



# Strengthening the Utah Premium Partnership Waiver

## Background

The state of Utah is currently seeking a Federal waiver to make changes to the Utah Premium Partnership (UPP) program and Children's Health Insurance Program (CHIP). The waiver is a mixed bag. It includes positive provisions that will allow more families to take advantage of the UPP subsidy to purchase private market health coverage. However, the waiver also has several provisions that put families at tremendous risk by limiting access to CHIP and extending the time a family must remain uninsured before enrolling in CHIP or UPP. The state plans to submit the waiver in Mid-August of 2008.

## Why is Utah seeking a new waiver?

House Bill 133 (Health System Reform) required the Department of Health to seek a new Medicaid waiver that would make two important changes to the UPP and CHIP programs. First, HB133 asked that UPP be expanded to allow individuals and families to purchase private individual coverage if they do not have access to an employer-sponsored insurance plan. Second, HB133 required the Department to seek approval to prohibit children from enrolling in CHIP if their parents qualify for UPP.

In addition to the changes required by HB133, the Department is pursuing several additional modifications to the UPP and CHIP programs. The most significant and troubling of these is a request to extend the existing enrollment waiting period. Currently, a family that was previously enrolled in a private plan must remain uninsured for 90 days before they enroll in CHIP or UPP. The waiver would increase this waiting period to 6 months without creating an exception for families who lose their private coverage because it becomes unaffordable.

## What Changes Does the Waiver Propose?

### *The Good...*

1. Expands UPP to allow individuals and families to purchase individual policies if they do not have an offer of employer sponsored insurance.
2. Allows the UPP subsidy to be used to help pay for COBRA premiums.
3. Allows individuals and families who have been denied insurance, to use the UPP subsidy for coverage through HIPUtah, the state's high-risk pool.
4. Increases the deductible allowed for policies that qualify for UPP from \$1000 to \$2500 (this administrative rule change will not be part of the waiver).

### *The Bad...*

1. Prohibits children from enrolling in CHIP if their parents qualify for UPP.
2. Extends the waiting period that a family losing private health insurance must remain uninsured from 90 days to 6 months without providing an exception for families who lose their private insurance because it becomes unaffordable.
3. Structures the new subsidy levels so that insurance will become increasingly unaffordable for people as they age.

## **What changes should be made to strengthen the waiver?**

### **1. *The Department should create a “too expensive” exception to the CHIP/UPP uninsured waiting period.***

Utah’s CHIP and UPP programs contain waiting periods. This means a family or individual who has dropped their private health coverage must remain uninsured for 90 days before they are eligible to enroll in either CHIP or UPP. The waiver seeks to extend this waiting period from 90 days to 6 months.

While the waiver includes a number of exceptions to this waiting period for some involuntary losses of coverage, there is no exception for families who lose their coverage because it simply becomes unaffordable.<sup>1</sup> Health insurance is expensive and is becoming more so every year. Between 2000 and 2005, health insurance premiums for family coverage in Utah increased by 43.8%.<sup>2</sup> In 2005, the average family coverage premium was \$10,617, a daunting figure for a CHIP-eligible family of 4 earning between \$21,200 and \$42,400 per year.

Many low income Utah families recognize the importance of health insurance. Despite skyrocketing increases in premiums and tight family budgets, these families have made great sacrifices to purchase private coverage. At some point though, the ever increasing costs become prohibitive. The family is left with no choice other than to drop coverage. Families in this situation should not be punished for doing the right thing. Utah should create an exemption to the waiting period for families and individuals with private coverage who spend more than 5% of their income on health care.

### **2. *Prohibiting children from enrolling in CHIP if their parents qualify for UPP is bad policy.***

Preventing children from enrolling in CHIP if their parents qualify for UPP creates a number of problems for families.

- There are no cost-sharing limitations in private plans purchased with UPP. Between premiums, deductibles, co-pays, and lack of comprehensive coverage, private plans can quickly bankrupt a low income family and prevent a child from receiving the care they need, thus deferring costs to other payers. CHIP prevents this by limiting the out-of-pocket expenses of a family to 5% of income. Research shows that higher copayments cause low-income people to reduce their use of essential and cost-effective health care. This in turn triggers the use of more expensive forms of care such as emergency room care or avoidable hospitalization.<sup>3</sup>
- Parents whose employers do not offer family coverage could be forced to purchase private health insurance on their own. Without a reasonable employer contribution, they may opt for coverage they can’t afford to actually use—or they will simply leave their children uninsured.
- Currently, families earning less than 150% of poverty have the choice of enrolling their children in CHIP or using the UPP subsidy to help purchase.

By way of example, the average single mom with two children at 150% of the Federal poverty level (FPL) makes \$25,755 a year. CHIP ensures that no more than \$1,288 is spent on health care for her children in one year, or \$107 per month. This leaves \$24,467 per year before taxes—\$2,040 per month—for all remaining household expenses.

*(continued)*

For a family living in Utah County a fair market budget would be:

Housing	\$632
Food	\$405
Child Care	\$693
Transportation	\$239
Other	\$280
Taxes	\$12
<b>Total</b>	<b>\$2261</b>
Health Care	\$107
<b>Total</b>	<b>\$2368</b>

\*Source: *Voices for Utah Children, Basic Family Budgets: How Much Does It Take To Get By, May 2007.* Of course, these costs do not reflect the more recent radical increase in energy costs.

Before health care costs, this family still struggles to meet their basic needs. Without a reasonable limit on cost sharing (like CHIP's 5% limit), families will go without other basic necessities like food and cost-effective preventive health care.

Because HBI33 requires the Department of Health to seek to prohibit children from enrolling in CHIP if their parents qualify for UPP, the Department must include this provision in its waiver submission to the Federal government—regardless of the public's opposition to this change. Given this constraint, the Department should do two things:

- 1. In order for the Federal government to fully understand the ramifications of this provision and the public's concerns with it, the Department should include an analysis or projection of the problems this change could cause and comments from the public who are opposed to this change.**
- 2. HBI33 requires the state to examine whether private plans available under the UPP program provide appropriate and effective health coverage to children. The Department should delineate in the waiver document how it plans to study this issue.**
- 3. The UPP subsidy amount should increase based on health history as well as age.**

If the goal of the UPP program is to help individuals purchase private health coverage, then the UPP subsidy should make health insurance affordable for all low income individuals and families regardless of age or health history. Therefore, the subsidy should be structured in a way that establishes a maximum monthly premium payment amount that is contingent on income. Currently, the waiver structures the subsidy on a simple 60/40 split (the state paying 60% and the beneficiary paying 40%) of the total cost of the monthly premium. This approach does not consider beneficiaries' relative ability to pay and would create a system where families will cycle on and off the roles of the insured (see table, next page)

Age	Estimated Costs of State's Basic Plan	Estimated Subsidy to Maintain \$150/Person Avg.	Estimated cost to individual after subsidy	% of income at 150%FPL = \$866.67 a month	\$ left for rent, food, transportation and other living expenses per month
<25	\$174.43	\$94	80.43	9%	\$786.24
25-29	\$235.29	\$127	108.29	12%	\$758.38
30-34	\$262.92	\$142	120.92	14%	\$745.75
35-39	\$277.30	\$150	127.30	15%	\$739.37
40-44	\$307.54	\$166	141.54	16%	\$725.13
45-49	\$372.27	\$201	171.27	20%	\$695.40
50-54	\$478.35	\$259	219.35	25%	\$647.32
55-59	\$605.90	\$328	277.90	32%	\$588.77
60-64	\$751.83	\$407	344.83	40%	\$521.84

With competing demands on their modest income (like going to school or starting a family) the younger uninsured individuals will likely struggle to afford insurance with the proposed subsidy levels. From a systems perspective, this relatively healthy group should be brought into the coverage system to lower the risk—and cost—for the rest. The end result will be a more stabilized private market. Short of a mandate, young, healthy people have little to no incentives to participate.

If the program is going to save the health care system money in the long term, then people need incentives to enroll. This cannot happen if coverage is unaffordable. The Department should therefore restructure the subsidy to establish a maximum monthly premium payment amount that is contingent on income.

## Conclusion

The Hippocratic Oath provides one of the key tenets of health system reform: *first do no harm*. As we design programs to increase access and make private health insurance more affordable, we must make sure our efforts do not leave working families with second-rate coverage that does not meet their basic needs.

<sup>1</sup> NASHP survey of Medicaid and CHIP programs, "Charting SCHIP III: An Analysis of the Third Comprehensive Survey of State Children's Health Insurance Programs," September 2006

<sup>2</sup> Agency for Healthcare Research and Quality, U.S. Department of Health and Human Services (2006)

<sup>3</sup> Ku, L. and Wachino, V. (2005). The Effect of Increased Cost Sharing in Medicaid: A Summary of Research Findings. Center on Budget and Policy Priorities. <http://www.cbpp.org/5-31-05health2.htm>