0	\$1,614.2	\$298.4	\$1,912.6	\$7,857.2	\$1,232.1	\$9,089.3

Source: Lewin group estimates using the Health Benefits Simulation Model (HBSM).

The Richman/Nation bill is the most costly of the three proposals because it would cover about 3.7 million uninsured Californians, including about 3.2 million adults, who are generally more costly than children. The bill would cost \$9.1 billion in 2008, with the state paying \$7.9 billion. While children and parents covered under Medicaid are eligible for federal matching funds, no match is available for the childless adults who account for about 73 percent of the increase in Medi-Cal/Healthy Families enrollment under the bill. Thus, the federal government would pay only about \$1.2 billion in 2008.³

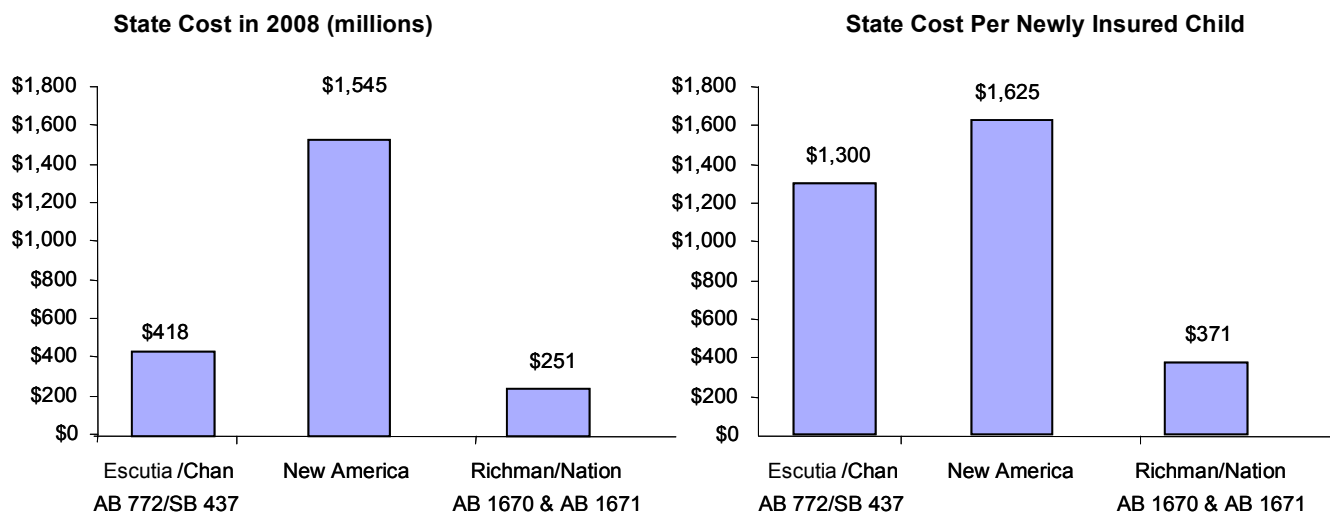
³ Legislative staff indicate that they would seek a federal waiver to cover childless adults, but have not yet determined how the state would meet the federal requirement that these waivers be budget neutral to the federal government (i.e., there can be no net increase in federal spending in the state as compared with current policy).

The cost of the Richman/Nation bill is partially offset by revenues from the 2.33 percent assessment on private coverage under the bill, which would raise about \$2.2 billion in 2008. Thus, state costs under the bill less these revenue offsets would be \$5.7 billion in 2008.

State Spending for Children Under Each Proposal

Spending for children's coverage would vary sharply under the three proposals. Total spending for children in 2008 would be about \$418 million under the Escutia/Chan bill, and \$251 million under the Richman/Nation bill. State costs under the New America Foundation proposal would be about \$1.5 billion in 2008. The dramatically higher costs under the New America Foundation proposal reflect the fact that it provides tax credits for lower-income children already covered under employer plans. In fact, about 61 percent of new state spending under this proposal is attributed to tax credits provided to families with children who are already covered under employer health plans.

Figure ES-5
State Costs Per Newly Insured Child Under Alternative Proposals, 2008



Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

State spending under the Escutia Chan bill would be equal to about \$1,300 per newly insured child (*Figure ES-5*), reflecting the fact that nearly all of the newly insured children under this proposal qualify for Medi-Cal or Healthy Families. Despite the large tax credit payments for people already covered under employer plans, costs per newly insured child under the New America Foundation proposal would be only about \$1,657 per year. This is because many of the children who become covered due to the mandate under this proposal are in higher-income groups and are not eligible for subsidies.

State costs under the Richman/Nation bill would be only about \$371 per newly enrolled child, reflecting the fact that it uses a mandate that will insure many children in higher-income groups who do not qualify for subsidies. Also, it does not include subsidies to currently insured children as does the New America Foundation proposal, further reducing the cost per newly insured child.

Data and Methods Used

The Lewin Group estimated the impact of the three coverage expansion proposals using the California version of the Health Benefits Simulation Model (HBSM). HBSM is a micro-simulation model of the U.S. health care system developed by The Lewin Group. The model was used to perform the analyses of nine health reform proposals for California in a study initiated under SB 480 in 2001. In this study, the model has been updated to reflect changes in health spending since that time. The data and model used are the same as used in that study, except to the extent that it has been updated with more recent data.

For this study, The Lewin Group adapted HBSM for use in modeling the California health care system, including both public and private sources of health insurance. The model is designed to simulate the impact of a wide range of health reform proposals including Medi-Cal and Healthy Families expansions and universal coverage proposals such as single-payer plans and employer mandates. HBSM is also designed to simulate more narrowly designed proposals targeting children through Medi-Cal and Healthy Families, tax credits for private insurance and changes in the tax treatment of employer provided health benefits.

The key to the model is a database of households that is representative of the California population in 2006 under current law, which is referred to as the “baseline” data. This involves bringing together data from several sources to form a single database that replicates key known information on the California population and health system such as population demographics, income levels, employment status, sources of health insurance and health spending levels by type of service and source of payment.

The underlying data used in the model are the 2003 California Health Interview Survey (CHIS) and the Medical Expenditure Panel Survey (MEPS) data. The CHIS is a survey of about 42,000 people throughout the state that provides information on sources of health insurance coverage, family income, and a wide range of health status and health services utilization indicators. The MEPS is a national survey providing information on health spending by demographic and economic and demographic group.

These data are used together with program data to estimate the cost and coverage impacts of changes in program eligibility. HBSM uses enrollment and expenditure data for the Medi-Cal and Healthy Families programs, hospital expenditures data from the California Office of Statewide Health Planning and Development (OSHPD) and data on spending for other services from the Centers for Medicare and Medicaid Services (CMS). A detailed description of HBSM is available upon request.⁴

⁴ John Sheils and Randall Haught, “Cost and Coverage Analysis of Ten Proposals to Expand Insurance Coverage,” Appendix A, (report to the Robert Wood Johnson Foundation), October 2003.