
OFFICE OF GOVERNOR RONNIE MUSGROVE
INTEROFFICE MEMORANDUM

TO: GOVERNOR RONNIE MUSGROVE
FROM: MICHAEL BOYD, POLICY & PLANNING DIR.
SUBJECT: CHIP EMPLOYER SPONSORED INSURANCE COVERAGE
DATE: 5/23/00
CC: DONNA SIMMONS, SENIOR ADVISOR

Mississippi and Massachusetts are the only states with federal approval to provide supplements to working parents for children's health insurance coverage under the S-CHIP. Therese Hanna and the DFA staff have noted that this was a major priority of the previous administration; however, there are some significant concerns, especially administrative costs, associated with this element of CHIP and are hesitant to go forward without approval from the Governor's Office. The policy question is: **"Does the state want to proceed with the implementation of the an employer/employee premium assistance program?"**

According to NGA staff, Massachusetts obtained a federal waiver under its Medicaid expansions a number of years ago before the creation of S-CHIP. Joan Henneberry (NGA) noted that the federal government and Massachusetts have had a number of difficulties with this arrangement, and she speculated that no other state would be able to obtain the latitude that Massachusetts has.

Mississippi obtained federally approval for premium assistance element of CHIP in December 1999; however, this plan is not due to implemented until January 1, 2001. This program would provide premium assistance for working families who prefer their employer's insurance coverage to the state's Health Benefits Program and do not currently insure their children. (Please see the attached memo for additional information.)

Federal regulations require a three-tiered test for an employer plan to qualify for the subsidy:

1. *The Benefits Test*--The employer's insurance benefits must be equivalent to or exceed the benchmark insurance plan (e.g., the State and School Employees' Health Insurance Plan;
2. *The Employer-Contribution Test*—The employer must contribute at least 50% of the employee plus children/family premium; and,
3. *The Cost-Effectiveness Test*—The cost of insuring the child through the employer's plan must not exceed the cost of insuring the child through the State's CHIP.

ARGUMENT OPPOSING IMPLENETATION

DFA and Blue Cross's actuaries have completed a review of the premium assistance option and estimate that only 10-12% of the insurance packages provided in Mississippi will qualify under the federal tests. Of this 10-12%, the actuaries are uncertain how many families do not purchase insurance coverage for their children and will be willing to participate. Further, determining which

families are eligible and qualified will consume additional administrative costs that are applicable to the state's 10% administrative cap. Medicaid is currently determining how much of the administrative cap is available for this.

Hanna notes that the federal regulatory requirements are "extremely tight." She concludes that HCFA and the administration did not want this element (i.e., preferred government insurance).

ARGUMENT SUPPORTING IMPLEMENTATION

If you choose to terminate this element of the CHIP program as a result of its administrative costs, this action may become a political issue, as the previous administration was intent upon maintaining the commercial insurance industry in the marketplace. If the state does not pursue the premium assistance element, it will by default require all eligible children to be enrolled in the state's CHIP.

Oregon provides premium assistance for children's health insurance without federal support. They are working with the federal government to convert the program for federal financial support. According to Henneberry (NGA), Oregon has 15 state employees on staff to service approximately 5,000 families under its premium assistance program. This suggests high administrative costs.

POLICY RECOMMENDATION

As Mississippi is facing losing approximately \$15-30 million of its 1998 federal CHIP allotment as a result of the previous administration's lack of action and HCFA's untimely approval process and as the financial costs of are undetermined and only assumed to be exorbitant by DFA staff, **I would recommend that DFA and Blue Cross begin the implementation of this program and continue it for at least two years.** The premium assistance element offers:

- Flexibility and choice for the health insurance consumer;
- Maintains employers' portion for commercial insurance involvement;
- May result in insuring some adults as a result of family insurance packages; and,
- Establishes Mississippi as a health care innovator as no other state has implemented a strategy for this element under commercial insurance, if successful.

Following the first and second years of implementation, DFA and Blue Cross should provide a report enumerating the costs and benefits of the premium assistance program. Following each report, we should revisit the issue of continuing the program element. During these reviews we can assess whether we need waivers for federal regulations or the program element should be scraped.

Regardless of which policy option is chosen, the state will need to amend its CHIP plan with HCFA. Under the current plan, the premium assistance payments must be paid to the employers. According to Hanna, this is contrary to the desire of the Mississippi business community and different from how other states and Medicaid provide premium assistance.