Expanding Health Care Coverage for Montana's Uninsured Children*

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Background & Trends

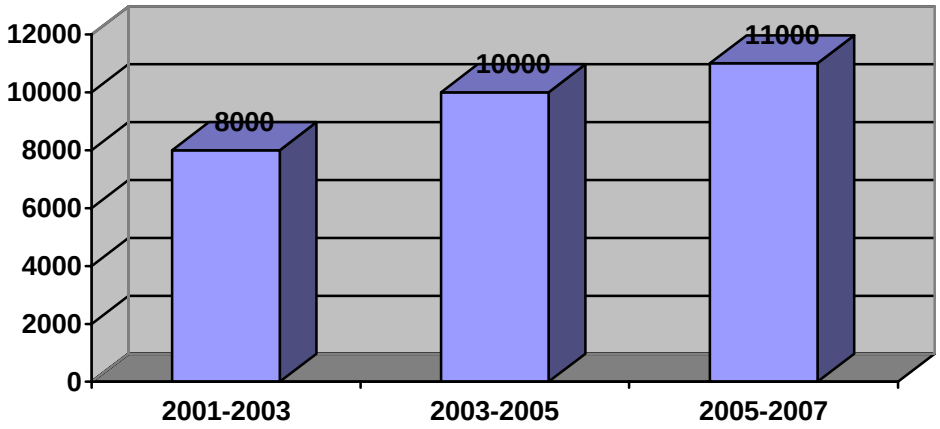
Children without health insurance and access to regular healthcare are at a developmental, social, and educational disadvantage compared to kids who have a regular doctor or medical home. Numerous studies substantiate the need for adequate medical and dental health during the early years of child development, especially during a child's pre-school years.

Healthy children achieve better educational outcomes with a higher likelihood of becoming productive citizens prepared for work, public service, and overall life experiences. Universal healthcare coverage for all children should be in tandem with our commitment to Early Childhood Education and Pre K-12 public education since the benefits accrue to all segments of society.

The reality of universal health care coverage for Montana children lags behind a commitment to healthy children. Health insurance coverage for Montana kids has worsened since 2000 despite a strong state economy and the best efforts of Montana's public health insurance programs to fill in the gap. Montana's uninsured children come from all income and social levels throughout the state.

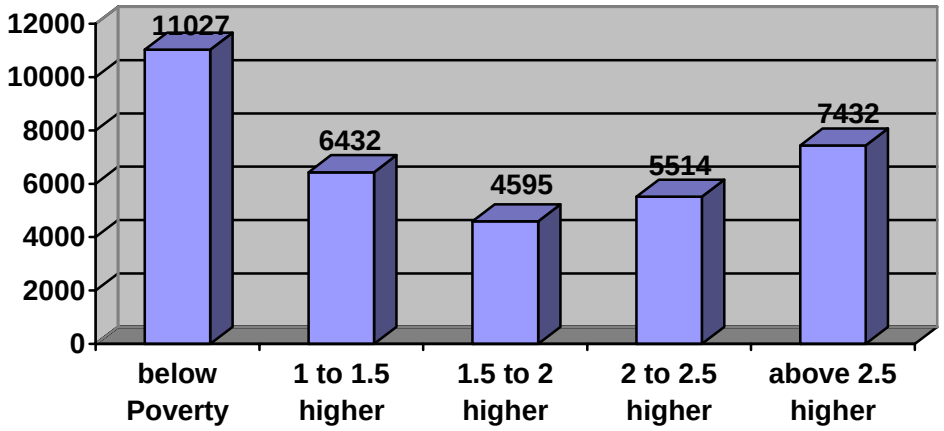
The percent of Montana children lacking private or public health insurance has remained steady at 14% to 16% with many children lacking healthcare access for much of this past decade. Lack of healthcare access is particularly severe for low income children below the federal poverty level (in 2008, $21,200 for a family of four) with uninsured rates of more than 20%, a rate twice as high as the uninsured rate for children in higher income families (Figure 1). Nor are all of Montana's 35,000 uninsured children from low income households. Almost 13,000 uninsured Montana children live in households with incomes above Montana's median income of $40,600 (Figure 2).

Figure 1: Number of Uninsured Montana Children under 19 years of age below the poverty level



Source: US Census Bureau, three year averaging of Census Population Survey Data, Annie E. Casey Foundation, www.aecf.org

Figure 2: Number of Uninsured Montana Children under 19 years of age by Poverty Level: 2004-2006



Source: US Census Bureau, three year averaging of Census Population Survey Data, Annie E. Casey Foundation, www.aecf.org and Congressional Research Service, www.loc.gov/crsinfo/

Montana state government has initiated several positive responses to the state's high uninsured rate. Premium assistance and tax credits to small employers under the Insure Montana Program are designed to alleviate the health insurance premium cost squeeze confronting working parents. Montana's 2007 Biennial State Legislature authorized increasing the poverty cutoff for Montana's Children's Health Insurance Program (CHIP) from 150% to 175% of the federal poverty level and increased access to Medicaid for children. These policy responses still leave 35,000 Montana children uninsured.

Healthy Montana Kids seeks to reduce the number of uninsured children in the state. This ballot initiative, if passed by Montana voters, would add uninsured children to both public and private insurance programs maintaining a mix of government and employer sponsored health insurance coverage.

The Healthy Montana Kids Initiative

The Healthy Montana Kids initiative offers health coverage to uninsured children by increasing the income eligibility level for the Children's Health Insurance Program (CHIP) and the Montana Medicaid program and by helping families cover their children under employer-sponsored plans.

Approximately 30,000 uninsured children in Montana would be covered by Health Montana Kids using the initiative's eligibility standards on Montana's 35,000 uninsured children by income level.

Healthy Montana Kids blends public insurance with private, employer sponsored insurance by providing premium assistance to families who have access to one or more employer-sponsored comprehensive group health insurance plans in order to provide coverage for eligible children. The premium assistance would not exceed the cost of coverage for that child based on CHIP or Medicaid costs per child and would, if part of the employer's cost for adding family members, be lower than the cost of either one of the two public premium costs. Some families would be eligible to pay employer premiums for additional child coverage with pretax dollars.

Elements of administrative reform may include a framework of administering children enrollment, outreach, health benefit coordination, health care provider rates, and information exchange. Federal match dollars as they become available would flow into the Montana economy financing increased enrollment and assisting with increased outreach including rural areas and American Indian communities.

Benefits and Economic Returns of the Healthy Montanan Kids Initiative

Analysis of costs and benefits to Montana of the Healthy Montana Kids initiative is critical to assessing the initiative's desirability. State budget costs along with federal match dollars coming into the Montana economy should be examined. It is also important to identify the difference between state budget spending for the initiative compared to the costs and additional spending would be if Montana children continue to be uninsured.

Benefits and Cost Savings from Insuring More Montana Children

Uncompensated care costs, the cost of health care provided to people without insurance that is not paid out-of-pocket by the uninsured themselves is a major cost of the uninsured. Montana data from a national study is based on adjusting the total charges to the uninsured to reflect what the privately insured would pay, on average, in the state for the same health care services. This is done in order to avoid inappropriately inflating the value of the health care services and to ensure that our estimate of what providers will need to recoup is a conservative one. Research has shown that uninsured patients are charged much more than insurance companies are charged for the same services (Gerard Anderson, *A Review of Hospital Billing and Collection Practices, Testimony before the Subcommittee on Oversight and Investigations,* Committee on Energy and Commerce, U.S. House of Representatives, June 24, 2004, available online at www:energycommerce.house.gov/108/Hearings/06242004hearing1299/Anderson2095.htm. See also *Why the Working Poor Pay More: A Report on the Discriminatory Pricing of Health Care* (Washington: Hospital Accountability Project of the Service Employees International Union, March 2003); Irene Wielawski, "Gouging the Medically Uninsured: A Tale of Two Bills," *Health Affairs*, vol. 19, no. 5, September/October 2000, Jonathan Gruber & David Rodriguez, How Much Uncompensated Care Do Doctors Provide? National Bureau of Economic Research Working Paper 13585, http://www.nber.org/papers/w13585 , 2007.

Every year uncompensated health care costs Montana health providers, employers, and consumers more than $240 million dollars. And while a small percentage of this amount is covered by philanthropy (about 2%) and special federal payments to hospitals (11%) the bulk of this bill is paid by cost shifts onto consumers and employers through higher health insurance premiums. (Jack Hadley & John Holahan, "Covering the Uninsured: How Much Would It Cost?" Health Affairs, W-3 (June 2003), pp. 250-265; Paying a Premium: The Added Cost of Care for the Uninsured, Families USA, June 2005).

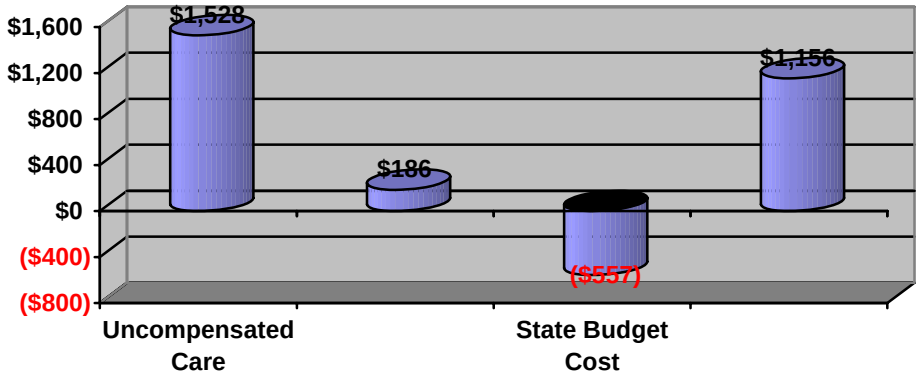
Projecting Montana's annual uncompensated care costs over the next several years to 2012 shows an uncompensated care price tag of $1714 for every one of the approximately 170,000 uninsured Montanans throughout the state. A portion of this per uninsured capita costs, about $186, represents federal disproportionate share payments to Montana providers, primarily hospitals, based on the number of low income patients the various institutions serve.

Cost savings from reducing uncompensated care by insuring more children can be compared to Montana's CHIP cost per child. Cost and cost savings estimates are based on state fiscal year 2012 numbers in view of the initiative's timing, the necessary authorization by Montana's legislature, and the anticipated increased availability of federal funding when a new national administration is in place after the November, 2008 elections.

Projected costs from actual, baseline program numbers show a CHIP cost per child in 2012 of $2,535 with Montana's 22 percent share equal to $557 per child. These costs

per child are compared to gains via net savings (Figure 3) of $1,528 in uncompensated care costs per newly insured child, $186 savings on federal taxes for financing disproportionate share payments to Montana yielding a positive net gain per newly insured child of $1,156.

Figure 3: Savings on Uncompensated Care Costs and Taxes per Uninsured Child and State Budget Cost for Insurance Coverage Per Child and Net Gains Per Child, 2008.



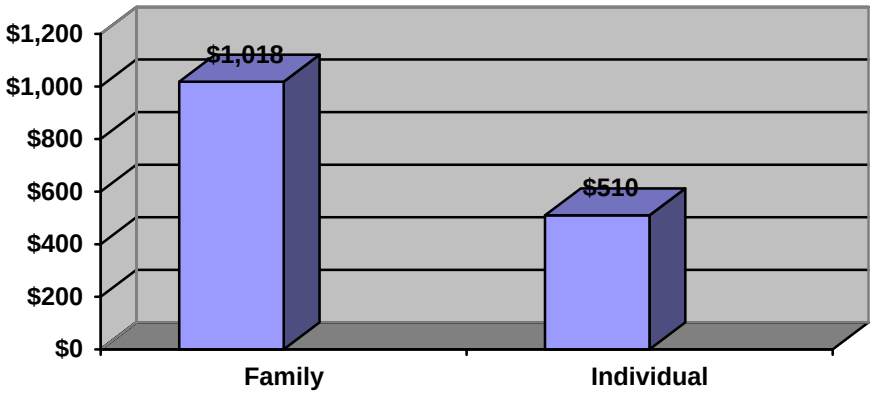
Source: Families USA, Paying A Premium: The Added Cost of Care for the Uninsured, 2005, www.familiesusa.org .

The net gains per newly insured child are significant, particularly when compared to the state budget costs per child of $557. Such savings can be aggregated over the 30,000 newly insured children and compared to the state budget costs of covering these children.

These cost savings shown in Figure 3 also reduce the rate at which health insurance premiums rise through reductions in cost shifting of uncompensated care costs onto privately insured health care consumers. Through reducing the rate at which premiums increase, the cost savings impact to employers and worker is shown in Figure 4. Allocating two thirds of the savings to family plans and another third to employee only coverage results in annual savings or premium reductions of $1,018 and $510 offering some cost relief to employers.

These cost savings shown in Figure 3 also reduce health insurance premiums through reductions in cost shifting of uncompensated care costs onto privately insured health care consumers. The impact of cost savings from Health Montana Kids on employer and worker costs of health insurance are shown in Figure 4. Allocating two thirds of the savings to family plans and another third to employee only coverage results in annual savings or premium reductions of $1,018 and $510 offering some cost relief to employers.

Figure 4: Annual Cost Savings on Employer Health Insurance Premiums from Universal Children Health Insurance in Montana, 2008.



Source: Source: Families USA, Paying A Premium: The Added Cost of Care for the Uninsured, 2005, www.familiesusa.org

Summary of Benefits and Savings

When fully implemented in 2012, the Healthy Montana Kids initiative's reductions in uncompensated care will cause reduction in private health insurance premium growth of $510 per year for an individual policy and $1018 per year for a family policy.

There are significant aggregate savings for all Montana shareholders when applying the per newly insured child savings in uncompensated care to the 30,000 kids who would now be covered. These annual savings include savings to employers of $26 million, $7 million in savings to households with private insurance and $12 million to state employee plans. Another $5 million in reduced federal taxes due to lower federal disproportionate share payments to Montana brings the total aggregate savings per year to $50 million.

State Budget Costs

Two underlying factors that determine state budget costs are: a) the number of uninsured children that would be enrolled and b) the number of privately insured children, who are currently insured through their parent's employer based or individually purchased policy, whose parents would drop them from their private coverage and transfer them to CHIP, Medicaid or employer based coverage at or below public coverage premium costs.

Transfer of coverage through substituting public for private insurance is often referred to as "crowd-out" when individuals move to a public program from private health insurance (employer-sponsored or private non-group insurance). State program data on transfer rates for CHIP are very different from some national statistical studies which vary widely based on the data used, the years examined, whether the focus is on children or adults, the modeling technique and the assumptions made (Revisiting Crowd-Out, Blewett & Call, RWJ Foundation, 2007).

Calculating the number of children who potentially might transfer from private health insurance to public coverage is of prime importance when analyzing the impact of any state health insurance reform on the state budget. Estimates of transfer rate for Montana's CHIP program range from 25% to 14% to 7%. The higher end 25% estimate is based on survey data from recent enrollees in Montana's expansion of CHIP to the 175% federal poverty interval while 7% is based on Montana fiscal year 2007 program data. An intermediate rate of 14% rate comes from US Congressional Budget Office estimates for CHIP data for a number of states (Woodridge, et. al., "Congressionally Mandated Evaluation of the State Children's Health Insurance Program," Report to HHS, October 26, 2005).

The intermediate, actuarially based 14% take-up rate is a reasonable estimate particularly in view of Montana's high percentage of self-employed workers and small employer firms, both of which make affordable health insurance a major problem for Montana's uninsured children.

Using projected fiscal year 2012 CHIP costs per child ($2535), a projected private insurance premium cost ($992) per child covered by the employer sponsored option (with one half of the transfers going to this option) yields a total annual state budget cost of $20.3 million with the experience-based transfer rate of 14%.

The annual state budget cost of $20.3 million brings in 30,000 uninsured kids and also allows for 8,000 currently insured children on employer sponsored plans who are below the 250% federal poverty eligibility cutoff who may transfer from private coverage to the initiative program.

The annual $20.3 million state budget cost would be financed by an initiative-designated $20 million as a portion of Montana Insurance Licensing fees into a special revenue account. There would be no need for any taxes to finance the initiative.

Matching federal dollars of $64 million annually for the state money spent on newly insured kids in Medicaid and CHIP represent new outside spending into the state economy. This newly created outside spending has a multiplier effect on Montana labor income that, as a new element in the state's tax base, will generate another $5.5 million in state income tax revenues every year.

Conclusion

The Montana Healthy Kids initiative is currently the most active attempt to expand health insurance coverage for Montana's 35,000 uninsured kids. It will cost the state $20.3 million per year but will generate benefits and cost savings of $50 million with another $5.5 million in new state income tax revenues based on new federal match dollar spending in the state economy.

The initiative's approach to insuring more Montana children offers a positive economic payback of more than $2.50 to Montanans for every state $1 expended, a rate of return that compliments other positive impacts of more health investment in the state's children. Other returns include better school performance with more than 20% gains on measures of attention and concentration in the classroom for CHIP enrolled children

compared to their performance before enrollment and on keeping up with school activities (Managed Risk Medical Insurance Board, 2002).