



Protecting Montana's consumers through insurance and securities regulation

EXHIBIT 2
DATE Jan 11 2005
HP

Small Business Health Insurance Affordability Act *Increasing Access to Affordable Health Insurance for Montanans*

The Problem:

Skyrocketing insurance premiums mean most small businesses that want to provide health insurance to their employees find they just can't afford to. Workers are denied pay increases and additional benefits because insurance costs keep going up. And all of this ignores other elements of the health care crisis – like too many Montanans forced to make weekly choices between paying for their prescription medicines and paying for basic necessities like food or rent. Dire as things are for uninsured Montanans, this crisis affects each and every one of us. The cost of the uninsured gets shifted to the insured, driving up our health insurance premiums and creating new hardships for business and families.

Many uninsured Montanans are finding health care unaffordable. Small businesses are buckling under the weight of rising premiums, and are considering reducing or eliminating coverage for their employees. Further, according to recent survey information, 60% of Montana small businesses with 10 or fewer employees are not able to offer any of their employees a health insurance plan.ⁱ Most want to, but simply cannot afford premiums at current market prices.

The Opportunity to Act:

State Auditor John Morrison, working with the Montana Chamber Commerce, NFIB, and other businesses, created a new tax credit proposal to help Montana's smallest businesses provide health insurance to their employees. The new proposal will incorporate Governor Schweitzer's purchasing pool idea to achieve even greater savings. The plan will make health insurance more available, improve choices of coverage, and most importantly, lower the number of uninsured Montanans working in small businesses.

We propose offering tax credits to small businesses that are currently providing health insurance to their employees, *and* premium credits to small businesses currently without coverage. National health policy experts have helped create a plan to combine the premium credits for small businesses that cannot afford coverage with a purchasing pool. The pool will increase the purchasing power of the premium credit by negotiating lower-priced health plans through group purchasing.

Revenue Source:

Governor Schweitzer has budgeted \$11.5 million/year from the I-149 special revenue account. For the first year, FY 06, revenue will be a lesser amount to provide for program ramp-up. Sixty percent of revenue is reserved for the currently uninsured/purchasing pool, forty percent of revenue for currently insured small groups.

Funding Options and Coverage Estimates:

Year 1 (2006)–Minimal Leveraging of Federal Fundsⁱ

State funds	Federal funds	Business/worker \$	Adults	Children	Total
\$15 million	\$4.0 million	\$9.8 million	5,857	3,890	9,747
\$12 million	\$3.2 million	\$7.9 million	4,685	3,112	7,797
\$9 million	\$2.4 million	\$5.9 million	3,514	2,334	5,848

Year 2 (2007)–Additional Leveraging of Federal Funds

State funds	Federal funds	Business/worker \$	Adults	Children	Total
\$15 million	\$19.2 million	\$17.8 million	10,613	7,058	17,671
\$12 million	\$15.3 million	\$14.3 million	8,491	5,647	14,138
\$9 million	\$11.5 million	\$10.7 million	6,368	4,235	10,603

Draft Components of Premium Credit/Purchasing Pool:

- The premium credit will be available to businesses for up to nine employees, depending on available funds. Businesses with coverage and four or fewer employees will be one priority group. The other priority group will be businesses with nine or fewer employees that do not offer coverage. This second group will be served will by the purchasing pool.
- Sixty percent of the credits appropriated through this legislation will be available for businesses without coverage. The remaining forty percent will be set aside for all other small businesses with coverage, and they will continue to purchase their coverage in the existing market.
- Small businesses without coverage (60% of credits) will be eligible for a monthly advanceable premium credit on a first come, first served basis. Businesses will apply to use the credit until available funding is allocated for the year. To use the credit, the small business must join the pool. This will help ensure that the pool attracts enough members to lower the price of coverage through economies of scale for administrative costs, negotiating for health coverage, and by preventing adverse selection.
- The amount of the credit for firms in the purchasing pool will be set by the purchasing pool Governing Board, whose members will be nominated by the Governor's and Auditor's office. Ideally, the amount will vary by income and family size in order to cover as many Montanans as possible.
- Small businesses with coverage (40% of credits) will be eligible for a credit that is refundable to small business owners on a first come first served basis. Businesses would apply at the beginning of the year and receive the credit at the end of the year.
- The amount of the refundable tax credit will be \$100 or \$125 per employee per month (depending on average age of employees) for businesses with current coverage; those outside the pool. Employers will be responsible for a portion of the insurance premium.
- There will be an income limit in order to receive the credit. If a member of a small group earns over a certain amount, they will not be eligible for the credits (the exact income limit is undecided at this point). This will apply to both uninsured and insured groups.
- Each small business (those within and outside the pool) will re-apply for the premium credits annually.

Administration of Premium Credit & Purchasing Pool:

- The State Auditor's office and the Governor's office in conjunction other relevant state agencies will administer the premium credits and will oversee the purchasing pool governing board.
- A public-private governing board will oversee several components of the purchasing pool, including selecting insurer(s) and designing plans and actuarially certified rates for the pool. The composition of the board should include small business owners, consumers, insurance risk and actuarial experts, and representatives from the Governor and Auditor's office.

ⁱ Montana Strategic Plan to Provide More Affordable Health Care Coverage, Montana Dept. of Public Health and Human Services, August 2004

ⁱⁱ Analysis by the Institute for Health Policy Solutions, Washington, DC. These estimates are illustrative only and would be more accurate with changes to the estimating model. Actual experience will depend on many factors including premium amounts, premium credits, small businesses, small business employees, and federal waivers. The funding level is offset by \$300,000 for state expenses for administration. Other administrative expenses would be included in the premium charged for coverage.