



# IDEAS THAT WORK:

## Expanding Health Coverage for Workers

### Introduction

The majority of Americans (61 percent) get their health insurance coverage through their jobs.<sup>1</sup> Public programs like Medicare and Medicaid cover a large—and growing—share of the population, but employer-sponsored coverage remains the bedrock of our system of health insurance coverage.

Building on this system can be a promising way to extend coverage to those who do not have health insurance—in part because employer-based coverage is so familiar to us, and also because so many of the uninsured are already connected to the workforce. Four out of five Americans who were uninsured for all or part of 2002 and 2003 were in working families.<sup>2</sup> Workers are uninsured primarily because their employers do not offer health insurance or because the workers cannot afford their share of the premiums. In 2003, 34 percent of businesses did not offer health insurance coverage and, in firms that did, workers were asked to contribute an average \$201 per month for family coverage.<sup>3</sup>

While the employer-based system is a promising foundation for expanding coverage, the rate of employer-sponsored health insurance coverage, especially among large employers, is decreasing, and more workers are becoming uninsured. One way to lessen the impact of this trend—and simultaneously extend coverage to currently uninsured workers—is through the enactment of so-called “employer expansion plans” such as those in place in Hawaii and California. These employer expansion plans have several advantages:

- They can preserve employer-provided insurance coverage for workers and stem further losses.
- They can ensure that lower-income workers have access to health insurance on the job.
- They can “level the playing field” among employers.
- They can expand coverage to low-wage workers at a time when strained state budgets make it difficult to expand public programs.
- They can leverage funds from employers to support public programs.



## What Is An Employer Expansion Plan?

An employer expansion plan is a program funded primarily by employers that is designed to extend health insurance to working Americans who lack job-based coverage. Whether they are full- or part-time workers, long-term employees or recent hires, working at a huge company or a mom-and-pop shop, many Americans currently do not have the option of obtaining health insurance through their jobs.

To date, Hawaii is the only state that has fully implemented an employer expansion law.<sup>4</sup> This law, known as “Prepaid” (for the Prepaid Health Care Act), has been in effect since 1974. California passed a similar law in 2003, but it faces a referendum in November 2004 as a result of strong and well-organized opposition from the business community. (The experiences of both Hawaii and California are detailed in case studies in this Tool Kit.)

### Hawaii’s Employer Expansion Plan

Under Hawaii’s Prepaid, employers must offer health insurance to all employees who work more than 20 hours a week, with some exceptions.<sup>5</sup> Thus, Hawaii boasts the nation’s highest percentage of private employers (81.8 percent)<sup>6</sup> that offer health insurance to their employees. 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.<sup>7</sup>



### California’s Employer Expansion Plan

California’s SB 2, passed in October 2003, requires employers to pay a fee to a state-wide purchasing pool or to provide coverage in lieu of paying the fee. Starting in 2006, the law will be phased in according to the size of an employer’s workforce.<sup>9</sup> If and when SB 2 is fully enacted, the law is expected to expand coverage to approximately 1 million uninsured people and to protect the existing coverage of many millions more.<sup>10</sup> However, SB 2 faces stiff opposition and could be overturned through a referendum, Proposition 72, in November 2004.



#### What Does “Pay or Play” Mean?

You may have heard the term “pay or play” used when referring to certain employer expansion proposals. “Pay or play” is an approach where employers may choose either to directly provide health coverage for their workers—play—or to pay a fee to the state to fund a state-wide purchasing pool.<sup>8</sup> Because the plan passed in California is based on this concept, some refer to that state’s plan as a “pay or play” program.



## Why Consider an Employer Expansion Plan in Your State?

- **It can preserve existing employer-provided insurance coverage and stem further losses.** Nationwide, the share of adults under the age of 65 covered by health insurance through their employer dropped from 67 to 63 percent between 2001 and 2003.<sup>11</sup> Low-income workers have been particularly hard hit: During this same period, employer-provided coverage of low-income adults fell from 37 percent to 33 percent.<sup>12</sup> In addition, many large businesses no longer offer coverage. More than 25 percent of the nation's uninsured—nearly 10 million Americans—worked for firms with 500 or more employees (or were dependents of those workers) as of 2001.<sup>13</sup> At the state level, in 2001, the percentage of private employers offering coverage to their workers ranged from 42.9 in Montana to 81.8 in Hawaii.<sup>14</sup>
- **It can help ensure that lower-income workers have access to health insurance on the job.** According to a Kaiser Family Foundation survey, firms with a high percentage of low-wage workers (i.e., companies in which 35 percent or more of the workers earn no more than \$20,000 a year) typically ask workers to contribute significantly more toward the cost of their health insurance than firms with fewer low-wage workers.<sup>15</sup> Moreover, nearly half (45 percent) of the workers who do not have health insurance earn less than \$10 an hour.<sup>16</sup> Employer expansion plans can help alleviate this inequity by requiring that employers, regardless of the wages they pay to workers, provide health coverage.
- **It can “level the playing field” among employers.** Employers who do the right thing and provide health coverage for their workers are competing with employers who are able to charge less for their goods and services because they do not. An employer expansion is a way to make the cost of providing health care part of the cost of doing business for all employers.
- **It can expand coverage to low-wage workers at a time when strained state budgets make it difficult to expand public programs.** Large state budget deficits are expected to continue into 2005,<sup>17</sup> and they may continue well beyond that. In response to limited funds, many states have cut eligibility for public health insurance benefits and/or imposed new or higher copayments. An employer expansion initiative may enable a state to continue reducing its uninsured population even in times of tight budgets.
- **It can serve as a way to leverage funds from employers to support public programs.** If the expansion is designed around a fee paid by employers, the funds may be used to bolster the state's Medicaid match. When a state directs additional funds to its Medicaid program, it can draw down additional *federal* funds because of the federal match system. This can be a boon to states in both good times and bad, enabling states to expand programs in good times and, when times are tight, to avoid program cuts.<sup>18</sup>

## Endnotes

- <sup>1</sup> Robert Mills, *Health Insurance Coverage in the United States: 2002* (Washington: U.S. Census Bureau, September 2003), p. 3.
- <sup>2</sup> Kathleen Stoll, *One in Three: Non-Elderly Americans Without Health Insurance* (Washington: Families USA, June 2004).
- <sup>3</sup> Gary Claxton and Jon Gabel, *Employer Health Benefits, Annual Survey* (Washington: Kaiser Family Foundation and Health Research & Education Trust, 2003), Exhibit 2.1, Exhibit 6.1.
- <sup>4</sup> Thomas Oliver, *State Employer Health Insurance Mandates: A Brief History* (Oakland: California HealthCare Foundation, March 2004); and Patricia Butler, *Revisiting Pay or Play: How States Could Expand Employer-Based Coverage Within ERISA Constraints* (Portland, ME: National Academy for State Health Policy, May 2002).
- <sup>5</sup> Hawaii Revised Statutes, *Prepaid Health Care Act*, Chapters 393-5, 393-6, 393-11, 393-17, 393-19 and 393-22, State of Hawaii, 2003. The following workers are exempt: government employees; seasonal employees; those employed by family members (e.g., a spouse working for a spouse); real estate or insurance agents paid solely by commission; workers subject to collective bargaining; and those who work fewer than 20 hours per week for a given employer.
- <sup>6</sup> State Health Facts Online, *Percent of Private Sector Establishments That Offer Health Insurance to Employees* (Washington: Kaiser Family Foundation, 2001), cited April 7, 2004, available online at [www.statehealthfacts.org](http://www.statehealthfacts.org).
- <sup>7</sup> State Health Facts Online, *Rate of Nonelderly with Employer Coverage by Employment Status* (Washington: Kaiser Family Foundation, 2001), cited April 7, 2004, available online at [www.statehealthfacts.org](http://www.statehealthfacts.org).
- <sup>8</sup> Patricia Butler, *op. cit.*
- <sup>9</sup> Act of Oct. 5, 2003, Ch. 673, (SB 2: Health Care Coverage). Starting in 2006, businesses with 200 or more workers must pay the fee or offer coverage to all permanent, full-time workers (those with more than three months on the job who work more than 100 hours a month) and their families. Starting in 2007, businesses with 50 to 199 employees must pay the fee or offer coverage to permanent, full-time workers, but they are not required to provide family coverage. Businesses with 20 to 49 employees are exempt until such time as California enacts a tax credit for employers of this size. Businesses with 19 or fewer employees are exempt from the law.
- <sup>10</sup> E. Richard Brown, *SB 2 Will Extend Coverage to 1 Million Uninsured Workers and Dependents* (Los Angeles: UCLA Center for Health Policy Research, September 2003).
- <sup>11</sup> Bradley Strunk, *Trends in U. S. Health Insurance Coverage, 2001-2003* (Washington: Center for Studying Health System Change, August 2004).
- <sup>12</sup> *Ibid.* A rise in public coverage from 14.5 percent to 17.6 percent offset much of this decline.
- <sup>13</sup> *The Growing Share of Uninsured Workers Employed by Large Firms* (New York: The Commonwealth Fund, October 2003).
- <sup>14</sup> State Health Facts Online, *Percent of Private Sector Establishments That Offer Health Insurance to Employees* (Washington: Kaiser Family Foundation, 2001), cited April 7, 2004, available online at [www.statehealthfacts.org](http://www.statehealthfacts.org). These are the most recent data available.
- <sup>15</sup> Gary Claxton and Jon Gabel, *op. cit.* In firms where low-wage workers comprise 35 percent or more of the workforce, employees are asked to contribute 36 percent of the cost for family coverage, compared to 26 percent of the cost requested from workers in firms with fewer low-wage employees.
- <sup>16</sup> Sara R. Collins, *On the Edge: Low-Wage Workers and Their Health Insurance Coverage* (New York: The Commonwealth Fund, April 2003).
- <sup>17</sup> *A Brief Overview of State Fiscal Conditions and the Effects of Federal Policies on State Budgets* (Washington: Center on Budget and Policy Priorities, February 27, 2004).
- <sup>18</sup> The Medicaid program is a unique federal and state partnership. To entice states to cover more people and services, the federal government “matches” every dollar that a state invests in Medicaid. The matching rate varies from state to state. In fiscal year 2005, the rate of return per state dollar invested in Medicaid will range from \$6.22 in Mississippi to \$1.92 in Delaware. Rachel Klein, *Medicaid: Good Medicine for State Economies, 2004 Update* (Washington: Families USA, May 2004), p. 3.