

Report to
Health Access Oversight Committee
and
Joint Fiscal Committee

Employer-Sponsored Insurance Premium Assistance

The Office of Vermont Health Access
Agency of Human Services

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Executive Summary

An analysis of a recently-conducted survey of beneficiaries of the Vermont Health Access Plan (VHAP) yielded an estimate that an Employer-sponsored Insurance (ESI) premium assistance program could produce gross savings and cost avoidance of \$12-13 million after administrative and development costs for the three-year period of SFY08 through SFY10. The state share of those savings and avoided costs would be approximately \$4.9-5.4 million.

The lower cost of ESI premium assistance would allow the state to provide assistance to more uninsured Vermonters. In addition to saving money, insuring the uninsured by maximizing their enrollment in ESI plans would bolster the commercial market on which most Vermonters depend for their health care coverage. Although other states' experience shows that premium assistance programs are challenging to administer, the resulting savings more than offset the administrative costs.

This report recommends that the State of Vermont move forward to implement an ESI premium assistance program for the VHAP and Catamount Health populations, and analyze whether to include other populations at a future time.

Thanks to everyone who has contributed to this report, including members of Joint Fiscal Office, Office of Vermont Health Access (OVHA), Department of Banking, Insurance, Securities and Health Care Administration (BISHCA), the Agency of Human Services' fiscal office, and the Department for Children and Families' Economic Services Division.

Section 1: Background

Section 13 of Act 191, An Act Relating to the Health Care Affordability for Vermonters, passed during the 2006 legislative session, requires the Agency of Human services to submit a report to the Joint Fiscal and Health Access Oversight Committees prior to November 15, 2006, containing specific information related to the development and implementation of the ESI premium assistance program. The report must contain the following:

- A plan for additional expenditures beyond the first \$250,000 of the \$1 million appropriated in H.881 for start-up and initial administrative expenses associated with ESI planning and development,
- Results of a survey to determine whether and how many individuals currently enrolled in the Vermont Health Access Plan (VHAP) are potentially eligible for ESI premium assistance,
- The sliding-scale premium and cost-sharing assistance amounts provided under the ESI premium assistance program to individuals,
- A description and estimate of benefits offered by VHAP that are likely to be provided as supplemental benefits for the ESI premium assistance enrollees,
- A plan for covering dependent children through the premium assistance program, and
- The anticipated budgetary impact of an ESI premium assistance program for fiscal year 2008.¹

The Office of Vermont Health Access (OVHA) and the Department for Children and Families' Economic Services Division (ESD) formed a work group in June 2006 for the planning and implementation of the ESI and Catamount Health premium assistance programs. Representatives from the Department of Banking, Insurance, Securities, and Health Care Administration (BISHCA) have participated in the work group as needed, as have representatives from private firms under contract with the Agency: MAXIMUS (Member Services Unit), Electronic Data Systems (Medicaid Management Information System), and Policy Studies, Inc. (system development).

¹ 33 VSA § 1974(g)(2)

Section 2: Description of ESI Premium Assistance

Overview

ESI premium assistance is a key feature of Vermont's health care reform plan. Because of employers' contributions to ESI premiums, the lower cost of providing ESI premium assistance (as compared to the cost of providing premium assistance to people enrolled in Catamount Health plans) will allow the state to assist more Vermonters in obtaining coverage.

Who is eligible

There are three groups of uninsured individuals eligible for premium assistance:

- Individuals with income under 150 percent of the Federal Poverty Level (FPL) and parents under 185 percent of FPL who are eligible for VHAP and have access to ESI plans
- Individuals with income between 150 percent and 300 percent of FPL who have access to ESI plans²
- Individuals with income between 150 and 300 percent of FPL without access to ESI but who wish to enroll in Catamount Health with premium assistance.

To be eligible for premium assistance in the latter two categories, individuals must have been uninsured for at least 12 months, with some exceptions.³

Uninsured adults with income greater than 300 percent of FPL may purchase a Catamount Health plan but will receive no premium assistance.

The first two groups described above are the focus of this report.

Benefits

For individuals who are eligible for VHAP and have access to ESI, the ESI plan must offer benefits "substantially similar to the benefits covered under the certificates of coverage offered by the typical benefit plans issued by the four health insurers with the greatest number of covered lives in the small group and association market in this state."⁴

²300 percent of FPL is \$2463 per month or \$29,556 per year; for a household with two adults, 300 percent of FPL is \$3313 per month or \$39,756 per year.

³ Individuals do not have to wait 12 months for premium assistance if they lost coverage due to one of the following reasons: loss of employment; death of the principal insurance policyholder; divorce or dissolution of a civil union; no longer qualified as a dependent under the plan of a parent or caretaker relative; no longer qualifying for COBRA, VIPER, or other state continuation coverage; or a college-sponsored insurance plan became unavailable because the individual graduated, took a leave of absence, or otherwise terminated studies.

⁴ 33 VSA § 1974(b)(2)(A)

Who is Eligible	Type of Coverage	Benefits
VHAP adults 0-150% FPL; or parents under 185% FPL	Employer Sponsored Insurance	The benefits covered by the plan must be substantially similar to the benefits offered by the typical benefit plans issued by the four health insurers with the greatest number of covered lives in the small group.
Uninsured Adults 151–300% FPL not eligible for any OVHA program.	Employer Sponsored Insurance	The benefits covered by the plan must be substantially similar to the benefits offered by the Catamount Health Premium Assistance.
	Catamount Health Plan	The benefits provided under Catamount Health.

In addition, OVHA will “wrap around” the ESI plan to ensure the adult receives the same benefits as would be available through VHAP. The cost of the coverage to the beneficiary under ESI will not be higher than VHAP coverage; therefore, the adult would not pay a monthly premium that is higher than the VHAP premium and would not be responsible for any cost-sharing (deductibles, co-insurance, and co-pays) above VHAP cost-sharing requirements.

For those up to 300 percent FPL who are not eligible for existing state programs, the ESI benefits must be substantially similar to the benefits offered by Catamount Health and provide appropriate coverage of chronic conditions. In addition, any cost -sharing for chronic care under ESI will be covered by the wrap-around benefit.

Those without access to ESI may enroll in Catamount Health.

Plan Approval & Cost Effectiveness

For OVHA to provide premium assistance it must determine the individual is enrolling in an approved health plan that is “cost-effective.” A plan is cost-effective if it is less expensive for the state to pay premium assistance and wrap-around costs for an individual in an ESI plan than to provide full coverage under the VHAP program.

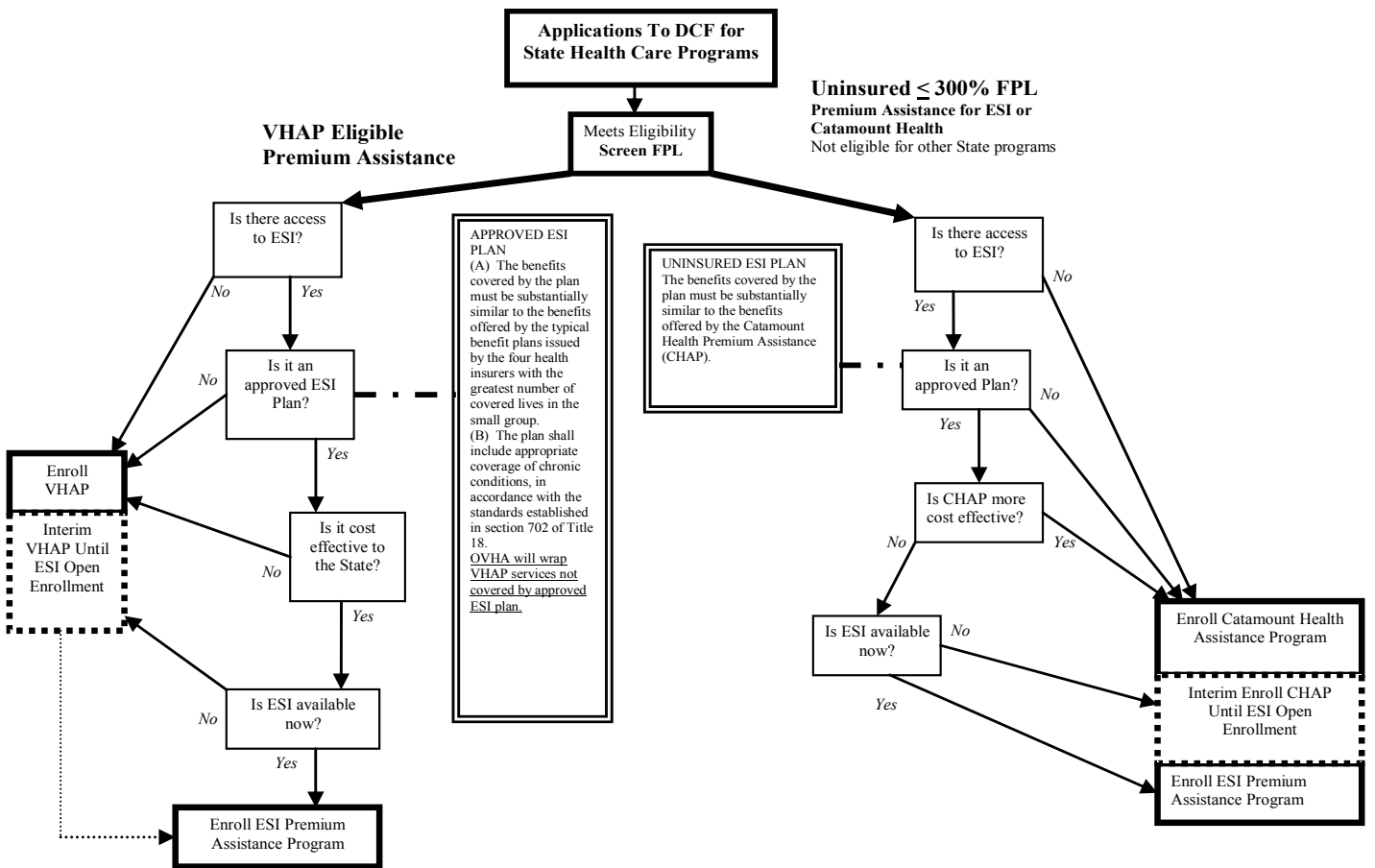
For those on VHAP, OVHA will perform a cost-effectiveness test comparing VHAP costs and ESI premium assistance costs. If a VHAP-eligible adult is required to enroll in ESI, VHAP will “wrap around” the ESI plan to ensure that the adult receives the same benefits as would be available through VHAP.

If an adult is not eligible for VHAP but is under 300 percent FPL, OVHA will perform a cost-effectiveness test comparing ESI premium assistance costs and Catamount Health premium assistance costs. If the adult receives premium

assistance in the ESI plan, the state will pay for any cost-sharing associated with the treatment of chronic conditions.

Uninsured adults with income greater than 300 percent FPL may purchase a Catamount Health plan but will receive no premium assistance.

The following flowchart shows the three groups eligible for premium assistance (VHAP/ESI, ESI, and Catamount Health), a description of the benefit, and the process flow for each group.



Section 3: VHAP Survey Results

Survey Results

The health care reform bill required the Agency of Human Services to conduct a survey to determine how many individuals currently enrolled in VHAP, including those eligible as caretakers, are potentially eligible for ESI premium assistance. In August 2006 OVHA signed an interagency agreement with BISHCA that allowed BISHCA to extend its contract with Market Decisions L.L.C. to include the VHAP survey. OVHA, BISHCA, and Department for Children and Families' Economic Services Division collaborated with Market Decisions on the content of the survey questionnaire. The survey was conducted in August and early September of 2006.

Extrapolating the results of the survey to the VHAP population as a whole, 63 percent of VHAP beneficiaries have some earned income; however, only 10 percent of VHAP beneficiaries are eligible to enroll in an ESI plan, either because their employers do not offer health insurance or because the employees do not work enough hours to qualify for their employer plans.

Methodology for simulating cost-effectiveness test and cost savings

Those VHAP respondents who said they had access to and were eligible for ESI plans were matched against the Medicaid claims database to determine actual claims cost for the twelve months in SFY06. Actual claims costs for these VHAP beneficiaries ranged from zero to \$25,986 for the 12-month period.

An algorithm was developed to match actual claims cost for each person against estimated ESI costs using the premium, deductible, co-insurance, and out-of-pocket maximum for several product offerings, including Catamount Health and various plans from Vermont's small group and association market. Also used was a hypothetical plan with average single-person cost-sharing according to the 2006 Kaiser Family Foundation survey. This analysis determined that approximately half of VHAP beneficiaries with access to and eligible for ESI would have cost-effective ESI plans. The 1068 beneficiaries falling into this category represent five percent of the VHAP population as a whole.

For the beneficiaries for whom it would be cost-effective to enroll in ESI plans with premium assistance, the difference between their actual claims cost and the estimated cost of their ESI premium plus wrap costs (deductible and cost-sharing up to the out-of-pocket maximum) becomes the estimated cost savings. Cost savings from the sample may then be applied to the VHAP population as a whole to determine total cost savings to the program. See Section 7 for the budgetary impacts of ESI.

Section 4: Sliding Scale Premiums and Cost-sharing Amounts

Statute requires that “the premium assistance program . . . provide a subsidy of premiums or cost-sharing amounts based on the household income of the eligible individual, with greater amounts of financial assistance provided to eligible individuals with lower household income and lesser amounts of assistance provided to eligible individuals with higher household income.”⁵

Since the law states that VHAP-eligible individuals enrolled in ESI should not have out-of-pocket expenditures greater than the premium and cost-sharing obligations under VHAP, the Agency is proposing to set the ESI individual contributions for VHAP-eligible ESI enrollees at the same level as VHAP premiums as of July 1, 2007.

For individuals who are not eligible for VHAP, the Agency is proposing that ESI individual contribution levels be the same as contribution levels for Catamount Health. Using the same contribution levels for both ESI and Catamount Health would ensure equity for individuals participating in premium assistance and having income above the VHAP income maximum.

Below is a chart that shows the comparison of proposed individual contributions in the VHAP, ESI, and Catamount Health premium assistance programs.

COMPARISON OF BENEFICIARY'S SHARE OF PREMIUM									
VHAP=Vermont Health Access Plan									
VHAP ESI=Premium assistance for people eligible for VHAP and enrolled in an ESI plan									
ESI=Premium assistance for people not eligible for VHAP & enrolled in an ESI plan & income <300% FPL									
CHAP=Catamount Health Assistance Program (assistance for people in Catamount Health & <300% FPL)									
		VHAP \$ ¹	VHAP % ²	VHAP ESI \$	VHAP ESI %	ESI \$ ³	ESI %	CHAP \$	CHAP %
% FPL	Monthly income								
50-75%	\$513	\$7	1.36%	\$7	1.36%				
75-100%	\$718	\$25	3.48%	\$25	3.48%				
100-150%	\$1,026	\$33	3.22%	\$33	3.22%				
150-185%	\$1,375	\$49	3.56%	\$49	3.56%	\$60	4.36%	\$60	4.36%
185-200%	\$1,580					\$60	3.80%	\$60	3.80%
200-225%	\$1,744					\$90	5.16%	\$90	5.16%
225-250%	\$1,950					\$110	5.64%	\$110	5.64%
250-275%	\$2,155					\$125	5.80%	\$125	5.80%
275-300%	\$2,360					\$135	5.72%	\$135	5.72%
¹ Beneficiary's share of premium									
² Beneficiary's share of premium as a percentage of income									
³ Proposed beneficiary's share of ESI premium									

⁵ VSA 33 § 1974(c)(3)

Section 5: Description of and Cost Estimate for the VHAP “Wrap”

Act 191 requires the Agency of Human Services through OVHA to provide “wrap-around” benefits to beneficiaries who are enrolled in ESI and eligible for VHAP. The wrap-around, or “wrap,” ensures that any provider of a service not covered under the ESI plan, but covered under VHAP, would be reimbursed. In addition, the wrap would cover cost-sharing under the ESI plan to the extent the cost-sharing exceeds VHAP cost-sharing (the only co-pay requirement in VHAP is a \$25 emergency room fee). In essence the ESI plan becomes the primary payer, with VHAP as secondary payer.

Since the VHAP covered services package was designed to resemble closely the covered services provided by the typical private insurance plan, there will not be many service categories covered under the wrap that are not covered by the private insurance plan. The vast majority of wrap expenditures, therefore, will be charges falling under deductibles. However, after conducting a review of some of the top plans in the small group and association market, the following services covered by VHAP are not covered in some of the private plans:

- Outpatient physical therapy, occupational therapy, and speech therapy
- Skilled nursing facility (up to 30 days)
- Nurse practitioner services
- Eye exams
- Family planning services
- Mammograms
- Home health nursing
- Vasectomies/tubal ligations

Cost estimate of the VHAP wrap

To estimate the costs of the wrap, OVHA reviewed claims from the Medicaid Management Information System (MMIS) for adults on Medicaid who are not eligible for SSI or Medicare and who have other insurance on the assumption that these adults are similar to adults on VHAP with access to ESI. For these currently eligible Medicaid adults, Medicaid is the secondary payer. This exercise, however, did not yield a large enough number of beneficiaries from which to draw sound conclusions. In addition, the types of claims represented in this small sample raised questions about whether the sample was a valid “proxy” for the VHAP working population.

Instead, an estimate of the wrap was derived from the working VHAP survey respondents who have cost-effective ESI plans by using actual claims for these

individuals over the prior fiscal year period and estimating the cost-sharing of the typical health insurance plan in the small group and association market. Using the simulation described above, the average annual wrap cost per individual would be \$28.58 per month or \$342.96 per year.⁶ The average VHAP per-member-per-month (PMPM) cost for these individuals was \$481.27, which is higher than the PMPM of \$256.41 for the VHAP population as a whole in SFY06. This finding makes sense in that a determination of cost-effectiveness would occur more often for higher-cost beneficiaries.

Cost estimate of the ESI chronic care cost-sharing wrap

Individuals who are not eligible for VHAP but are under 300 percent FPL are eligible for premium assistance for their ESI plans. The state must also provide a wrap for any cost-sharing for treatment of chronic conditions. Since 50 percent of the actual claims for the VHAP survey respondents with cost-effective ESI plans appeared to be chronic care cost-sharing claims, that percentage was used to estimate a wrap cost of \$18.29 per month or \$219.48 per year.⁷

Although by looking at each claim on the VHAP survey respondents it was possible to determine which claims were likely to have been chronic care claims, it will be very difficult to automate a process that accurately makes the distinction between chronic care claims and primary acute care claims.

Premium assistance plus wrap costs

The following table summarizes the cost of providing premium assistance, including the wrap, for VHAP/ESI and non-VHAP ESI. Since this chart is offered for comparison purposes only, the beneficiary’s contribution has not been included.

Category	Premium assistance	Wrap	Total monthly cost	Total annualized cost
VHAP/ESI	\$91.21	\$28.58	\$119.79	\$1437
ESI	\$91.21	\$18.58	\$109.50	\$1314

⁶ An additional \$10 per month was added to the PMPM to account for services covered by VHAP but not covered by the ESI plan, as listed in the prior section.

⁷ \$5 per month was added for state-mandated services not covered by the ESI plan. Another \$4 per month was added should the decision be made to include ESI plans with deductibles somewhat higher than the Catamount Health deductible of \$250, in which case the state would provide a wrap down to the Catamount Health cost-sharing level.

Section 6: Should children be included in ESI plans?

Act 191 requires the Agency as part of this report to develop a plan for covering dependent children through the premium assistance program. Language earlier in Section 13 states “the agency shall determine whether to include children who are eligible for Medicaid or Dr. Dynasaur in the premium assistance program at their parent’s option.”⁸ This section of the report was to include the Agency’s decision on whether or not to include children and the justification for that decision.

In September the Agency concluded that it could not do justice to this very important analysis prior to the due date for this report. The Agency sought and received the approval of the Health Access Oversight Committee and the Health Care Reform Commission to postpone this analysis to a later date. No child will be prevented from receiving health care coverage or in any way be harmed by this postponement, since children in families below 300 percent FPL are eligible for Dr. Dynasaur, which has a richer benefit package than most ESI plans would provide.

An additional reason for this postponement is the Agency’s desire to implement premium assistance programs for adults and ensure their smooth operation before adding children. Because the implementation of premium assistance programs is a difficult challenge, and because the October 1, 2007, deadline is an ambitious deadline, the additional complexity of including children carries the risk of a delayed or flawed implementation. Since children in general are less expensive than adults to cover under state-funded programs, this is yet one more reason for not moving precipitously in this area.

⁸ 33 V.S.A. § 1974(a)

Section 7: Estimated Budgetary Impact of ESI Premium Assistance for SFY08 through SFY10 and One-time Development Costs for SFY07

Background

The SFY08 budgetary impact of ESI premium assistance is the cost savings of moving current VHAP beneficiaries into ESI, the costs avoided by moving new VHAP beneficiaries into ESI, and the costs avoided by new non-VHAP ESI premium assistance beneficiaries who would otherwise be enrolled in Catamount Health premium assistance at a higher cost.

The budgetary impact of the Catamount Health premium assistance beneficiaries and the anticipated increase in the number of VHAP beneficiaries without access to ESI have not been included in this report, but will be included in the new Global Commitment balance sheet and the Governor's recommended budget.

For the estimates of how many new VHAP beneficiaries will be on the rolls as a result of lower premiums and the outreach campaign, and the number of ESI premium assistance beneficiaries, the BISHCA Household Health Insurance Survey of 2005 was used to develop the base population estimates of Vermonters potentially eligible for assistance. Dr. Sherry Glied, an economist at Columbia University and a national expert on the issue of take-up rates, estimated how many of the potentially eligible Vermonters for VHAP and ESI would actually apply and enroll.

Population estimates and take-up rates

According to the results of the BISHCA survey, there are 17,017 adult Vermonters who are eligible for VHAP but not enrolled. Dr. Glied estimated that VHAP enrollment would grow by approximately five percent⁹ based on the premium reductions and the aggressive outreach campaign required in the legislation. This five percent gross increase would result in an additional 1316 individuals enrolling in VHAP, of which 85 would have cost-effective ESI plans.

The BISHCA survey results show that 4830 uninsured Vermonters who are over the VHAP income limit but under 300 percent FPL have access to ESI plans but have not enrolled. Dr. Glied estimates that 290 of these individuals would enroll in ESI premium assistance.

The number of people expected to enroll in non-VHAP ESI is low for several reasons. Because ESI plans are a relatively inexpensive way for people to obtain coverage, most people who have access to ESI already enroll in ESI. In fact, according to national studies, over 80 percent of employees take up their employer's ESI offer. Since Vermont's premium assistance program for ESI requires individuals to contribute toward the cost of their premiums, the difference between the total premium cost to the employee and the subsidized

⁹ The growth would be only three percent for the 0-150 percent FPL category, since there is no VHAP premium for this group, and so lower premiums would not attract additional applicants. The three percent growth is estimated to result from the outreach campaign.

premium cost is not great enough to entice many people to enroll. In fact, in the higher income categories, where most eligible beneficiaries are, the beneficiary's contribution is about equal to the average employee share of the ESI premium.

Based on the literature it is estimated that every 10 percent decline in employee required contributions toward insurance leads to a .05 percent increase in enrollment. Dr. Glied is using a somewhat higher take-up rate than these figures would imply. This take-up estimate reflects the fact that an individual who has not already enrolled in a relatively inexpensive ESI plan is likely to be fairly healthy and have a low demand for health insurance. This group is less likely than average to apply for ESI premium assistance for what might be perceived as a small monetary gain. People who have access to ESI and do not take it up are less likely to participate in premium assistance programs than are people who have no employer offers at all.

Even though the number of people who will enroll in ESI is low, it would still be less expensive to provide premium assistance to these individuals in ESI plans than in Catamount Health plans. The average ESI premium assistance cost would be an estimated \$109.50 per month (including the chronic care cost-sharing wrap), whereas the average premium assistance for Catamount Health would be approximately \$362.

Although a higher number of people could be expected to enroll in ESI if the expected employee contribution were established at a lower level,¹⁰ Dr. Glied warns that is important to be cautious about expanding these subsidies because heavily subsidizing employee premium shares for ESI could lead employers to change behavior and increase the required premium shares over time. Moreover, many people who are currently taking up employer-offered health insurance and paying the full employee share of premiums for this coverage would tend to move toward jobs where they would become eligible for subsidized premiums. The crowd-out potential of subsidizing employee premium shares at ever-increasing levels is large because such a significant portion of the potentially eligible population is already insured.

As a result of the take-up analysis, the following table summarizes the numbers of new enrollees in the various eligibility categories:

Eligibility category	New enrollees
Current VHAP to ESI	1068
New VHAP with no ESI	1231
New VHAP/ESI	85
New ESI only	290

¹⁰ Dr. Glied estimates that 1687 people would enroll in ESI premium assistance if the employee contribution were decreased to one percent of income.

Estimates of Catamount Health premium assistance participation are being developed and will be included in the new Global Commitment balance sheet and the Governor's recommended budget.

Plan for SFY07 Expenditures beyond \$250,000

H.881, the 2007 appropriations bill, added \$1 million to OVHA's budget to implement ESI assistance programs within the state Medicaid program. Section 13 of Act 191 requires the submission of this report before additional expenditures beyond \$250,000 of this \$1 million appropriation may be spent. The following table estimates expenditures for planning and development for SFY07 for both ESI *and* Catamount Health premium assistance.

ONE-TIME DEVELOPMENT COSTS FOR PREMIUM ASSISTANCE IN SFY07: CATAMOUNT & ESI		
Function	Cost	
Policy Studies, Inc. contract	\$700,000	ACCESS sys development in SFY07
Dr. Sherry Glied contract	\$11,500	Take-up rate estimates
Market Decisions contract	\$45,000	VHAP survey
Postage	\$15,000	Bulk mailing to VHAP
Rule making	\$5,400	Printing, mailing, advertising
Brochure	\$2,000	Premium assistance
Training	\$5,000	Internal staff
EDS contract costs	\$125,513	MMIS development, 50% of total cost
TOTAL for SFY07	\$909,413	

As of November 15, 2006, expenditures have been \$56,500 for the contracts with Dr. Glied and Market Decisions.

Should a decision be made to delay implementation of ESI premium assistance, the costs above would be reduced by approximately \$221,300. The remaining expenditures of \$688,113 would be necessary to proceed with development and implementation of Catamount Health premium assistance. Below is a table that estimates the marginal costs in SFY07 for the development of ESI beyond the \$56,500 that has already been spent for the two contracts described above.

ONE-TIME DEVELOPMENT COSTS IN SFY07 FOR ESI		
Function	Cost	
Policy Studies, Inc. contract	\$175,000	ACCESS sys development in SFY07 (ESI design)
EDS contract costs	\$31,300	MMIS development; 50% of total for ESI
Postage	\$15,000	Bulk mailing to VHAP
TOTAL for SFY07	\$221,300	

No expenditures have been included for outreach to uninsured Vermonters or to employers. Bi-State Primary Care Association has just issued a report that makes recommendations on how Vermont should outreach to uninsured Vermonters, and the Administration is pursuing grant money for these efforts.

Impact of ESI Premium Assistance to Program Budget for SFY 08-10

The following spreadsheet estimates the budgetary impact of the new enrollees in each category, including cost savings, cost avoidance, and administrative costs. Actual cost savings would occur by moving VHAP beneficiaries with cost-effective ESI plans into ESI with premium assistance. "Cost savings" means a direct reduction to current and future VHAP costs. The term "cost avoidance" is used to refer to new VHAP beneficiaries who would enroll in ESI and new non-VHAP ESI premium assistance beneficiaries. Both of these latter groups would reduce future costs, since without an ESI component, the state would have to pay the full cost of covering new VHAP beneficiaries under VHAP or, for the non-VHAP ESI group, under Catamount Health premium assistance.

	FFY '08	FFY '09	FFY '10	Total
Current VHAP Enrollee				
Estimated Enrollment: Current VHAP to ESI	972	1068	1068	
Estimated Cost per Enrollee (Annualized): VHAP	\$5,775	\$6,169	\$6,589	
Estimated Cost per Enrollee (Annualized): VHAP ~ ESI	\$1,437	\$1,535	\$1,640	
Annual Savings per Enrollee (Annualized):	\$4,338	\$4,633	\$4,949	
Expenditures: VHAP	\$2,019,890	\$6,587,994	\$7,036,637	
Expenditures: VHAP ~ ESI	\$502,759	\$1,639,778	\$1,751,447	
Gross Savings	\$1,517,132	\$4,948,216	\$5,285,190	\$11,750,538
State Share Savings Estimate	\$627,182	\$2,045,593	\$2,184,898	\$4,857,672
New VHAP ~ ESI Enrollee				
Estimated Enrollment: VHAP ~ ESI	85	85	85	
Estimated Cost per Enrollee (Annualized): VHAP	\$5,775	\$6,169	\$6,589	
Estimated Cost per Enrollee (Annualized): VHAP ~ ESI	\$1,437	\$1,535	\$1,640	
Annual Cost Avoidance per Enrollee (Annualized):	\$4,338	\$4,633	\$4,949	
Expenditures: VHAP	\$208,871	\$524,325	\$560,032	
Expenditures: VHAP ~ ESI	\$51,989	\$130,507	\$139,394	
Gross Cost Avoidance	\$156,882	\$393,819	\$420,638	\$971,339
State Share Cost Avoidance Estimate	\$64,855	\$162,805	\$173,892	\$401,551
New ESI Enrollee				
Estimated Enrollment: ESI	242	290	290	
Estimated Cost per Enrollee (Annualized): Catamount Health	\$4,344	\$4,640	\$4,956	
Estimated Cost per Enrollee (Annualized): ESI	\$1,314	\$1,403	\$1,499	
Annual Cost Avoidance per Enrollee (Annualized):	\$3,030	\$3,236	\$3,457	
Expenditures: Catamount	\$406,526	\$1,345,550	\$1,437,182	
Expenditures: ESI	\$122,969	\$407,010	\$434,728	
Gross Cost Avoidance	\$283,558	\$938,539	\$1,002,454	\$2,224,551
State Share Cost Avoidance Estimate	\$117,223	\$387,992	\$414,414	\$919,629
Gross Savings: VHAP	\$1,517,132	\$4,948,216	\$5,285,190	\$11,750,538
Gross Avoided Costs: VHAP ~ ESI & ESI	\$440,440	\$1,332,358	\$1,423,092	\$3,195,890
Total Gross Savings & Avoided Costs	\$1,957,571	\$6,280,575	\$6,708,282	\$14,946,428
One-time Administrative Costs	\$381,300			\$381,300
Ongoing Administrative Costs	\$428,614	\$554,298	\$570,927	\$1,553,839
Total Savings/Avoided Costs Net of Administrative Costs	\$1,147,657	\$5,726,277	\$6,137,355	\$13,011,289
State Share of Total Savings	\$474,442	\$2,367,243	\$2,537,182	\$5,378,867

Impact to Administrative Budget

The marginal administrative costs of developing and maintaining the ESI assistance program are considerably lower than the total administrative costs of developing and maintaining premium assistance programs as a whole, including the Catamount Health premium assistance program.

The administrative costs included in the budget sheet on the prior page do not include the costs of developing and operating the Catamount Health premium assistance program or increased access due to lower VHAP premiums and the aggressive outreach campaign as required in Act 191. Those costs will be included in the new Global Commitment balance sheet and the Governor's recommended budget.

Total ESI development costs for SFY07 and SFY08 are estimated to be \$645,000, the bulk of which are costs for system development in ACCESS, the Agency's Medicaid eligibility system, and the MMIS operated by Electronic Data Systems (EDS). Remaining one-time costs are for work stations for additional staff, rule-making, brochure development, postage, and staff training.

Total ongoing administrative costs for ESI are estimated to be \$554,298 in SFY09 (assuming a three percent annual growth), including six additional staff at OVHA to perform cost-effectiveness tests and coordinate benefits between Medicaid and private insurance plans, a contract to do annual maintenance on the employer database, and additional EDS costs for issuing premium assistance payments to beneficiaries. Ongoing administrative costs in SFY08 are estimated to be \$428,614 because new positions will be phased in during the course of the year.

Assumptions for budget impacts

- Premium assistance will be in operation for the second, third, and fourth quarters of SFY08.
- Current VHAP beneficiaries will be reviewed for cost-effectiveness over the second and third quarters of SFY08.
- Only 80% of current VHAP beneficiaries with cost-effective plans will be able to enroll in those plans in SFY08. Most employers have an annual open enrollment period during which current employees are able to enroll in ESI; some employers offer open enrollment twice per year. The administration is recommending legislation in the coming session that would make application for, or enrollment in, VHAP or Catamount Health premium assistance a "qualifying event" that would allow employees to enroll in ESI outside the open enrollment period; however, state law and regulations do not govern self-insured plans. Since approximately 40 percent of covered Vermonters are in self-insured plans, the 80 percent

estimate assumes that 20 percent of self-insured plans will not offer enrollment outside open enrollment periods.

- New VHAP applicants will enroll gradually over the 12-month period following the July 1, 2007, effective date of the premium reductions. New ESI applicants will enroll gradually beginning with the October 1, 2007, start date for ESI and Catamount Health premium assistance programs.
- Variable administrative costs, which are primarily staff costs, will increase gradually over the first 12 months of the program until full enrollment is reached.
- Only those administrative costs directly related to ESI implementation and ongoing administration have been used to offset ESI savings. Administrative costs necessary for Catamount Health premium assistance, with or without the ESI component, are not true ESI costs.
- In estimating cost savings, administrative barriers to enrollment have not been factored into the calculation. Administrative barriers could include employer lack of responsiveness to information requests, individuals' failure to follow through on verification requirements, and delay in enrollment in ESI due to job instability.
- Cost savings were estimated using actual claims for SFY06 for the individuals in the VHAP survey. Once the program is implemented, claims histories will not be available on new applicants, in which case an estimated PMPM will have to be used in the cost-effectiveness test. The estimated PMPM may result in less perfect predictions on individual cost-effectiveness than were obtained in the simulation completed for this report.

Section 8: Impact on Employers

As requested by the Health Access Oversight Committee, a section on the impact to employers is added to this report.

Based on an average monthly premium cost of \$456.03 (derived from national statistics and a sampling of plans available in Vermont's small group and association market), and using an average employer contribution of 80 percent, the average monthly cost to employers is \$364.82 per enrolled employee.

Section 8 above estimates that a total of 1443 Vermonters would enroll in ESI plans as a result of the premium assistance program. The total annual cost to employers, therefore, is estimated to be \$6,317,223 using current premium costs. However, if these employees were not enrolled in their ESI plans, employers would be required to pay an annual assessment of \$365 per year per full-time equivalent, or \$526,695 for all 1443 employees assuming they work full time, potentially bringing total employer costs for ESI down to \$5,790,528.

According to a recent article published in *Health Affairs*, two thirds of employers surveyed either strongly agreed or somewhat agreed that “all employers should share in the cost of health insurance for employees, either by covering their own workers or by contributing to a fund to cover the uninsured.”¹¹ In addition, 95 percent of firms offering health insurance indicated that health benefits were very or somewhat important in improving employees’ health, and most employers answered that health benefits were important in recruiting and retaining qualified employees.

Section 10: Conclusions

Implementation of an ESI premium assistance program in Vermont would save money. Using even the most conservative estimates, approximately \$3 million gross per year would be saved in the SFY08-10 time period after accounting for one-time and ongoing administrative costs, and additional future costs of approximately \$1 million per year could be avoided. Although the challenges of operating premium assistance programs are great, other states have been operating such programs for years and report they are saving money as a result of those programs.

Because of the employer contribution to premium costs, it is generally less costly for the state to provide premium assistance to people in ESI plans than in Catamount Health plans. To the extent that premium assistance can be provided at a lower cost, and savings can be realized through enrolling VHAP beneficiaries in ESI, more people will be able to participate in premium assistance programs.

In addition, supporting people in ESI plans will benefit the commercial market.

For these reasons, Vermont should move forward with the implementation of ESI premium assistance.

¹¹“Employers’ Views on Incremental Measures to Expand Health Care Coverage,” by Heidi Whitmore, Sara R. Collins, Jon Gabel, and Jeremy Pickreign, *Health Affairs*, November/December 2006