Modeling Results for "Straw Plan A": Payroll Fee with Credit Allowed

For Discussion Only

OHFB Finance Committee

April 16, 2008

Keep these things in mind…

CPS data used in modeling

- More accurate income data for estimating # eligible for OHP and premium contributions
- May not fully reflect current enrollment in public and private health insurance due to self reporting
- Net effect – likely overestimating the change in enrollment due to reform

Keep these things in mind…

ERISA constraints on payroll tax & credit design

- States can regulate insurance but not private employer-offered benefits
- Rules of thumb to reduce likelihood of ERISA challenge – state policies should not:
  - Require employers to offer health coverage
  - Dictate terms of an employer's health plan such as covered services, premium levels, contribution levels, etc.
  - Tax employer-sponsored health plans *per se*
  - Set standards to qualify for tax credit that are dependent on employer providing health insurance

Keep these things in mind…

Federal matching funds:

- Pricing includes assumptions regarding federal match rate
- No way to know right now what federal government will approve
  - Based on administrative policy priorities – usually not legislation or regulation
  - Can change when there is a new Administration
- Contingency planning could be part of recommendations

Policy Parameters and Assumptions (1 of 5)

- Individual mandate
  - Guaranteed issue
  - "Affordability waiver" at 5% income for people <400% FPL with access to ESI
    - “Access to ESI” → employer pays
      - 50% of premium for workers only (single coverage)
      - 25% of premium for workers AND dependents (family coverage)
  - Mandate effectiveness: 85% for employees and dependents; 70% for all other
- Payroll fee (5% on total SS payroll)
  - Offering (“play”) employers: receive credit up to 4.75% against tax
  - Non-offering (“pay”) employers: no credit, pay full 5%

Policy Parameters and Assumptions (2 of 5)

- Affordability tax credit 300%-400% FPL
  - Tax credit eligibility based on estimated premium of a $2,500 deductible plan
  - Limits family spending to 5% of gross family income
    - Calculated after the 30.3% assumed 125-plan savings
- PMPMs based on DMAP data and preliminary actuarial estimates
- Cost is for full implementation in 2010 dollars

Policy Parameters and Assumptions (3 of 5)

- **Public (OHP)** includes
  - Adults: 0-99% FPL
  - Children: 0-199% FPL
- **Exchange** includes
  - No individual premium contribution
    - Childless adults, couples: 100-149% FPL
    - Parents: 100-199% FPL
  - Sliding-scale coverage (shared contribution between state and individual)
    - Childless adults: 150-299%
    - Families: 200-299% FPL
  - Affordability tax credit eligibles: 300-399% FPL
  - Employees from “pay” employers 400%+ FPL **(not receiving any state contribution)**
- **Non-group**
  - Anyone purchasing coverage directly from broker or insurance carrier
- **Group**
  - Anyone getting coverage through an employer

Policy Parameters and Assumptions (4 of 5)

- Basic Gruber model:
  - Assumes firms with 100+ workers are *very* unlikely to drop coverage
  - Does not allow employers to drop coverage for some workers and not for others
- Under Straw Plan A:
  - Employers with a number of workers <300% FPL would benefit from by changing their plan-eligibility rules to make those workers ineligible for their plan
    - Employers could save money
    - Workers could get wage increases and would be eligible for the Exchange
  - Most offering employers spend considerably more than 5% of SS payroll on health benefits.
    - Could reduce coverage and still meet the test
  - About 1/3 of all Oregonians with employer coverage are <300% FPL

Policy Parameters and Assumptions (5 of 5)

- **Thus, two different estimates are presented:**
  - Gruber's estimate
  - An additional (non-Gruber) estimate that illustrates the possible extent of additional state costs
    - This additional estimate is labeled *"if more shift" and is always shown in red italics*

HIGHLY PRELIMINARY ESTIMATES-
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Eligibility and Enrollment Affordability Recommendations

- No personal contribution toward premium
  - 0-149% FPL for individuals and couples
  - 0-199% for families
- Sliding-scale structure of shared personal and state premium contribution from 2-5% gross family income towards premiums
  - 150-299% FPL for individuals, couples
  - 200-299% families
- State affordability tax relief
  - Tax deductions, pre-tax premium payments, or tax credits
  - Households 300-399% FPL

HIGHLY PRELIMINARY ESTIMATES-
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Table 1a: Coverage Status Before and After Reform*

Coverage Status (Thousands)	**Before**	**(Gruber) After**	**(Gruber) Change**	**Percent Change**
Public (OHP)	290	530	+240	+84%
New Exchange	0	370	+370	n/a
Non-group	160	100	-60	-39%
Group (Employer)	1,940	1,950	+10	+0.5%
Uninsured	680	120	-560	-83%
Total	3,060	3,060		

*Pop'n totals based on 2010 Census projections, less ~500,000 65+ and ~230,000 0-64 on Medicare or CHAMPUS. Coverage estimates based on 2006 CPS, not actual program enrollment where applicable. Totals may not add due to rounding.

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Table 1b: Coverage Status Before and After Reform*

Coverage Status **(Thousands)**	**(Gruber) After**	***(If more shift) After***	**Difference**	**Percent Difference**
Public (OHP)	530	*550*	+20	+4%
New Exchange	370	*530*	+160	+43%
Non-group	100	*100*	-	-
Group (Employer)	1,950	*1,770*	-180	-9%
Uninsured	120	*120*	-	-
Total	3,060	*3,060*	-	-

*Pop'n totals based on 2010 Census projections, less ~500,000 65+ and ~230,000 0-64 on Medicare or CHAMPUS. Coverage estimates based on 2006 CPS, not actual program enrollment where applicable. Totals may not add due to rounding.

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Table 2: Cost of Public (OHP) Coverage

Cost of OHP ($ Millions)	**Gruber Estimate**	***"If More Shift" Estimate***	***Difference***
Total Cost	$1,050	*$1,150*	*+$100*
Federal Match*	$670	*$730*	*+$60*
Net State Cost	**$380**	***$420***	***+$40***

*Assumes current Medicaid match rates at current waivers. Assumes SCHIP match rate from current OHP limit to 200% FPL for children.

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Exchange Population (Gruber)

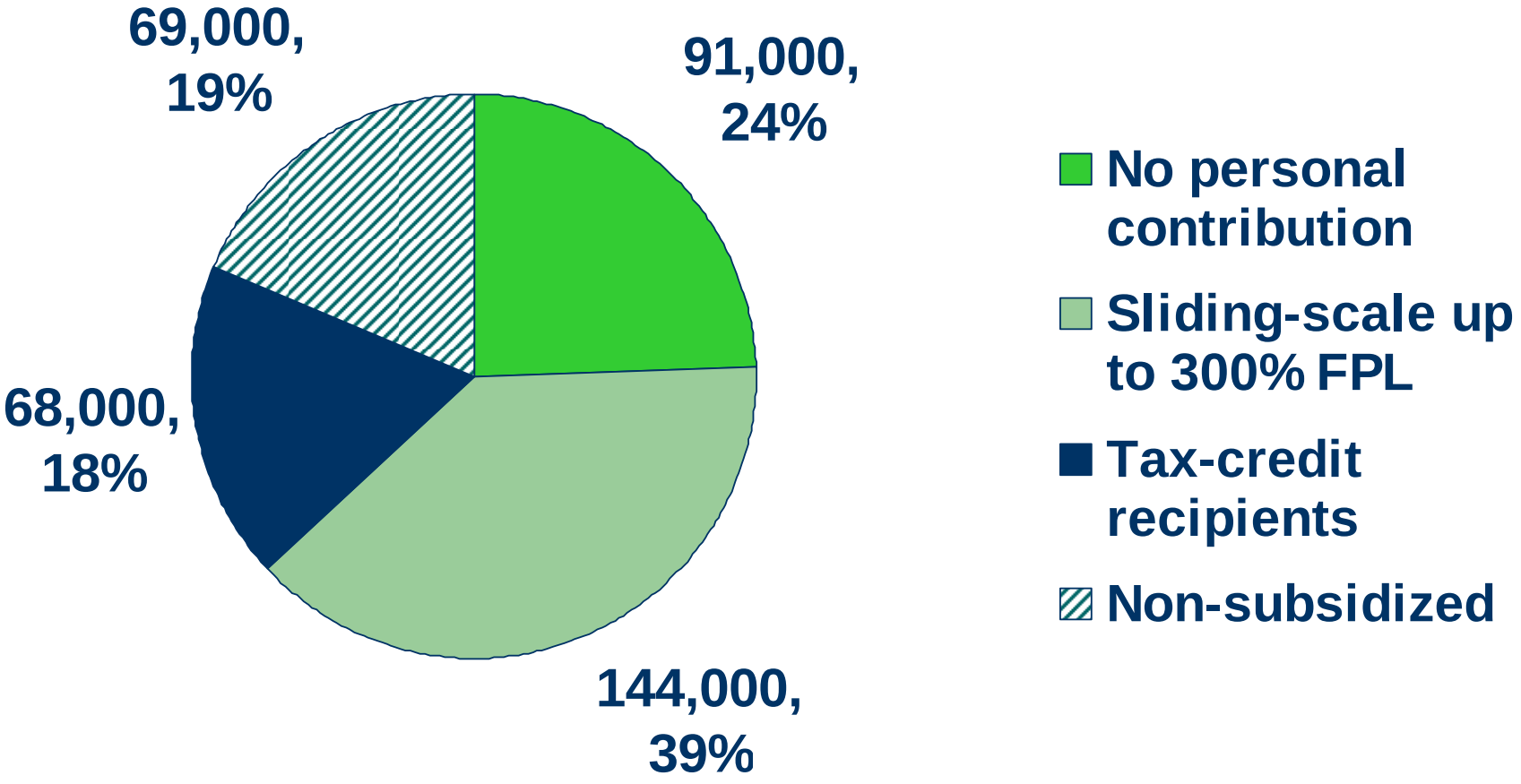

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Table 3: Cost of Exchange Populations

Cost of Exchange ($ Millions)	Total	No Personal Contrib.	Sliding -Scale	Tax Credit	No Subsidy
Total Cost (Gruber) ***If more shift***	**$1,510** ***$2,170***	**$400** ***$580***	**$650** ***$940***	**$240** ***$340***	**$220** ***$310***
Individual Contributions	$480 *$690*	- -	$100 *$150*	$160 *$230*	$220 *$310*
Total Subsidy Needed	**$1,030** ***$1,480***	**$400** ***$580***	**$550** ***$790***	**$80** ***$110***	**-** **-**
Federal Matching Payments	$250 *$360*	$250 *$360*	- -	- -	- -
Net State Cost	**$780** ***$1,120***	**$150** ***$220***	**$550** ***$790***	**$80** ***$110***	**-** **-**

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Table 4: Payroll Tax Revenue

Payroll Tax Revenue ($ Millions)	**All Employers (0.25%)**	**"Pay" Employers (4.75%) (Gruber)**	***"Pay" Employers (4.75%) (if more shift)***
No Personal Contribution	$20	$140	*$140*
Sliding-scale	$30	$80	*$100*
Tax Credit	$20	$50	*$60*
No Subsidy	$90	$200	*$200*
Total = $630	**$160**	**$470**	***$500***

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Table 5: Employer Spending

Employer Spending ($ Millions)	Before	After	Change	Percent Change
For Group Coverage	$8,000	$7,940	-$60	-0.8%
Payroll Fees	-	$630	$630	-
Total	**$8,000**	**$8,570**	**+$570**	**+7%**

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Table 6: Summary of State and Federal Costs

($ Millions)	Total	Federal	State
Cost of Public Coverage *If more shift*	$1,050 *$1,150*	$670 *$730*	$380 *$420*
Cost of New Exchange Population	$1,030 *$1,480*	$250 *$360*	$780 *$1,120*
State Income Tax Revenue Loss	$70 *$70*	- -	$70 ***$70***
Total Costs	**$2,150** ***$2,700***	**$920** ***$1,090***	**$1,230** ***$1,610***

Note: State costs are highly dependent on additional federal funds that would require waivers.

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Table 7: Summary of State Payroll Fee Revenue

($ Millions)	Total	Federal	State
Payroll Fee Revenue *If more shift*	$630 *$660*	n/a *n/a*	$630 *$660*
Summary of costs	$2,150 *$2,700*	$920 *$1,090*	$1,230 *$1,610*
Projected Additional Revenue Needed	**$1,520** ***$2,040***	**-** **-**	**$600** ***$950***

Decision Points for Adjustments to Modeling

- Federal match assumptions
- Affordability standard
- FPL bands for contributions
- Payroll fee level
- Per worker per hour requirement in addition to percent of payroll requirement
- Additional funding mechanisms necessary to meet reform goals