



ADVANCING LIBERTY
WITH RESPONSIBILITY
BY PROMOTING
MARKET SOLUTIONS
FOR MISSOURI
PUBLIC POLICY



CASE STUDY

VOL. 1 · NO. 1

JUNE 3, 2007

FREE-MARKET HEALTH CARE REFORM IN MISSOURI: A PRIMER

By Beverly Gossage

A long-awaited free-market step on the path to cover those without health insurance came out of Jefferson City on Friday. Gov. Matt Blunt signed HB 818, making Missouri the first state to permit pretax contributions from small business owners to their employees' individually selected policies. Unlike other health care reform "solutions" that require more government intervention and bureaucracy — third-party or one-payer systems, employer mandates, tax hikes, and cost shifting — this law offers a common sense approach to health care reform.

The media has focused on a controversial midwife provision that was inserted into the bill at the last minute. But the real news here is the bill's revolutionary approach to health insurance reform — and the fact that the bill won such overwhelming bipartisan support in both chambers of the Legislature. There's a lot to be excited about in HB 818, so here's a primer you won't find in the press. The standard employer-based model for health insurance coverage leaves a remarkable number of people out. Nationwide, about 30 percent of workers in firms with fewer than 25

employees are uninsured, and 88 percent of Missouri businesses have fewer than 25 employees. Many small companies no longer offer group health insurance. According to a study by America's Health Insurance Plans (AHIP), only 42 percent of Missouri small businesses offer health insurance. These employers' reasons include: the hassle of selecting a plan each year; employer contribution and employee participation requirements; lack of retention among employees; and the high cost of group premiums. The uninsured mention affordability and portability as barriers to health insurance.

HB 818 addresses these concerns:

The annual insurance renewal hassle

Shopping to determine which single carrier's one or two plans (if any) an employer will offer each year to attempt to meet the needs of all employees is every small business owner's nightmare. Employers would generally rather run their companies than be in the health insurance business. Since employees under HB 818 are allowed to select their own

When health insurance is employer-based, a constantly transitional workforce will have a high percentage of temporarily uninsured workers.

individual plans, they can choose from a marketplace of carriers and plan designs for the one that best meets their personal preference. The employee becomes the consumer and purchaser of insurance; the employer merely contributes a defined amount. HB 818 also allows the employer to continue to offer a small group plan and contribute to employees' individual policies.

Employer contribution requirements

Most small group carriers require that the employer contribute at least 50 percent of the premium for the individual employee. Many employers would like to contribute to their employees' health insurance, but would like to have the flexibility to determine their contribution amount. By allowing a defined contribution, HB 818 gives employers this option. Business owners may discover that individual policies can be less expensive than group plans, so their contribution, even at 50 percent, may be less than it was with a group plan.

Lack of employee participation and small group participation requirements

Most small group carriers require that at least 50 percent of employees participate in a plan. Although part-time employees are not counted in this participation requirement, and are frequently left without coverage, small business owners have found it difficult to maintain this standard. Employers can now contribute to premiums without this constraint. Previously uninsured employees are more likely to purchase individual plans if their employers are picking up some of the cost and they can pay for it through pretax payroll deductions.

The retention and portability issue

Small business owners understand that in a global society, employees come and go. With each new hire and termination, group dynamics change and insurance premiums can be drastically affected, making it difficult to budget costs and meet participation requirements. When health insurance is employer-based, a constantly transitional workforce will have a high percentage of temporarily uninsured workers. The federal government reports that 45 percent of those without health insurance are uninsured for only six months or less. Portability is important in helping to cover this group, and most employees would rather keep their selected benefits when changing employers and have a consistent health plan.

HB 818 affects both issues by authorizing employees to plug their individual policies into their new employers' cafeteria plans, and permitting those new employers to contribute to the premiums. This is an easier transition for newly hired employees, often eliminating doctor and benefit changes, or a waiting period to access new health insurance. When employees are terminated, they take their plans with them — no need to offer state continuance or COBRA. Changing jobs or being terminated will not be a cause for panic about health insurance loss.

The affordability issue

One-size-fits-all small group health plans, with their accompanying mandates, are often more expensive than individual plans. According to the AHIP, last year in Missouri the average small group single employee premium was \$292,

and family rates averaged \$765. By contrast, the average premium was \$192 for an individual, \$332 for a family. The Council on Affordable Health Insurance (CAHI) reports that young “invincibles,” age 19 to 34, represent 56 percent of the uninsured. Their premiums can be especially inexpensive on an individual policy. For example, a 25-year-old healthy, nonsmoking male could have an individual policy with a premium as low as \$65, which includes a free annual physical. This is about the cost of an average monthly cell phone bill.

Competition

There are 18 million individual policies nationwide, and Humana expects that number to grow by 5 to 8 percent over the next five years. Other carriers known for being large group providers, such as Coventry and United, recognize this trend and have entered the individual market in recent years. This makes the rates even more competitive. Many carriers already offer convenient “list bill” options, which permit employers to payroll-deduct premiums for individual policies and pay one check or bank draft for all the employees who have policies with that carrier.

Family Discounts

With small group plans, often husband and wife are on separate plans with different employers, and the children may have individual policies. The family can be with as many as three different carriers. With HB 818, if both spouses work for small employers, the family can have one policy purchased independently and each spouse’s employer can contribute to the

premium. Families can stay together on the same plan. This is nice for several reasons: rates are often lower, because most carriers give a discount if the family is on one policy; there are fewer benefit rules and health cards to keep straight; and doctors can be chosen from one network. Health savings account plans are also growing in popularity, and because they have one family deductible, having the family together is a plus.

Tax incentives

As the popularity of individual plans has increased, the injustice of insurance taxes has become more pronounced. Until now, premiums were only tax-advantaged if purchased through an employer group plan. However, HB 818 permits funneling individual premiums through the Cafeteria 125, making the employee’s portion pretax. This equalizes the tax discrimination. Since the employer’s portion of the premium is also pretax, this will give an incentive for both employers and employees to contribute to health insurance, covering more uninsured. HB 818 also allows self-employed business owners a state tax credit for personal health premiums, since these cannot be funneled through the Cafeteria plan.

HSAs and Consumerism

When given free choice of an individual plan, many employees choose health savings accounts and the qualified health plans that accompany them, because the premiums are usually 35 percent to 40 percent lower than traditional plans. Employers and employees may both contribute to the health savings account, providing more

The Council on Affordable Health Insurance (CAHI) reports that young “invincibles,” age 19 to 34, represent 56 percent of the uninsured. Their premiums can be especially inexpensive on an individual policy.

tax advantages for both parties. These funds grow with interest, and employees may use them to pay health care expenses for the entire family — even save it for retirement, if not used. HB 818 also adds an HSA plan to the state risk pool and Missouri state employees' health benefit package. This provision will give a tax-advantaged, affordable option with a defined out-of-pocket expense for those who do not qualify for an individual plan from a private carrier, and for those who work for the state. This option exposes employees to the actual cost of their health care.

Employees with individual policies, particularly HSA plans, are not insulated from the true cost of the premiums, as well as the cost of care. They recognize that this is their portable plan, not the employer's plan. They are aware that their lifestyles affect premiums. This realization can affect unhealthy, sedentary choices.

For example, when told that his premium could be 30 percent lower if he was not a tobacco user, an individual said that was the incentive he needed to stop smoking. This self-ownership provides for more judicious utilization of insurance benefits, and promotes wellness.

HB 818's provisions allowing for small employer contributions to individual plans with pretax advantages can turn uninsured employees into insured consumers. This benefits all of Missouri.

Beverly Gossage is a consumer-based health care expert and research fellow with the Show-Me Institute, which sponsored Gossage's March 5 presentation to the Missouri Legislature on HSAs and free-market approaches to health insurance reform. HB 818 incorporates many of the ideas Gossage presented.



7777 BONHOMME AVENUE
SUITE 2150
SAINT LOUIS, MO 63105

WWW.SHOWMEINSTITUTE.ORG