

# Why Montana Firms Do Not Offer Health Insurance Coverage

2003  
(n=302)

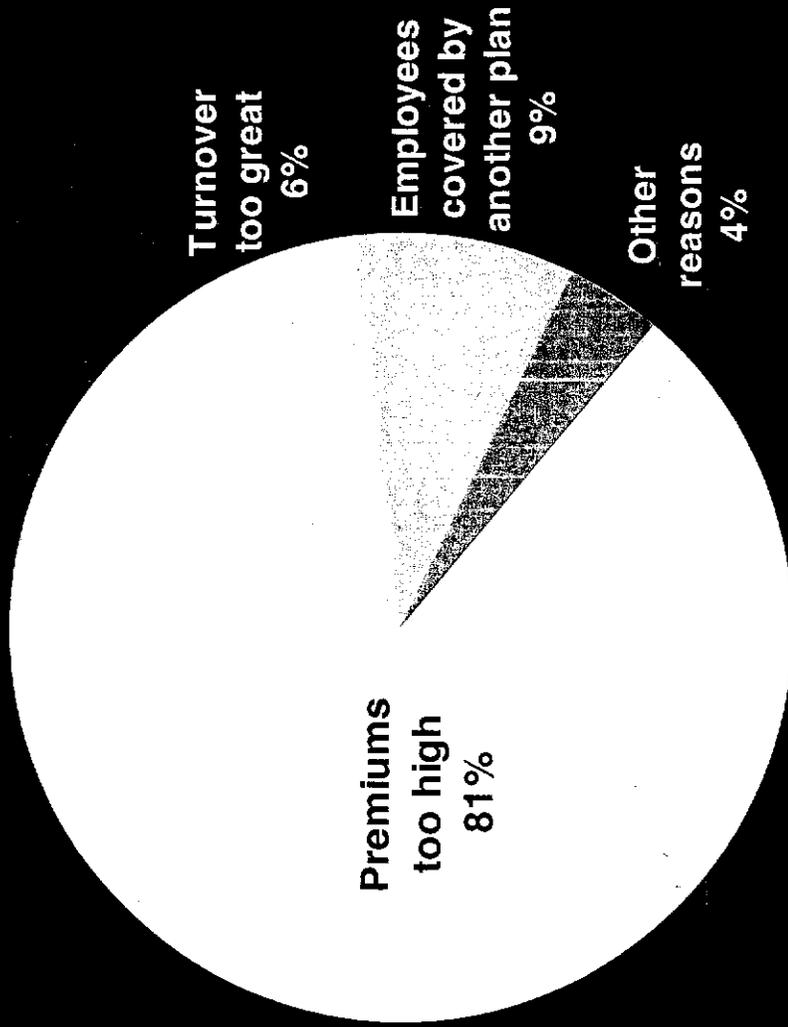
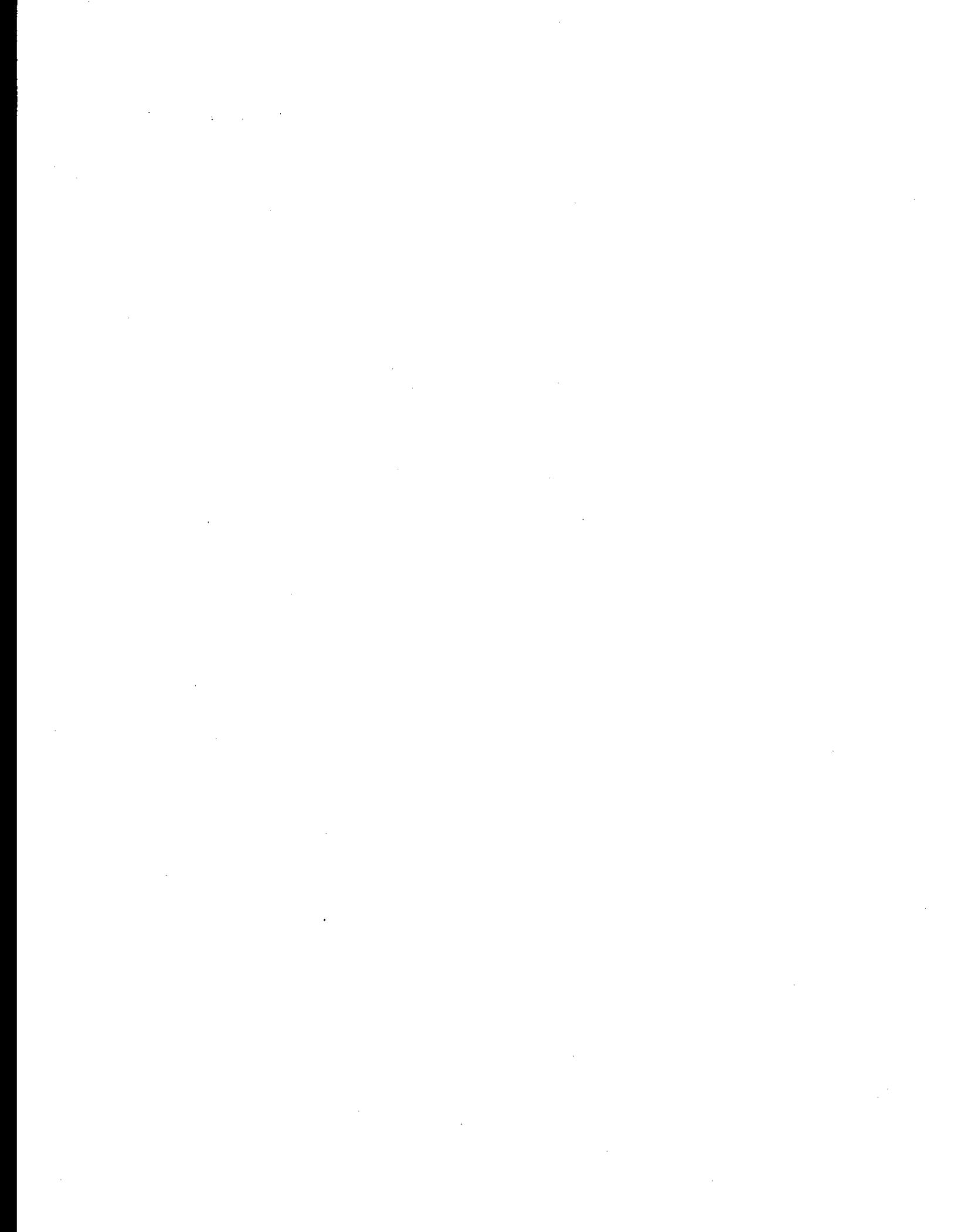


EXHIBIT 4  
DATE 2.17.05  
HR 667



## THE UNINSURED IN MONTANA – A GROWING PROBLEM

(Data from the 2003 Final Report of the Household Survey and Employer Survey Findings about Health Insurance Coverage in Montana):

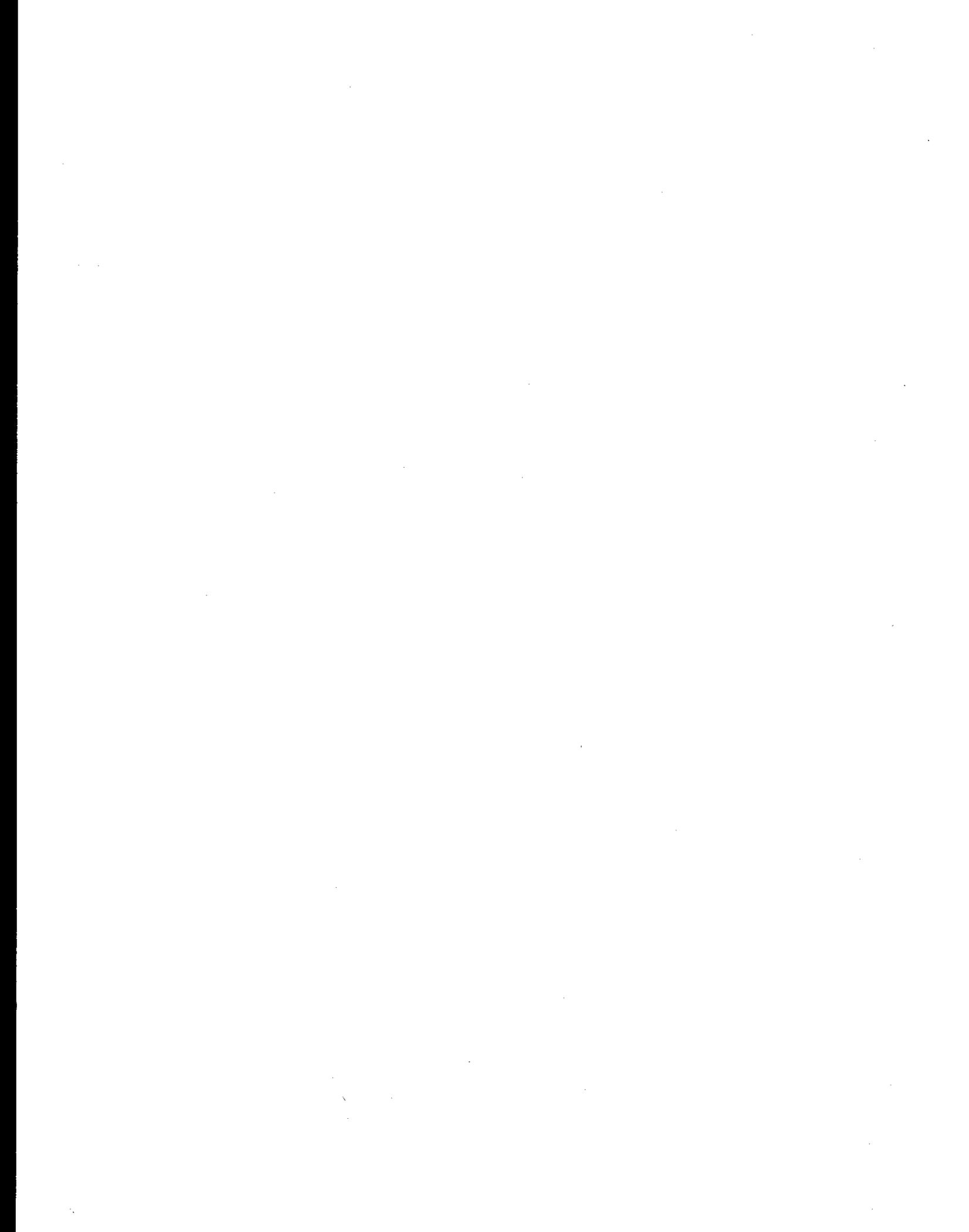
- Nineteen percent of Montana's population is without health insurance.
- Fifty-six percent of Montana's uninsured are employed in permanent jobs, with firm of 10 or fewer employers
- Employer-based insurance covers 58 percent of Montanans under 65 years of age compared to a national rate of 67 percent
- Fifty-nine percent of Montana firms with 10 or fewer employees do not offer health insurance. Industries included are agriculture, construction, retail and repair businesses.
- For 81 percent of Montana firms not offering health insurance, high premiums are cited as the major reason why they do not offer insurance.
- Montanans indicated they used to have health insurance on the job but it was dropped when coverage became too expensive to their employer.
- Twenty-eight percent of employers cited high premium costs as the major reason why employees did not use the health insurance coverage offered
- Ninety percent of the uninsured reported being unable to buy health insurance after paying for food, clothing, and shelter.

## A COMMON SENSE SOLUTION FOR MONTANA FAMILIES

A majority of the uninsured in Montana work for small businesses with ten or fewer employees. These small businesses provide jobs, goods, and a sense of pride to towns across the state. However, due to skyrocketing health care costs, insurance premiums are increasing at near double-digit rates annually. Small business owners struggle to provide health insurance for their family let alone their employees. These business owners would like to offer health insurance, and are enthused at ideas that would make providing insurance more affordable to both the business and the employees themselves.

- Sixty-seven percent of firms not offering insurance thought they would provide insurance under a tax credit policy.
- Ninety percent of firms not offering insurance were interested in learning more about a purchasing pool or actually joining it, if premiums were reasonable.
- More than 40 percent of firms not offering insurance indicated they would 'absolutely' participate in a small business purchasing pool.

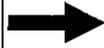
To ensure that hard working Montanans and their families have the health insurance they need, and that small businesses in Montana do not suffer from the rising costs of health insurance, a common sense solution is needed. Tax credits to small businesses and the creation of a small business pool will lower costs to both employers and employees, and ensure that hard working Montanans and their families have the coverage they deserve.



# Small Business Healthcare Affordability Act

**I-149 Special Revenue Account**

- ~ \$11.5 Million
- For Employer Groups of 2-9



**Administered by State Auditor's Office**

<b><u>40%</u></b> ~ \$4.6 M for Insured	<b><u>60%</u></b> ~ \$6.9 M for Uninsured
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**Refundable Tax Credits**

- Eligible businesses register with SAO
- Collect credit when tax return processed



**General Fund**

- SAO will reimburse general fund for tax credits paid by DOR



**Existing Small Group Association Plans**

- Up to 30% of premium payments may be used by eligible businesses here



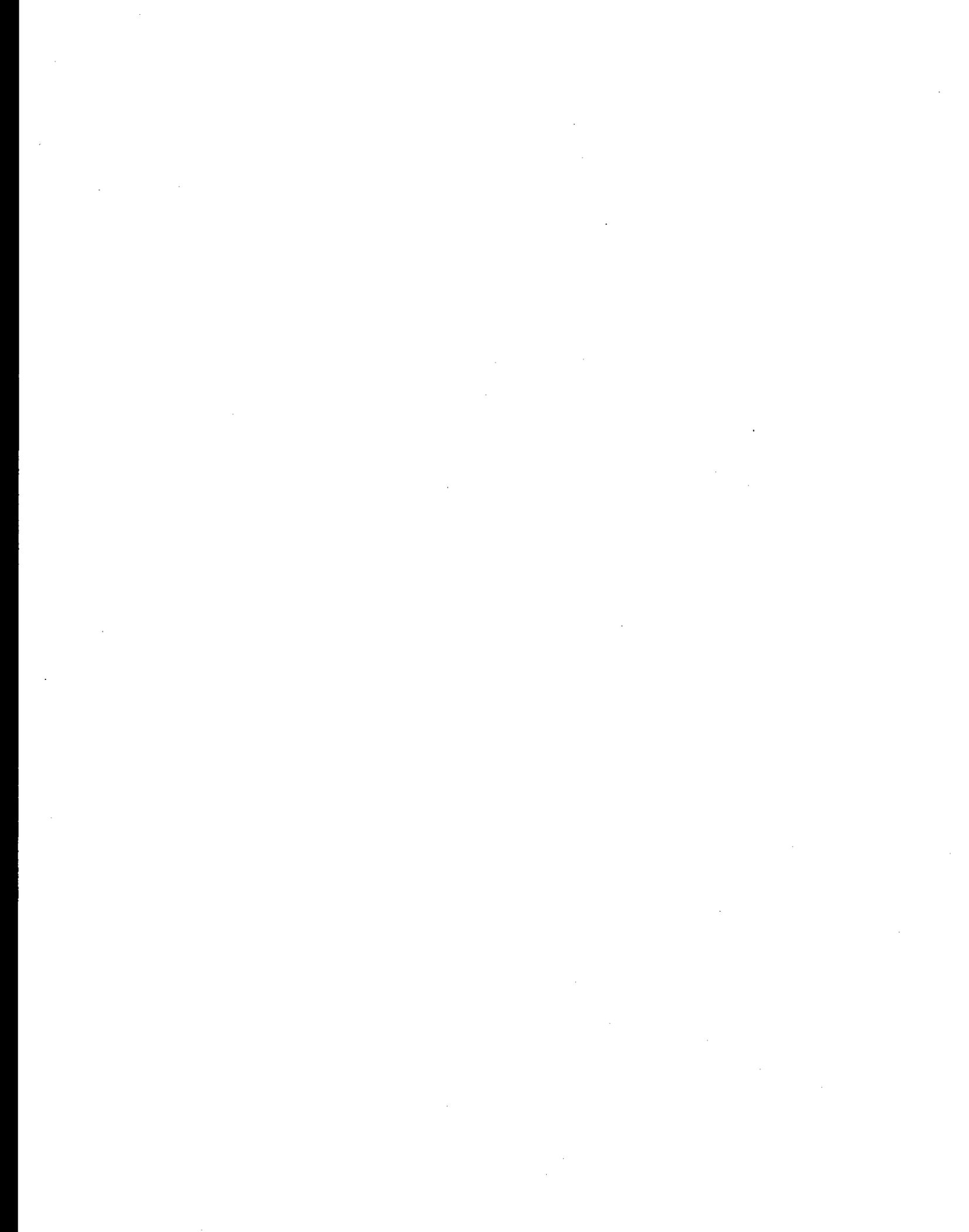
**Small Business Health Insurance Purchasing Pool**

- + Premium incentive payment → employers
- + Premium assistance payment → employees
- + Up to 2 insurers, 4 plans
- + Employers sent one monthly check

**= Lower Premiums!**



Montana State Auditor  
**John Morrison**





## Small Business Health Insurance Affordability Act

### *Increasing Access to Affordable Health Insurance for Montanans*

### The Challenge:

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.<sup>1</sup> 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.

In this proposal, tax credits will be offered to small businesses that are currently providing health insurance to their employees, *and* premium incentive/assistance payments will be available to small businesses currently without coverage. National health policy experts have helped create a plan to combine the premium payments for small businesses that cannot afford coverage with a purchasing pool. The pool will increase the purchasing power of the premium payments by negotiating lower-priced health plans through group purchasing.

### Revenue Source:

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

### Funding Options and Coverage Estimates:

Year 1 (2006)–Minimal Leveraging of Federal Funds<sup>ii</sup>

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 Incentive & Assistance Payments/Purchasing Pool (For Uninsured Small Businesses):**

- Sixty percent of the available revenue appropriated through this legislation will be available for businesses without coverage. The Premium Payments will be split between the employer and employee share of the monthly premium. The Premium Incentive Payment will be applied to the employer portion and the Premium Assistance Payment will be applied to the employee portion.
- Small businesses will be eligible for monthly premium payments on a first come, first served basis until available funding is allocated for the year. Businesses will apply to register for eligibility to receive the payments. To use the payments, the small business must join the pool, or a qualified small group association health plan. Revenue available for small businesses eligible for association health plans will be capped to 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 State Auditor will establish by rule the size of the employer groups that will be eligible to receive the premium payments. However, the group size must not be less than two or more than nine.
- The amount of the credit for firms in the purchasing pool will be set by the purchasing pool Governing Board, whose members will be appointed by the Governor's and Auditor's office. Ideally, the amount of the premium assistance payments to employees will vary by income and family size in order to cover as many Montanans as possible, but the amount of the employer incentive payment will be the same for all employers participating in the pool.

## **Draft Components of Refundable Tax Credits/Existing Small Group Market (For Currently Insured Small Businesses):**

- Small businesses with coverage (40% of credits) may apply for eligibility for a tax credit that is refundable to small business owners. After eligibility is determined, credits will be distributed on a first come first served basis. Coverage for this group will continue to be purchased in the existing market. Businesses would receive the credit when they file their tax returns.
- 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. Employers and employees will be responsible for a portion of the insurance premium.
- There will be an income limit in order to receive both the tax credit and the monthly premium payments. If any employee (NOT employer) of a small group earns over \$75,000/year, they will not be eligible for the tax credits/premium payments. This will apply to both uninsured and insured groups.
- The State Auditor will establish by rule the size of the employer groups that will be eligible to receive the credit. However, the group size must not be less than two or more than nine.
- Each small business (those within and outside the pool) will re-apply for the premium credits annually. Preference will be given to previously enrolled businesses.

## **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 for the pool. The composition of the 7-member board will include small business owners, consumers, insurance risk and actuarial experts, and representatives from the Governor and Auditor's office.

<sup>1</sup> Montana Strategic Plan to Provide More Affordable Health Care Coverage, Montana Dept. of Public Health and Human Services, August 2004

<sup>2</sup> 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.

## Timeline for HB667

### July 2005 – October 2005

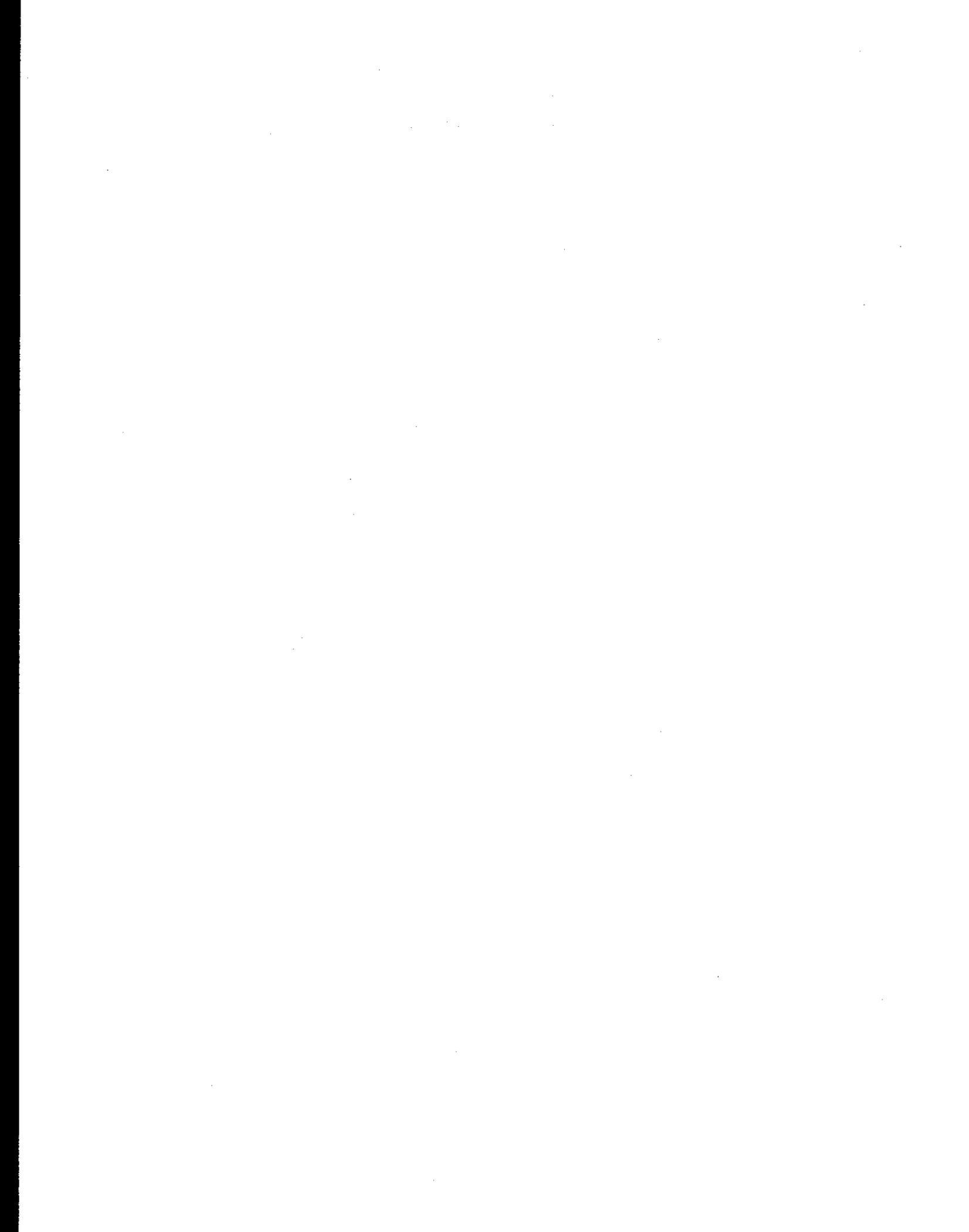
- Bill becomes law.
- New FTE's hired.
- SAO begins and completes rulemaking process.
- SAO develops registration forms and procedures.
- SAO develops process/rules for approving qualified association plans.
- Commissioner and the Governor appoint board members for the purchasing pool board.
- Pool board begins to meet and develop a plan of operation, including the schedule of premium assistance payments and amount of employer premium incentive payments.
- Pool board develops RFP's to begin search for insurer(s) for the pool and decide on the parameters of the benefit packages to be offered to eligible small employers.
- Pool board develops procedures and forms for applying for the premium assistance/incentive payments.
- Pool board establishes system for paying purchasing pool insurance premiums by coordinating employer/employee share with premium incentive/assistance payments.
- Pool board develops a plan for marketing purchasing pool coverage to eligible small employers.

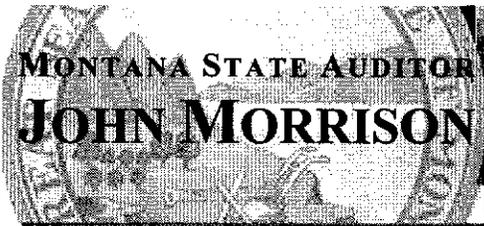
### October 2005 – January 2006

- SAO begins accepting and processing registration applications for tax credits and premium incentive/assistance payments from eligible small employers.
- Pool board finalizes pool coverage options and insurer contracts.
- Pool board begins accepting application for pool coverage and for premium incentive/assistance payments from registered small employers.
- Pool board begins accepting applications for premium incentive/assistance payment for employers who wish to use qualified association health plan coverage.
- Purchasing pool coverage is issued effective January 1, 2006.

### October 2006

- SAO begins accepting renewal applications for tax credits and premium incentive/assistance payments.
- SAO transmits the list of small employers who are eligible to claim the tax credit on taxes filed for the 2006 tax year to the DOR.





Protecting Montana's consumers through insurance and securities regulation

## Successful Small Business Insurance Pools in Other States

### **California – PacAdvantage:**

PacAdvantage is a non-profit purchasing pool offering health insurance plans to small businesses in California with two to fifty employees. Formerly known as the Health Insurance Plan of California, PacAdvantage was created in 1992. No state funding was provided, although a loan of 5.5 million was offered from the state high-risk pool program. Revenues to repay the loan and the operation of the purchasing pool are generated from administration charges paid by participating employers in the program. Pacific Business Group on Health (PBGH) took over the pool from the state of California in 1999.

The purchasing power of thousands of businesses allows the pool to share risks and negotiate competitive prices for small business owners by leveraging the purchasing power of employers across the state. It also allows businesses to offer their employees products at affordable rates. The result is that small businesses can receive insurance options formerly reserved for large corporations.

Presently, PacAdvantage offers an array of plans and providers and is a great vehicle that encourages small businesses to provide health coverage to their employees. PacAdvantage now includes over 11,000 small businesses, covering 147,000 employees and dependents.

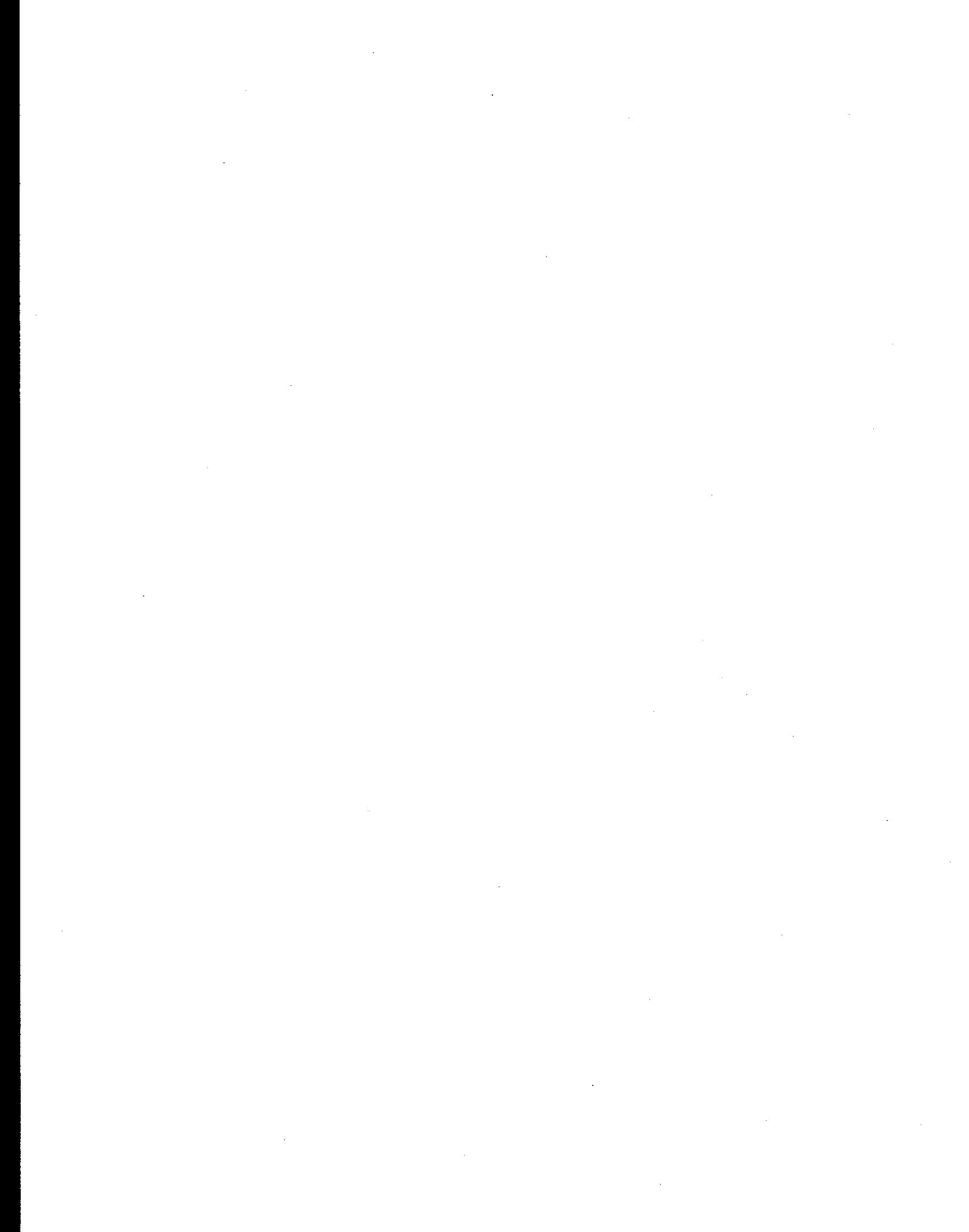
### **New Mexico - Health Insurance Alliance:**

The alliance is a private nonprofit corporation with the goal of increasing access to health insurance among small businesses. Created in 1994 by the state legislature, this organization became permanent in 2001. The alliance is made up of independent health insurers who have agreed to offer health plans to companies with 50 employees or fewer, including the self-employed. The alliance is a third party administrator for these health insurance plans, and fulfills the critical need of providing insurance to small employers who otherwise cannot afford it.

Today, there are 4,000 lives enrolled in the alliance. These members come from a variety of industries and income levels and have the opportunity to choose from three types of health insurance plans. Some industries represented include; retail, legal, financial, nonprofits, and other service organizations.

New Mexico has seen an increase in small employers offering health insurance since the implementation of the New Mexico Health Alliance in 1994. In total, the amount of firms offering health insurance has risen from 51% to 58% between 1993 and 2000. Since most large firms already are able to buy health insurance, most of this increase comes from small employers. This is especially true among the smallest employers. Between 1993 and 2000, employers with fewer than 5 employees offering insurance rose from 31 to 44%. Further common industries that have firms with a small number of employees, such as agriculture and retail, witnessed increases in insurance. Agricultural firms offering insurance rose from 38% to 44% and retail business increased from 41 to 48%.

(Data from "Employment-based Health Insurance in New Mexico" by the Bureau and Economic Research, University of New Mexico.)



**Section 9-Penalties**

Penalties for those who knowingly violate the ~~terms~~ statute in order to receive tax credit or premium payment, and giving the Commissioner the authority to impose penalties.

**Section 10-Option of seeking 1115 Medicaid Waivers**

-Legislative intent for the board to work with DPHHS and consider the option of a section 1115 Medicaid waiver, which could provide federal matching dollars for a portion of the premium payments.

-DPHHS will prepare a report on waiver options for the board's consideration.

-If requested by the board, DPHHS may seek a waiver.

-If it is decided to apply for a waiver, the Commissioner and the Board shall provide any necessary information regarding pool participants to DPHHS.

**Sections 11-16-Existing state tax code, with minor revisions to accommodate refundable tax credits.**

**Section 17-Existing state code relating to theft.**

**Section 18 – Initiative I-149 Special Revenue Fund-code revisions to incorporate HB667.**

**Section 19 – Codification Instruction**

**Section 20 – Effective July 1, 2005**

**Section 21 – Applies for tax years after 2005**

