EMPLOYER-SPONSORED HEALTH INSURANCE IN CALIFORNIA: CURRENT TRENDS, FUTURE OUTLOOK, AND COVERAGE EXPANSIONS

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The Insurance Coverage Problem in California

More than 22% of non-elderly Californians were uninsured in 1999 (6.8 million people), the fourth highest rate in the nation and far above the 17% of Americans under age 65 who were uninsured in that year. The vast majority of the uninsured in California are workers and their dependents (85%). Much of the uninsured problem in California stems from a lower rate of employment-based coverage in the state – 61% of Californians had coverage through an employer, compared to 68% nationally. According to the 2000 Kaiser/HRET survey of employers, the lower rate of employer coverage in California is due to fewer employers offering coverage (60% versus 67% nationally), not fewer workers signing up for coverage (88% of California workers eligible for employer-sponsored coverage accepted it, compared to 81% nationally).

Demographics are a key factor affecting California’s high uninsured rate. For example, 27% of workers in California are Hispanic, more than three times the proportion in the rest of the U.S. Compared to non-Hispanic white workers in California, Hispanic workers have very high rates of uninsurance (13% vs. 36%, respectively) and low rates of employer coverage (72% vs. 43%, respectively).

Californians are also poorer than Americans generally, with 44% having incomes less than 200% of poverty, compared to 36% nationally. Low-wage workers are much less likely than higher-wage employees to be offered employer coverage – in California only 58% of those earning $9.50 an hour or less were offered employment-based coverage in 1999, compared to 95% of workers who earned more than $19 per hour.

Strategies to Strengthen and Expand Employment-Based Coverage

Policymakers both nationally and in California have considered options for expanding coverage for the uninsured, both through tax credits to subsidize the purchase of private individual health insurance and by expanding public programs like...
Medicaid and the State Children’s Health Insurance Program (SCHIP) (California’s Medi-Cal and Healthy Families programs, respectively). California has sought approval from the federal government to expand Healthy Families and Medi-Cal to cover uninsured parents with incomes up to 200% of the poverty level.

However, less attention has been paid to policy options that seek to expand employer-based coverage. Though employer-based coverage has grown in recent years – increasing from 48% to 60% in California between 1999 and 2000 – it still covers a lower percentage of the population than a decade ago. Yet with 61% of non-elderly Californians already covered by employer plans, it may be worth considering ways of expanding employer coverage as a complement to other strategies, such as expanding Medi-Cal and Healthy Families to cover more low-income uninsured and encouraging those already eligible to enroll.

A number of small-scale local subsidy programs have been established to increase employer coverage. For example, the FOCUS (Financially Obtainable Coverage for Uninsured San Diegans) program in San Diego is a premium assistance program targeted to increase coverage among small businesses and low to moderate-income employees. FOCUS, a partnership between Sharp Health Plan and the Alliance Healthcare Foundation, began a two-year grant period in April 1999 with $1.2 million from the foundation, and recently received $400,000 from the California Endowment to expand enrollment. Eligibility extends to all San Diego small businesses with fewer than 50 workers that have not provided coverage in the last year, and to all full-time workers making less than 300% of poverty who have been uninsured for the past year. To purchase coverage through the program, employers make fixed contributions while employee contributions are based on an income-related sliding scale. The program is funded to cover more than 150 small businesses and 2,000 full-time workers, and as of August 2000, 1,766 employees and 232 businesses participated in the program.

Another small-scale local program designed to increase employer coverage is HealthChoice, in Wayne County, Michigan. HealthChoice is designed to provide affordable health care coverage to businesses in Wayne County with three or more employees. The county contracts with provider networks that are paid a monthly rate per subscriber, enrolls employees in the provider networks, and subsidizes one-third of the premium (the employer and employee are responsible for the remaining two-thirds). Enrollees are able to select one of five health care networks that contract with the HealthChoice program. To be eligible, employers must employ at least three employees who qualify for coverage; 50% or more of all employees and 50% or more of those employees qualifying for coverage must collectively have an average wage of $10 per hour or less; and employers must not have offered or contributed to health benefits in the last 12 months. Eligible employees must work at least an average of 20 hours per week and be uninsured and ineligible for any other health care benefits. HealthChoice has an annual budget of $16.8 million to subsidize premiums for 9,000 businesses and 20,000 employees, financed by a hospital indigent care pool that is funded by federal, state, and county dollars. The program began enrollment on May 1, 1994, and as of June 2000, there were 19,019 individuals from 1,977 businesses enrolled.

Combining Tax Credits and Public Program Expansions: The Approach in New York State

Reforms recently passed in New York State provide an example of a large-scale statewide effort to expand health insurance coverage through a combination of publicly-sponsored insurance and inducements to increase employer coverage.

The program – with funding from a 55 cents per pack cigarette tax increase – has two components: Family Health Plus is a Medicaid expansion for lower income, uninsured adults, covering parents up to 150% of poverty and childless adults up to 100% of poverty; and Healthy New York offers subsidized private insurance for small firms and uninsured workers. Working individuals and employees are eligible for Healthy New York if they have incomes up to 250% of poverty, so long as they work for an employer that has not offered insurance for the past 12 months. Eligible small firms must have 50 or fewer employees; have 30% of employees earning no more than $30,000; have not offered insurance in the past 12 months; and agree to pay at least 50% of health insurance premiums for all workers. The program began operating in January 2001.

Proposals to Expand Coverage in California

In addition to the ongoing effort to expand Healthy Families to cover parents with incomes up to 200% of the poverty level, there are a variety of proposals to expand coverage for the working uninsured in California.

Assembly Health Committee Chair Helen Thomson has introduced a bill (AB 39) that would subsidize the purchase of health insurance by small businesses. The amount of
the credit would be 50% of the total amount paid per month per eligible individual for health coverage provided by the employer during the year. To qualify for the credit, an eligible employer must pay at least 75% of the monthly premium for health coverage for an eligible covered individual and can employ no more than 15 employees.

Assembly Member Keith Richman has introduced a bill (AB 32) that would create a $1.8 billion program for the low-income uninsured to be administered by the Managed Risk Medical Insurance Board. Under the program, the Board would contract with health plans to provide a range of health care coverage options, including a standard uniform benefit package that would be available for purchase at subsidized rates by low-income people. Among other provisions, this bill would require health plans to offer the standard benefit package, which would be exempt from coverage mandates otherwise applicable; require plans to offer a catastrophic high deductible health plan; and require parents to demonstrate that their children are covered by a health plan at least equivalent to the standard benefit package.

Assembly Member Gil Cedillo has introduced a bill (AB 482) to establish the Healthy Californians Program, which would create a purchasing pool to provide health coverage to employees of small employers (2-50 employees) and their dependents. Under the program, premiums would be evenly shared by employers and employees, with the state contributing the employee share of the premium for families with incomes equal to or less than 250% of poverty.

Assembly Member Ellen Corbett has introduced AB 694, which would authorize an employer tax credit for health insurance payments for firms with no more than 25 employees. The amount of the credit would be equal to 20% of the amount paid during the taxable year for health coverage for eligible employees and their dependents, or 10% of the amount paid for health coverage for eligible employees only.

The Policy Challenges of Incremental Expansions

California policymakers could face a number of challenging policy design issues in expanding the level of employment-based coverage. These include:

Targeting: With limited public dollars, policymakers may seek to minimize the amount of assistance that is provided to those who are already insured (often referred to as “crowd out” or “substitution”). For example, the Healthy Families program has a “firewall,” requiring that an eligible individual be uninsured for a specified period of time before enrolling. However, these types of policies are difficult to enforce and raise equity issues (e.g., denying subsidies to certain individuals or employers because they have already chosen to purchase insurance). Since small and low-wage employers are least likely to offer health insurance today, subsidies could be targeted based on these characteristics to minimize the potential for publicly subsidizing firms that already provide coverage. Yet this type of targeting raises other issues (for example, potentially encouraging companies to reorganize or outsource business in order to become eligible for subsidies). Some have suggested using Healthy Families funds to subsidize the employee share of employer premiums for eligible families. This could help offset the incentive for insured workers to shift from employer-sponsored insurance to public coverage, but could also subsidize coverage for those who would have purchased it without the assistance of these public funds.

Affordability: To induce meaningful expansions in coverage among employers, subsidies would likely need to be substantial. In the late 1980s, a pilot study was undertaken in New York to evaluate whether small employers (less than 20 employees) who did not provide health insurance would offer such benefits after a 50% reduction in the price of health insurance. The subsidized health insurance products increased the number of small firms offering insurance by a small amount, approximately a 3.5 percentage point increase. Analysts suggested that the subsidy program was not very successful because the subsidies were modest and perceived by employers as temporary, a lesson to be taken into account by policymakers today. And, while employer coverage has increased recently, this trend may be reversed if the economic deceleration continues and health insurance premium increases continue to escalate.

Administrative complexity: While public programs like Medi-Cal and Healthy Families can be expanded using existing administrative systems, new subsidy programs would require the creation of new mechanisms for determining eligibility, delivering subsidies, and assuring coverage is available. Private purchasing arrangements like PacAdvantage (formerly known as the “HIPC”) could help simplify the process, as could options to “buy into” the Medi-Cal or Healthy Families programs. Policymakers may also need to consider the extent to which any program will place an administrative burden on employers by requiring the submission of detailed information about benefits or employee circumstances. As experience with existing public programs suggests, barriers to enrollment can lead to less than complete take-up of subsidies among eligible groups. Yet policymakers providing public subsidies may want assurances that certain minimum standards are met; for example, that employee contributions do not exceed a specified level and that benefits are adequate.
Additional Resources

- Alliance for Health Reform: www.allhealth.org
- California Chamber of Commerce: www.calchamber.com
- California Healthcare Foundation: www.chcf.org
- The Commonwealth Fund: www.cmwf.org
- Insure the Uninsured Project: www.work-and-health.org/itup
- Kaiser Family Foundation: www.kff.org
- Pacific Business Group on Health: www.pbgh.org
- UCLA Center for Health Policy Research: www.healthpolicy.ucla.edu
- United Hospital Fund: www.uhfnyc.org
- The Urban Institute: www.urban.org

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