



IDEAS THAT WORK: **Expanding Health Coverage for Workers**

A Time-Tested Approach to Expanding Health Coverage for Workers: *Hawaii's Prepaid Health Care Act*

In 1974, the state of Hawaii passed the landmark Prepaid Health Care Act (“Prepaid”), launching the nation’s first large-scale program to provide health insurance. Prepaid aimed to provide coverage to the 17 percent of Hawaii’s population who lacked health insurance at the time.¹ By requiring nearly every employer to insure nearly every employee who works 20 hours or more a week, at its peak, the law reduced Hawaii’s uninsured population to just 2 percent.²

Thirty years later, many people credit Prepaid with significantly lowering Hawaii’s uninsured rate, reducing the number of patient visits to emergency rooms (a key indicator of adequate access to health care), and improving life expectancy. On the other hand, critics claim that Prepaid has led to an increase in part-time employment and an accompanying rise in the state’s uninsured population—developments that, although true, can be attributed to a variety of factors that have little or nothing to do with Prepaid itself.

Those who are intent on decreasing the rate of uninsured people within their state have much to learn from Hawaii’s experience at the vanguard of this effort. Notwithstanding the obstacles that remain, Prepaid can pave the way for other efforts designed to expand employer-sponsored health insurance coverage.

How Is Prepaid Structured?

Prepaid requires employers to provide health insurance to employees who work 20 or more hours a week for at least four consecutive weeks and gross at least 86.67 percent of the state’s minimum hourly wage (which translated into \$542 a month in 2003).³ The law exempts those working fewer than 20 hours a week, as well as government employees, seasonal employees, those employed by a family member, people paid solely on commission, and workers subject to collective bargaining (e.g., most unionized workers).⁴

Coverage is mandatory unless a qualified employee has health insurance from another source or declines coverage for religious reasons, a provision designed to prevent employers from coercing potential hires into

declining coverage in exchange for employment.⁵ Minimum plan benefits include physician visits, X-rays and other diagnostic services, maternity care, and inpatient and outpatient hospital visits.⁶ Plans also must meet "prevailing plan standards"—the same standards as those offered by the plan with the largest number of subscribers in Hawaii at any given time.⁷ An appointed Prepaid Health Care Advisory Council reviews plans and makes recommendations to the director of Hawaii's Department of Labor and Industrial Relations about proposed health insurance and self-funded plans.

Prepaid stipulates that employees contribute either half of the cost of the insurance or 1.5 percent of their monthly wage, whichever is lower.⁸ Because of the high cost of health coverage today, all workers generally contribute 1.5 percent of their monthly wage. It is this provision that is most troubling to Prepaid's detractors, who want workers to pay a greater share of rising health insurance costs. This is not an issue that can be resolved by simple amendment alone, however, because Prepaid cannot be altered without voiding the law altogether, a no-win situation that had its beginnings with the passage of the federal Employee Retirement Income Security Act of 1974, or ERISA.

The Prepaid-ERISA Dilemma

The passage of Prepaid in 1974 coincided with the passage of ERISA, a federal law that, among other things, superceded (preempted) state laws regulating employer-sponsored health insurance plans.⁹ In 1981, Standard Oil Co. challenged Prepaid, arguing that ERISA preempted Prepaid as well, and the U.S. District Court of Northern California agreed.¹⁰

In an effort to uphold Prepaid despite the ruling, Hawaii's congressional delegation successfully lobbied for an exemption from ERISA. The exemption, signed into law by President Reagan in 1983, specifically allowed Prepaid to stand *as originally passed* by Hawaii in 1974. And therein lies the problem: Any further changes in the legislation that created Prepaid would render the exemption null and void, thereby rendering Prepaid null and void as well.

It is important to note that, although there are valuable lessons to learn from Hawaii that other states may be able to replicate, another state cannot impose this particular type of employer mandate without a similar congressional exemption from ERISA, and obtaining such an exemption is nearly an impossible task.

Praise for Prepaid

Not surprisingly, of all 50 states, Hawaii today has the highest percentage of employers (81.8 percent) that offer health insurance.¹¹ This is more than 20 percentage points higher than the U.S. average (58.3 percent). Hawaii also has the nation's second highest rate of health coverage for the employed—82 percent—compared to the U.S. average of 73 percent.¹²

Health Benefits of Prepaid

Prepaid appears to have contributed to the superior health that residents of Hawaii enjoy compared to that of other Americans. Hawaii has the highest life expectancy in the U.S. Internationally, the life expectancy of the residents of Hawaii ranks fifth after Andorra, San Marino, Japan, and Singapore.¹³

Compared to the rest of the country, Hawaii has a lower rate of cancer and lower mortality rates caused by coronary heart disease, breast cancer, and lung cancer. Hawaii's rate of emergency room visits—often cited as a key indicator of access to primary health care—is well below the national average, indicating that residents of Hawaii typically seek care at facilities other than hospital emergency rooms. Indeed, of the 30 health indicators studied by the Hawaii Health Information Corporation,¹⁴ Hawaii fares better than the rest of the United States in all but six categories (see table below, Hawaii and U.S. Health Indicators, 2002).

Hawaii and U.S. Health Indicators, 2002		
Health Indicator	Hawaii	United States
Life Expectancy	79.9 years	76.9 years
	Cases per 100,000	
Coronary Heart Disease Deaths	117.7	195.4
Cancer Deaths	160.3	195.8
Lung Cancer Deaths	37.6	55.3
Breast Cancer Deaths (2000)	17.8	26.7
Infant Mortality	5.9	6.9
Cancer Incidence	451.8	510.3
Hypertension	24.1	25.6
High Cholesterol Prevalence	25.1	30.2
Deaths Due to HIV Infection	2.0	5.0
Adult Cigarette Smoking	21.0	23.0

Economic Benefits of Prepaid

The improved health outcomes enjoyed by residents of Hawaii have economic benefits as well, as demonstrated by the fact that the cost of employer-sponsored health coverage in Hawaii is among the lowest in the country.¹⁵ There are two likely explanations for this:

1. The high rate of insurance coverage in Hawaii means that residents of Hawaii tend to receive medical treatment early, and it costs less to treat illnesses and diseases caught in the early stages (or to prevent them in the first place) than it does to treat them later. Thus, health insurers in Hawaii end up paying for fewer medical treatments and, as a result, are able to keep their costs down.
2. Employers pay the bulk of health insurance costs, and Prepaid precludes them from sharing rising insurance costs with their employees. This may prompt employers to put pressure on insurers to keep prices down.

Criticism of Prepaid

It is worth noting that the business community in Hawaii does not overwhelmingly oppose Prepaid.¹⁶ Most business leaders acknowledge that Prepaid has been a success and say that modification, not outright elimination, is what is needed. As Bette Tatum, state director of the National Federation of Independent Businesses, explains, "Our people don't gripe that much about the fact that they have to provide health insurance to their employees—it's the fact that the law is inflexible."¹⁷

The stipulation that employees can pay no more than 1.5 percent of their income toward insurance premiums places the onus of escalating costs on employers. Employers also cannot provide cheaper, alternative plans with fewer benefits and higher copayments because the Prepaid Health Care Advisory Council is loath to authorize plans that deviate from Prepaid's requirement that policies match the standards offered by the most prevalent plan in the state.

Critics cite growing part-time employment and an accompanying rise in the number of uninsured residents of Hawaii—which stood at 10 percent as of 2002¹⁸—as direct results of employers' attempts to bypass the requirements of Prepaid. Jim Tollefson, president and chief executive officer of the Hawaii Chamber of Commerce, believes that the law has prompted companies to increase their reliance on part-time workers.¹⁹ Others note that much of the shift toward part-time employment

may be explained by the changing nature of the state's job market. In Hawaii in the 1990s, full-time workers experienced significant job losses in such industries as agriculture, forestry, fisheries, manufacturing, and construction. Between 1990 and 2000, Hawaii lost an estimated 28,000 jobs in these industries alone.²⁰

Moreover, the structure of Hawaii's economy has changed markedly since 1974, shifting from an economy based primarily on agriculture to one based on tourism.²¹ Two results of this shift have had a profound effect on Hawaii's growing rate of uninsured individuals: the move to a more service-based job market, which tends to rely on part-time employees, and a growing dependence on tourists from abroad, particularly nearby Japan. When Asian economies began to weaken in the mid-1990s, fewer tourists ventured to the islands, prompting a downturn in Hawaii's economy as well.²² Thus, at a time when the rest of the nation was experiencing the boom of the late '90s, Hawaii's economy was faltering.

This economic instability led to a near doubling of Hawaii's unemployment rate, from 3.5 percent in 1990 to 6.3 percent in 2000,²³ and a corresponding jump in the number of uninsured individuals during that time period. This increase cannot be attributed to growing unemployment alone, however. According to the U.S. Department of Health and Human Services, "The increase in Hawaii's uninsurance rate appears to be due, at least in part, to recent restrictions in QUEST [the state's Medicaid managed care waiver program] eligibility that have resulted in 35,000 persons being disenrolled from the program."²⁴

Despite recent increases in the number of uninsured Hawaii residents, the state continues to have one of the highest percentages of insured individuals in the nation. In fact, Hawaii's uninsured rate (9.7 percent) is much lower than the national average (14.7 percent) and lower than the rate in 39 other states.²⁵ This suggests that Prepaid may be helping Hawaii avoid the considerable loss of health insurance experienced by Americans in other states. As Emily Friedman, author of a book on Hawaii's health care history, notes, "Hawaii looks like nirvana compared to the rest of the country."²⁶

Endnotes

¹ Matt Sedensky, "Hawaii's Uninsured Population Is Creating an Unhealthy Situation," *Honolulu Star Bulletin*, October 22, 2003; and U.S. Census Bureau, *Current Population Survey*, March Supplement, 2003. Hawaii's current uninsured rate is 10 percent, compared to 15.2 percent nationally.

² Matt Sedensky, op. cit.

³ *2004 Maximum Weekly Wage Base and Maximum Weekly Benefit Amount* (Honolulu: Hawaii Department of Labor and Industrial Relations, Disability Compensation Division, December 15, 2003); and Hawaii Revised Statutes, *Prepaid Health Care Act*, Chapter 393-11, State of Hawaii, 2003. The 86.67 percent of Hawaii's minimum wage per month is based on a calculation of 20 hours a week multiplied by 4.3, the average number of weeks in a month.

⁴ Hawaii Revised Statutes, *Prepaid Health Care Act*, Chapter 393-5, State of Hawaii, 2003.

⁵ Hawaii Revised Statutes, *Prepaid Health Care Act*, Chapter 393-6, State of Hawaii, 2003.

⁶ Hawaii Revised Statutes, *Prepaid Health Care Act*, Chapter 393-7 (c), State of Hawaii, 2003.

⁷ Hawaii Revised Statutes, *Prepaid Health Care Act*, Chapter 393-7 (a), State of Hawaii, 2003.

⁸ Hawaii Revised Statutes, *Prepaid Health Care Act*, Chapter 393-13, State of Hawaii, 2003. If a worker is disabled and unable to work, Prepaid requires the employer to continue paying its share (98.5 percent) of the employee's health insurance premium for three months following the month he or she becomes disabled. The worker continues to pay the 1.5 percent employee premium during this time.

⁹ Patricia A. Butler, *ERISA and State Health Care Access Initiatives: Opportunities and Obstacles* (New York: The Commonwealth Fund, October 2000).

¹⁰ *Standard Oil Company of California v. Joshua C. Agsalud*, 454 U.S. 801, (U.S. 1981). The Supreme Court subsequently affirmed this decision. See also Gwen Ouye-Nakama, *Historical Brief: Prepaid Health Care Act DRAFT* (Honolulu: Hawaii Uninsured Project, 2003).

¹¹ State Health Facts Online, *Percent of Private Sector Establishments That Offer Health Insurance to Employees, 2001* (Washington: Kaiser Family Foundation, 2001), cited May 13, 2004, available online at www.statehealthfacts.org.

¹² Ibid.

¹³ Health Trends in Hawaii, *Health Status - Life Expectancy* (Honolulu: Hawaii Health Information Corporation, 2000 data), cited April 13, 2004, available online at www.healthtrends.org/health_status/lifeexp.html.

¹⁴ Ibid.

¹⁵ State Health Facts Online, *Average Annual Cost of Employment-Based Health Insurance—Single Coverage, 2001* (Washington: Kaiser Family Foundation, 2001), cited May 13, 2004, available online at www.statehealthfacts.org. Health insurance coverage for singles in Hawaii is the sixth least expensive in the country.

¹⁶ *Hawaii's Prepaid Health Care Act Ensures Health Coverage for Some Workers* (Honolulu: Hawaii Uninsured Project, 2003 statewide survey). Seventy-eight percent of Hawaii's employers said that people in Hawaii should be concerned about those who still lack health insurance coverage in the state.

¹⁷ Matt Sedensky, op. cit.

¹⁸ State Health Facts Online, *Hawaii: Population Distribution by Insurance Status, state data 2001-2002, U.S. 2002* (Washington: Kaiser Family Foundation, 2001), cited May 13, 2004, available online at www.statehealthfacts.org.

¹⁹ John Carroll, "Aloha State Never Expected Such a Long Goodbye to the Uninsured," *Managed Care Magazine*, December 2003, cited May 14, 2004, available online at www.managedcaremag.com/archives/0312/0312.regulation.html.

²⁰ Susan Hooper, "Census Confirms Huge Job Shift," *Honolulu Advertiser*, May 19, 2002.

²¹ Ibid.

²² Matt Sedensky, op. cit.

²³ Susan Hooper, op. cit.

²⁴ Judith Gallagher, *Expanding Health Insurance Coverage for Hawaii's Children* (Washington: Health Systems Research, Inc., Nov. 15, 1996), available online at www.hsrnet.com/pdf/hi-rpt.pdf.

²⁵ *Health Insurance Coverage in the United States* (Washington: U.S. Census Bureau, Issued September 2003) Table 4. Note states with lower uninsured rates than Hawaii have a higher percent of adults (people older than 16) in the labor force. *Percent in Labor Force, Population 16 Years and Over* (Washington: U.S. Census Bureau, American Community Survey 2002).

²⁶ Matt Sedensky, op. cit.