

States see employers as key to serve uninsured

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Like the mythical fountain of youth, a new Massachusetts law seeks to provide restorative benefits to all residents come July 1. While not a myth, the law's ability to reform and retool the health-care system by providing universal health coverage has plenty of doubters and a lot to prove.

Pushed by the 45.8 million Americans who lack health insurance, squeezed by the precipitous rise in the cost of care and pulled by states' frustration with the lack of effective federal efforts, Massachusetts has become the first state to pass a law compelling health insurance by employers.

The centerpiece of this law is a requirement that residents over 18 obtain and maintain "creditable" group health-care coverage. It also requires businesses with 10 or more employees provide health insurance or pay a "fair share" contribution of up to \$295 annually per worker. The plan also creates the Commonwealth Health Insurance Connector that will link individuals with insurance products.

In North Carolina, the Senate is considering a far less imposing bill that would provide a \$200 credit for small businesses that offer health coverage to employees. The bill was proposed three years ago with a higher credit; the projected first-year cost to the state, \$20 million in lost tax revenue, led to its revision. As approved by the House, it's now expected to cost state coffers \$11 million during the first year of enactment.

Pressure on citizens, businesses

Specifically, Massachusetts residents will have to certify they have coverage on their state income-tax returns, and their certifications will be compared against a database of insurance coverage. The penalty for failing to have coverage will be the loss of the personal exemption for tax year 2007, which increases in later years to a portion of what an individual would have paid toward an affordable premium. The penalties won't apply to those who can't afford health insurance, as determined by a sliding affordability scale.

Employers with 10 or more full-time employees will pay two penalties if they don't offer a group plan or fail to make a "fair and reasonable contribution" to their plan. The first penalty is a maximum assessment of \$295 per employee. The second enables the state to assess a surcharge on the employer ranging from 10% to 100% of the cost of the free health-care coverage. The surcharge will be triggered if employees or their dependents incur at least \$50,000 in uncompensated care. In addition, each employer with more than 11 employees must adopt and maintain a cafeteria plan so workers can make pre-tax contributions to purchase health-care coverage.

In the face of a lack federal reform, the nation's \$1.4 trillion in annual health care spending has pushed states to consider fixes to affordability, efficiency and responsibility.

At its core, the driving force of these reform initiatives are rising health-care costs and the expense states are picking up for a large portion of the uninsured tab for clinics, emergency rooms and treatment of chronic illnesses. States, now more than ever before, are less tolerant and want to compel employers to assume a "fair share" of health-care costs of providing coverage for the uninsured.

According to a 2005 Milliman Medical Index, the average annual medical cost for a family of four in 2005 was \$12,214, an increase of 9.1% from 2004. The annualized rate of increase for 2001-05 was 9.8%.

The key components of medical costs are inpatient and outpatient hospital services, physician services, prescription drugs, and services such as ambulance, durable medical equipment and private-duty nursing. In 2005, inpatient and outpatient hospital services represented 45% of the total annual medical costs, physician charges accounted for about 37%, prescription drugs about 15%, and other services represented 3%.

Not since President Clinton's ambitious health-care reform package failed to pass Congressional scrutiny in 1993 has the prospects for universal coverage been on an upward trajectory.

Massachusetts is not alone in trying to address the problem of the uninsured. In May, Vermont passed its own version of near-universal health insurance called Catamount Health. It will be offered by insurance companies and financed by hiking the state's cigarette tax and fees on employers who do not offer health insurance.

In 2003, Maine passed its Dirigo Health Program, offering insurance subsidies to low-income individuals and families and a statewide insurance plan for businesses and self-employed workers. The Hawaii Prepaid Health Care Act requires employers to provide health insurance to employees. Illinois adopted a program to provide coverage for residents under 18.

In July, San Francisco passed the Health Access Program, its version of near-universal health care, requiring mandatory contributions from employers and income-adjusted premiums.

California enacted legislation in 2003 mandating an employer "pay or play" system, but voters in the state repealed the law in a 2004 referendum.

Some federal efforts

Things are beginning to percolate on the national level with the recent proposals by Sens. Hillary Clinton, Russ Feingold and John Kerry. Rep. Pete Stark of California is also advocating a universal health plan. Clinton has endorsed a plan to cover all children and to lower medical costs by using electronic patient records. Feingold has introduced legislation to create pilot projects to assist states in moving toward universal coverage. Kerry proposed requiring all Americans to have health insurance by 2012.

While imposing these reforms on employers may not be the best way to tackle the uninsured problem, Massachusetts has managed to craft a response for its citizens that will create a momentum for resolution. The devil in the details will determine if this plan ultimately succeeds.

As long as health-care costs rise, a patchwork of state solutions will continue, imperfect as they may be.

What seems certain is a federal solution will not materialize in time for states to benefit. As such, states and lawmakers will continue to search for that mythical fountain of universal health care.