



National Association of Health Underwriters

Strengthening SCHIP through Premium Assistance

Frequently Asked Questions

What is premium assistance and how does it work?

Many parents of children who are eligible for the State Children's Health Insurance Program (SCHIP) also have access to employer-sponsored health insurance coverage for themselves and their children. However many of these parents also cannot afford their portion of the dependent premiums, so they decline the employer-sponsored coverage for their kids. Some of these parents then enroll their children in SCHIP, but many do not and the children go uninsured. Under a premium assistance program, SCHIP works with the employer to subsidize the children's portion of the employer-sponsored health insurance premium, allowing the entire family to be covered together under the same private-market health plan.

Isn't premium assistance already allowed under current law?

The original SCHIP legislation did include an option for states to subsidize employer-based family coverage for eligible children if the coverage met certain requirements. Since 1990, states have also had the option of including premium assistance programs in Medicaid. But the current SCHIP rules are difficult for both states and employers to implement and follow, and they are also inconsistent with many of the Medicaid premium assistance rules. For example, the test used to determine whether or not subsidizing the private coverage is cost-effective or not is different for Medicaid and SCHIP, and the Medicaid test formula is actually much simpler and more accurate. Since the majority of states combine their Medicaid and SCHIP programs, these inconsistencies in and of themselves have created a barrier to implementation of premium assistance programs, to say nothing about the other administrative hurdles contained in the original SCHIP rules and legislation.

Due to the current obstacles, only nine states have attempted to implement SCHIP premium-assistance programs, and three states have implemented large-scale premium assistance programs that only apply to Medicaid recipients, not SCHIP. With the upcoming reauthorization of SCHIP, policymakers have the opportunity to strengthen SCHIP and improve the program's existing public/private partnership structure. Streamlining the premium assistance processes is one way states could cover more children in a more cost effective manner.

How would premium assistance programs save money?

Many employers willingly contribute toward their eligible employee dependent premiums. Under a premium assistance program, SCHIP funds would be used to simply subsidize the employee's share of the premium costs, and would take advantage of and leverage the employer contribution — money that is now often "left on the table."

Example: The national average cost to insure a child in SCHIP is \$100 per child per month. A single mother of three children who are SCHIP-eligible has access to private health insurance at work. The cost to insure her children through her employer is \$250 per month, but her employer will pay half of the cost. Rather than the SCHIP program paying \$300 per month to insure all three of her children publicly, the program could work with the employer plan and cover all of these children privately, on the same plan as their parent, for \$125 per month.

Even if the employer does not subsidize much or any of the health insurance premiums for eligible children, since private employer-sponsored health insurance policies generally cover all children in the family for one rate and SCHIP costs a set amount per each individual child, when there are multiple children in the family it is oftentimes more cost-effective to insure all of these children together, under an employer-sponsored plan.

Additional possible savings under the premium assistance model could be realized through reducing the costs associated with the assignment of insurable risk. Generally, children are a very healthy population, but unfortunately it is not uncommon for babies to be borne prematurely, nor is it uncommon for children these days to have chronic or catastrophic health problems that can be very expensive to treat. If these children are covered by an employer-sponsored plan, the associated costs are born by the private market rather than the public program.

What impact would premium assistance programs have on “crowd-out”?

One of the frequent concerns expressed about SCHIP is the “crowd-out” effect it can have on the private health insurance market. Crowd-out occurs when parents decline employer-sponsored coverage in favor of SCHIP coverage for their dependents. Improving each state’s ability to create effective premium assistance programs would do a great deal to mitigate the effects of crowd-out because it would help more parents afford private health insurance coverage for their children. As states and the federal government look at expanding the income eligibility levels for SCHIP, the premium assistance option becomes all that more important because as family incomes increase, so does the likelihood that the child will have access to qualified private insurance coverage.

What about the current SCHIP “crowd-out” waiting period?

When SCHIP was originally created 10 years ago, there was widespread agreement to put into the law a waiting period for SCHIP coverage if beneficiaries already had employer-sponsored coverage. This requirement was intended to prevent crowd-out and discourage employers from ceasing to offer coverage to dependents. But in the 10 years since SCHIP was created, experience seems to indicate that this requirement has hurt more than it has helped. There is little evidence of employers dropping their coverage in order to force dependents into SCHIP. But there is considerable evidence that individual employees are declining coverage for their children voluntarily because they cannot afford their share of the employer-sponsored premium. Oftentimes, their children then go uninsured until they can be enrolled in SCHIP, which is a situation that no one wants.

The SCHIP waiting period requirements are also inconsistent with Medicaid provisions that allow for children to receive subsidized coverage if they have employer-sponsored coverage. Since the majority of states combine their SCHIP programs with Medicaid in whole or in part, the inconsistency serves as a further obstacle to premium assistance.

Based on the crowd-out lessons we have learned over the past 10 years, NAHU recommends that the reauthorization legislation specify that income-eligible children who already have access to employer-sponsored coverage be immediately eligible for SCHIP premium assistance.

If a premium assistance program were implemented, could employers reduce their coverage for employees with SCHIP-eligible children?

Employer-provided health insurance is currently voluntary in all but one state, and no state or federal law requires that employers provide any subsidy for employee dependent health insurance premiums. However, for the millions of American employers who voluntarily provide their employees with health insurance benefits, rules promulgated under the Health Insurance Portability and Accountability Act of 1996 (HIPAA) already prohibit employers from treating employees with SCHIP-eligible dependents differently than other employees for health plan purposes. HIPAA's nondiscrimination rules in 29 CFR 2590.702 prohibit group health plans from denying eligibility for benefits or charging more for coverage based on a health factor. The regulation also establishes rules as to how group health plans are allowed to establish limitations and restrictions on the amount, level, extent or nature of benefits for similarly situated individuals. The following are general rules for determining the validity of a group of similarly situated individuals:

Group health plan participants may be grouped as similarly situated individuals based on a "bona fide employment-based classification consistent with the employer's usual business practice." Based on all the relevant facts and circumstances, the following may be bona fide employment-based classifications: full-time versus part-time status, different geographic locations, membership in a collective bargaining unit, date of hire, length of service, current versus former employee status and different occupations.

Thus, current law already prohibits employers from developing a class of employees such as "those whose children are S-CHIP eligible" and varying accordingly the amount that they contribute to those employees' health insurance premiums.

In addition, even if an employer were inclined to pursue discriminatory strategies for SCHIP eligible families, it would be extremely difficult to carry out in practice since employers do not have access to all of the information necessary to determine SCHIP eligibility of dependents. An employer would only know for sure the amount of its employee's salary. Other eligibility factors like assets, the other parent's income, child support amounts, and transportation costs would be unknown.

How would premium assistance programs ensure that children have access to adequate benefits?

The SCHIP and Medicaid programs offer beneficiaries comprehensive health coverage. The exact coverage specifications and cost-sharing requirements vary on a state-by-state basis, but generally these programs provide their beneficiaries with very rich benefit packages that can be hard to replicate in an employer-sponsored plan. One of the top concerns people have about SCHIP subsidization of employer-sponsored coverage is making sure that the eligible children receive comparable benefits.

First and foremost, it is important to note that there are pluses and minuses to both public and private coverage. While SCHIP and Medicaid offer participants a wide array of benefits, coverage is provided in most states through a strict gate-keeper managed care environment that has proven unpopular in the private insurance marketplace. In addition, since the public programs compensate providers at a lower rate, it can be hard for participants to find doctors who accept Medicaid and/or SCHIP. This access to providers issue can be particularly problematic when it comes to both specialty care and also beneficiaries living in rural or less densely populated areas. In contrast, while many employers might offer their employees less generous benefit packages compared to the public programs, the private coverage usually comes with a much wider array of participating providers and more direct access to specialty care.

That being said, there must be provisions in place to make sure that SCHIP premium assistance recipients receive adequate coverage. Current SCHIP premium subsidy rules do this by specifying that qualified employer plans must meet specified benchmark standards ensuring comprehensive coverage to beneficiaries. However, the current benchmark standards can be problematic because in most states they do not conform to private-market employer-sponsored plan designs. (In some states, for example, there aren't even fully insured products available for private employers to buy that would meet these standards.) Administratively, the benchmarks are also a challenge, since they must be implemented on a case-by-case basis with an annual review of every employer-sponsored health benefit plan that wishes to participate.

A simpler way to ensure that SCHIP premium subsidy recipients have access to the same level of benefits as traditional SCHIP beneficiaries would be for SCHIP to serve as a secondary payer to the primary employer-sponsored coverage, if necessary. SCHIP coverage would be used by eligible children merely to fill in any gaps in the employer-sponsored coverage, a method that has been used successfully and cost-effectively in the Medicaid program in many states. This secondary payment arrangement would be simple to administer on the insurer and employer side of the equation, since private health insurance is already set up to accommodate secondary payment arrangements. Notable case in point: Medicare serves as a secondary payer to private employer-sponsored coverage for millions of senior citizens.

In order to account for SCHIP as a potential secondary payer, the program could provide greater contributions to the employer premium based on the level of benefits the employer provides. This could be modeled on Utah's premium assistance program UPP,

which reimburses up to \$150 per adult and \$100 per child for employer health plan premiums and pays an addition \$20 per child if the employer provides eligible dental coverage.

How could administration and participation be made easier for states and employers?

One of the biggest problems with current SCHIP premium assistance program rules is that they make it difficult for employers to participate, and they make it hard for states to administer. From a state's perspective, administration of the premium assistance mechanism could be made much easier if:

- The test to determine if an employer-sponsored premium is cost-effective was the same for both Medicaid and SCHIP. The Medicaid test formula is actually much simpler for states, and more accurate.
- In addition to the cost-effectiveness test, other requirements, like the crowd-out waiting period, would be applied consistently for both Medicaid and SCHIP recipients, with the goal of simplifying the employer plan integration process for both federal programs. Many SCHIP premium-subsidy regulations are inconsistent with Medicaid rules on the same topics. This poses a significant challenge to states, because in the majority of states these programs are at least partially combined.
- Secondary payment arrangements were used to ensure that SCHIP premium assistance recipients have access to a full range of benefits, as opposed to state benchmark standards. Benchmarks must be applied to individual employer plans by the state on a labor-intensive, case-by-case basis, whereas secondary payment arrangements are routinely handled by private insurers.

With regard to employer coverage, SCHIP should make it as easy as possible for employers to participate. As such, state requirements that set minimum employer contribution amounts or percentages should be re-evaluated. Overly specific employer-participation requirements can hinder employer eligibility and can make the employer-review process overly burdensome for the states. It is also not necessary to ensure employer participation. The cost-effectiveness test, if properly applied, is sufficient to determine adequate employer contributions.

In addition, in order for employer premium-subsidy programs to work, employees have to know about them. Employers could be required to notify employees about Medicaid and SCHIP premium subsidy programs, similar to way that employers are required to notify eligible employees about Medicare Part D benefits.

A final challenge to SCHIP coordination with employer coverage is state-level reporting requirements. To calculate the cost-effectiveness test needed for employer premium subsidy programs, states need information about employer-sponsored plan designs, and current law prevents SCHIP from requiring employers to provide it. This barrier has hindered many states from taking up the idea of premium subsidies. Under current law, states can either ask employers to provide this information voluntarily (which many, but not all, do) or ask the parents of SCHIP beneficiaries to obtain/provide it (which is both

inefficient and also overly burdensome for parents). To make this process much more efficient for states and also easier for employers, employers participating in an SCHIP premium subsidy program could be required to directly provide their summary plan descriptions to the state upon request. Employers are required to make summary plan descriptions about their plans available to employees anyway, so providing a copy to the state upon request would not be overly burdensome.

How would children be enrolled in premium assistance?

One of the great advantages of a SCHIP premium assistance program is that, if structured correctly, it could make SCHIP enrollment for eligible families a much simpler process. Licensed health insurance producers, who are already helping millions of business owners purchase health insurance coverage and enrolling millions of Americans in various health plans, could provide outreach and enrollment assistance at virtually no cost to the SCHIP program. Producers could enroll families during their employer-sponsored health plan's annual open enrollment period, with the result of more families opting to take advantage of employer-sponsored coverage for their children, thereby helping to lower the number of uninsured kids. Furthermore, the administrative burden on low-income families would be lessened, as parents could enroll their children at work, and families could be covered together under the same health insurance plan.

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