Premium Assistance:
The Privatization of Medicaid

In August 2001, the federal government moved to make it significantly easier for states to enroll low-income families in employer-sponsored health insurance through a new policy for waiving federal Medicaid and SCHIP rules. Under the terms of the new waiver policy, states are encouraged to purchase private health insurance for Medicaid and SCHIP enrollees without regard to how much that coverage costs, what benefits it provides, and what financial burden it places on beneficiaries. The new policy enables states to shift the burden of paying for health care to enrollees, and it allows states to escape the minimum benefit requirements of Medicaid and SCHIP for these enrollees. This new policy poses a significant danger to beneficiaries, who may need services that are not covered by the insurance plan in which they are enrolled or who may have to pay unaffordable cost-sharing amounts.

What Are Premium Assistance Programs?

Under a premium assistance program, a state purchases private health insurance for Medicaid-eligible and SCHIP-eligible individuals and families instead of enrolling them in the regular Medicaid or SCHIP program. Although premium assistance programs are permitted under current federal law,[1] federal rules require that the private insurance:

1) be cost-effective for the state to purchase;
2) provide benefits equivalent to Medicaid or SCHIP; and
3) protect beneficiaries from incurring more out-of-pocket costs than are allowed in Medicaid and SCHIP.

States may apply for a Section 1115 waiver to exempt them from some or all of these requirements.[2] Furthermore, the Bush Administration wants states to increase their private purchasing of health insurance for Medicaid and SCHIP beneficiaries. To this end, the Administration's Health Insurance Flexibility and Accountability (HIFA) Wavier Initiative requires states that seek a HIFA waiver to include a premium assistance component in their plan; it also exempts states from key consumer protections. As described below, these exemptions will mean that states can save money by providing less coverage to individuals who are enrolled in premium assistance programs and by charging more to participate in them.

What Is the New Policy for Premium Assistance Programs?

The HIFA Initiative requires states to include "private health insurance options" in new Section 1115 waiver applications that propose to expand coverage in Medicaid and SCHIP.[3] Generally, this is defined as a premium assistance program.

To promote its emphasis on subsidizing private health insurance coverage, the Administration's HIFA Initiative has significantly eased the requirement that premium assistance programs only pur-

chase private health coverage for beneficiaries where it is cost-effective to do so. This requirement had limited states to subsidizing private coverage only in cases where such coverage cost less than enrolling the individual or family in the state's Medicaid or SCHIP delivery system. The new policy suggests—but does not require—that states monitor the aggregate cost of premium assistance programs to ensure that they are "not significantly higher" than the cost of direct services for Medicaid and SCHIP enrollees.

The new policy not only eases the cost-effectiveness requirement, but it also removes important protections for individuals whom the state enrolls in private health coverage.

- There is no minimum standard benefits package for private health insurance coverage in which the state enrolls an eligible individual or family. Therefore, families may not be able to get services that would be covered if they were enrolled directly in Medicaid or SCHIP.
- Existing limits on cost-sharing that states can charge Medicaid or SCHIP-eligible adults are eliminated. As a result, families may be liable for a host of out-of-pocket costs that they would not face if enrolled in the state's regular Medicaid or SCHIP program.
- Families enrolled in premium assistance may not have access to the consumer protections regarding grievances and appeals that are in Medicaid regulations. Rather, these families may be subject to a grievance and appeals process designed for private insurers in the state (this is already true for SCHIP-eligible families enrolled in premium assistance programs).

What Does the New Premium Assistance Policy Mean for Beneficiaries?

Premium assistance programs have serious implications for Medicaid and SCHIP beneficiaries. Many uninsured people work for small businesses, and health insurance plans offered by small employers tend to be less generous than those offered by larger employers: They have higher average cost-sharing for employees and are somewhat less likely to offer key benefits such as mental health services.[4] Further, a recent study found that uninsured workers who decline offers of health insurance coverage from their employers are more likely to have health problems than those who take up offers of coverage.[5] Therefore, premium assistance programs are likely to provide fewer services—at a higher cost—to individuals who have greater need of health care services.

Administration's Policy Allows States to Provide Vouchers for Health Insurance Coverage

Illinois received a HIFA waiver that will expand coverage of parents in the state's SCHIP program, Illinois KidCare, if they have incomes up to 185 percent of poverty. The program includes a premium assistance component that provides a voucher of $75 per person towards the cost of purchasing private health insurance for families eligible for Medicaid or SCHIP in lieu of enrollment in the regular Medicaid or SCHIP program. The state will not provide any wrap-around coverage for benefits the private plans do not cover, and families will be responsible for any out-of-pocket costs associated with the plan beyond the subsidy. Families may choose whether to participate in the premium assistance program or to enroll directly in the KidCare program. They may also switch plans at any time. It will be up to the state, however, to ensure that the "choice" made by families is a real, informed choice about the benefits of Medicaid or SCHIP compared to the employer-sponsored coverage they have available to them.

- **Beneficiaries enrolled in premium assistance programs may lose access to services**.
  - Under the Administration's new waiver policy, states need not provide wrap-around coverage for either 1) services that their private health plan does not cover but that Medicaid or SCHIP does or 2) services that the family has exhausted under their private health plan's coverage. Because these families are otherwise eligible for Medicaid or SCHIP, enrollment in premium assistance without wrap-around services causes families to lose access to services they are currently guaranteed. For example, children would not get EPSDT, and women may lose coverage of family planning services.
  - Beneficiaries enrolled in premium assistance programs may not be able to afford deductibles, copayments, or coinsurance that are a part of most private health insurance plans. Research has shown that out-of-pocket costs for health care reduce low-income people's ability to get health care they need, even if they have health insurance coverage.[6]
- **Beneficiaries required to participate in premium assistance programs may lose health coverage.**

  Under the Administration's new waiver policy, there is no limit on out-of-pocket costs for families enrolled in premium assistance programs. A state may opt to provide a voucher for the purchase of employer coverage that is unrelated to the actual cost of coverage, leaving the beneficiary to pay any remainder of the employee's share of the premium. If a state requires that families with access to employer-sponsored health insurance enroll in it instead of the state's Medicaid or SCHIP plan, families that cannot pay whatever remains of the premium after the state's contribution and the employer's contribution may lose coverage. This risk may grow for families over time as private health care premiums rise and employers pass on increases to employees.

Will Premium Assistance Programs Replace Regular Medicaid and SCHIP?

New Mexico received a waiver to use SCHIP funds that the state is not currently spending on children to establish a health insurance purchasing pool. Employers with workers who are uninsured and who have family incomes below 200 percent of poverty will be eligible to participate. The state will contract with managed care organizations to provide a health plan that offers fewer benefits than a standard commercial health plan in New Mexico. The state will subsidize the premium for both employers and employees. Employers will pay $75 per covered employee per month, and employees will have no premium if their income is below the poverty level, $20 per month if their income is between 100 and 150 percent of poverty, and $35 per month if their income is between 150 and 200 percent of poverty. All other out-of-pocket costs will be borne by the beneficiaries. If an employer does not participate, its employees would have to pay both the employee share and the $75 employer share in order to get coverage. There is no concurrent Medicaid or SCHIP expansion.

- **Beneficiaries enrolled in premium assistance may lose access to Medicaid grievance and appeals processes.**

  It is unclear whether states will be required to provide people enrolled in premium assistance programs the same rights as other Medicaid and SCHIP beneficiaries, or if they will be subject instead to whatever grievance and appeal process applies to the health plan in which they are enrolled.

Answering the Proponents of Premium Assistance

States cite a number of rationales for their interest in premium assistance programs: reducing spending in Medicaid and/or SCHIP; supporting employer-sponsored health coverage and helping to prevent crowd-out of private health coverage; increasing family coverage by allowing parents and children to be enrolled in the same program; and increasing families' connection to employer-based insurance. However, none of these outcomes has been proven conclusively through research.

No Evidence that Premium Assistance Increases Employer-Sponsored Coverage

Premium assistance programs, when defined narrowly, provide a subsidy toward the purchase of employer-sponsored insurance. Some believe that helping low-income workers purchase employer coverage will make employers more likely to offer this coverage. However, employers are generally reluctant to participate in premium assistance programs if it means additional paperwork for them, and the lack of employer participation has posed a barrier to the implementation of premium assistance programs in some states.[7]

Although some groups have argued strongly that premium assistance programs can help support employer-sponsored insurance, others are concerned that employers instead will be tempted to reduce their contribution to employee's health coverage if they know that states are also contributing. Indeed, CMS has required state premium assistance programs operated through SCHIP to have additional crowd-out protections, in part because the agency feared that state subsidies of private coverage could cause employers to either reduce or eliminate their contribution to dependent coverage.[8] Although CMS has reduced requirements that states employ anti-crowd-out measures for children and families enrolled in a regular SCHIP program, the agency continues to require that children and families who participate in a premium assistance program under SCHIP have been uninsured for at least six months prior to enrollment in order to prevent crowd-out. In addition, the SCHIP regulations require states to set a minimum employer-contribution level for premium assistance plans and to monitor the level of employer contributions over time to ensure that employers are not cutting back.

Lack of Employer Participation Hurts Enrollment in Premium Assistance Programs

Wisconsin's Health Insurance Premium Payment (HIPP) program is one of the oldest active premium assistance programs and is often held up as a model for other states. Despite its mature status and the high level of private insurance penetration in the state, HIPP has had significant difficulty enrolling families who appear to be eligible for the program. Although there are other programmatic issues that have affected HIPP eligibility and enrollment, one significant factor is lack of employer interest in providing information about their employees and their health insurance plans. By October 2001, the program had sent 93,000 verification forms to the employers of BadgerCare applicants. The forms are designed to confirm that applicants have an offer of employer-sponsored coverage and to get information about the employerís health plan. Only 64,100 forms (69%) were returned to the state agency. By the time the forms were returned and processed, only 48,000 applicants (52%) still worked for the same employer.[9]

When defined more broadly, premium assistance programs may be used to encourage more employers to offer health insurance benefits to their employees. However, the evidence suggests that a very high subsidy would be needed in order to increase coverage by even a small amount. One recent study found that a 30 percent premium subsidy program for small employers (fewer than 50 workers) would increase the number of employees with health coverage by about 3 percent.[10]

No Evidence that It Increases Connections to Employer-Based Coverage

Proponents of premium assistance programs also argue that subsidizing private, employer-sponsored insurance will help to cement low-income workers' connection to employer-based insurance coverage. They often suggest that people prefer private insurance coverage to Medicaid and SCHIP. However, a recent survey of families that enrolled their children in private health insurance coverage after leaving SCHIP found that many families preferred SCHIP to private health insurance coverage because SCHIP offered more comprehensive coverage for a better price.[11]

Another shortcoming of attempting to expand coverage by subsidizing employer-sponsored insurance is that most uninsured, low-income workers are not offered coverage by their employers. The vast majority of low-income workers who *are* offered health insurance coverage by their employers already take those offers (70 percent of those with incomes below 100 percent of poverty and 82 percent of those with incomes between 100 and 200 percent of poverty).[12] Among uninsured workers, 59 percent are not offered insurance by their employers, 21 percent are not eligible for their employers' health insurance coverage, and 20 percent decline the offer of coverage. Low-wage workers are often ineligible for their employer's health plan because they change jobs with some frequency.

Not the Only Way to Streamline Family Coverage

Another rationale for premium assistance has been that it enables parents and children to be covered in the same insurance plan. Family-based coverage is a good way to increase enrollment and continuity of care, and it is simpler for families to have only one insurance system to navigate. However, premium assistance is not the only way to achieve these goals. Since 1996, states have had the authority to expand family-based eligibility for Medicaid without a waiver from the federal government; since July 2000, states have been able to expand SCHIP coverage to parents by applying for a Section 1115 waiver. In addition, the new premium assistance policy was issued as a component of the Administration's HIFA initiative, which encourages states to expand coverage of Medicaid and SCHIP to low-income adults. Covering adults in Medicaid or SCHIP, wherever their children are enrolled, would also accomplish the goal of streamlining family-based health coverage.

Will States Save Money?

Generally speaking, some state officials have viewed premium assistance programs as a way to save money by incorporating private, employer funds in health coverage. However, by moving to premium assistance programs, states may run the risk of losing control over certain cost-control mechanisms in Medicaid and subjecting themselves to fluctuations in the cost of coverage in the private market. As health care costs continue to increase, employers are beginning to pass on health insurance cost increases to their employees through increased premium share and reduced benefits.[13] As the employer health insurance market continues to deteriorate, states that are subsidizing health insurance for employees may find that their costs for premiums and any wrap-around coverage they provide are getting higher—and may be more expensive than directly providing coverage to a group of parents and children who are generally healthy. In addition, it is possible that funneling beneficiaries into premium assistance programs could erode the purchasing power of state Medicaid and SCHIP programs if it leads to declines in the number of people receiving services through those programs.

In fact, if saving money is the goal of a premium assistance program, the best way for a state to ensure that it will save money is to develop a voucher system, as the state of Illinois has done (see box on page 2), and to make participation in the program mandatory for some portion of the people who are currently covered directly in the state's Medicaid or SCHIP program. While the state is then assured of cost savings, beneficiaries may very well end up uninsured or without access to health care they would otherwise have had.

What Should Advocates Do?

If it is impossible to avoid a premium assistance program in your state, there are policies that advocates can urge states to include in the design of the program.

- ***Make participation optional.*** Urge your state to allow beneficiaries to choose whether to be enrolled in the regular Medicaid or SCHIP program (depending on their eligibility).
- ***Provide wrap-around coverage for cost-sharing.*** Medicaid- and SCHIP-eligible beneficiaries enrolled in premium assistance programs should not incur more out-of-pocket costs than beneficiaries enrolled in regular Medicaid and SCHIP programs. (See "Cost-Sharing" in this kit for an additional discussion of how cost-sharing constitutes a barrier to health care for low-income people.)
- ***Provide wrap-around benefits for premium assistance participants.*** In Medicaid, there is no requirement that individuals be uninsured to qualify. That means that beneficiaries can have both private health insurance coverage and Medicaid—in that case, Medicaid acts as the "payor of last resort." The private insurer is billed first for services, and Medicaid picks up the cost of services that are not covered by the private insurance plan. In most states, this is known as the Third Party Liability system. This ensures that beneficiaries get the benefits to which they are entitled, even if they are enrolled in an employer-sponsored health insurance plan.

- ***Establish a minimum benefit standard for employer-sponsored plans.*** Only plans that provide comprehensive care should be subsidized with Medicaid and/or SCHIP funds. If your state does not provide wrap-around services for premium-assistance enrollees, then it is very important that the insurance plan in which beneficiaries are enrolled provides a comprehensive package of benefits. Because families eligible for Medicaid or SCHIP have little disposable income, they will have very little ability to get any health care services that are not covered by the insurance plan.
- ***Continue coverage of the Medicaid/SCHIP grievance and appeals process.*** Enrollees in Medicaid and SCHIP should be entitled to the same grievance and appeals process whether they receive services in the regular Medicaid or SCHIP program or a private health insurance plan. Grievance and appeals processes designed for private health insurance plans in most states are not designed to meet the needs of low-income people. For example, eligibility and enrollment issues are not addressed by grievance and appeal processes for private insurance plans. Furthermore, in some states, people must pay a fee to file an external appeal for a denial of services.

Given appropriate protections for beneficiaries, premium assistance programs can be operated in a way that is not harmful. However, the Administration's new policy allows states to eliminate those very protections. In addition, it is unclear whether states will actually save money by operating premium assistance programs. In a time of fiscal pressure on state Medicaid and SCHIP programs, premium assistance programs are not the best use of limited administrative resources.

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[1] 42 U.S.C. §1396e, 42 CFR §457.810

[2] See the discussion of Section 1115 waivers in "What Is at Risk in State Medicaid Programs?" in this kit.

[3] Health Insurance Flexibility and Accountability (HIFA) Demonstration Initiative, Centers for Medicare and Medicaid Services, available online at (http://www.hcfa.gov/medicaid/hifa/default.htm). Although the guidance indicates that the Administration "encourages" the inclusion of public-private partnerships in HIFA waivers, CMS staff have since indicated that this is a required feature of HIFA waivers. Presentation by Theresa Sachs at the National Eligibility Conference, Atlanta, GA, November 2001.

[4] GAO, Report to the Ranking Minority Member, Committee on Small Business and Entrepreneurship, U.S. Senate, *Private Health Insurance: Small Employers Continue to Face Challenges in Providing Coverage*, GAO-02-8 (Washington: U.S. General Accounting Office, October 2001).

[5] Linda Blumberg and Len M. Nichols, "The Health Status of Workers Who Decline Employer-Sponsored Insurance," *Health Affairs*, Vol. 20 no. 6 (November/December 2001):180-187.

[6] See "Cost-Sharing" in this kit.

[7] Rick Curtis, *Subsidy Payment Structure Alternatives (for Coordinating with Employer Coverage under CHIP)*, available online at (www.ihps.org/5-99Cur.htm), May 25, 1999.

[8] SCHIP Final Regulations, preamble to Section H, "Substitution of Coverage," available online at (http://www.hcfa.gov/regs/hcfa2006fc/2006fcg.pdf).

[9] Presentation by Linda Hall, Wisconsin Council on Children and Families, Health Action 2002 Conference, January 18, 2002, citing October 2001 data from the Wisconsin Department of Health and Family Services.

[10] James D. Reschovsky and Jack Hadley, *Employer Health Insurance Premium Subsidies Unlikely to Enhance Coverage Significantly*, Issue Brief No. 47 (Washington: Center for Studying Health System Change, December 2001). Available online at (www.hschange.org/CONTENT/393/).

[11] Bowen Garrett, Len M. Nichols, and Emily K. Greenman, *Workers Without Health Insurance: Who Are They and How Can Policy Reach Them?* (Battle Creek, MI: Community Voices, W.K. Kellogg Foundation, 2001).

[12] Trish Riley, Cynthia Pernice, Michael Perry, and Susan Kannel, *Why Eligible Children Lose or Leave SCHIP: Findings from a Comprehensive Study of Retention and Disenrollment* (Portland, ME: National Academy of State Health Policy, February 2002).

[13] Jon Gabel, Larry Levitt, Erin Holve, Jeremy Pickreign, Heidi Whitmore, Kelley Dhont, Samantha Hawkins, and Diane Rowland, "Job-Based Health Benefits in 2002: Some Important Trends," *Health Affairs* 21, no. 5 (September/October 2002):143-151.

1334 G Street, NW ▪ Washington, DC 20005 ▪ 202-628-3030 ▪ Fax 202-347-2417
Email: info@familiesusa.org ▪ Web site: www.familiesusa.org