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LEGISLATURE CONSIDERS PROPOSALS TO COVER THE UNINSURED

Approximately 6.7 million Californians under the age of 65 lacked health insurance during 2001.¹ Although this was below the 1998 peak of 7.3 million, 21.3 percent of the state's non-elderly residents remained uninsured in 2001.² Nearly 1.6 million were workers who either were not offered or were ineligible for employer-based insurance.³ In addition, over 1.3 million were under the age of 18.⁴ While the 1997 creation of the Healthy Families Program, coupled with expanded outreach for Medi-Cal and Healthy Families, contributed to a decline in the uninsurance rate among children from 18.3 percent in 1997 to 15.1 percent in 2001, more than 650,000 California children eligible for Healthy Families or Medi-Cal remained uninsured.⁵

Six bills have been introduced in the State Assembly and Senate aimed at reducing the number of California's uninsured. The proposals vary in the degree of reform:

- **Incremental approach.** Two bills, AB 30 (Richman, R-Northridge) and AB 1062 (Bermúdez, D-Norwalk), would expand the existing system to provide health coverage to some of the uninsured. AB 30 would extend insurance to certain low-income workers through an expansion of the Healthy Families Program. AB 1062 would consolidate the Medi-Cal, Healthy Families, and Child Health and Disability Prevention (CHDP) programs with the aim of increasing the number of low-income children who are insured.⁶
- **"Play or pay."** This approach requires employers to either offer insurance to their workers and their dependents or pay a fee into a state-sponsored fund that will provide coverage to enrollees.

¹ U.S. Bureau of the Census, *Health Insurance Coverage Status and Type of Coverage by State – People Under 65: 1987-2001*, downloaded from www.census.gov/hhes/hlthins/historic/hihist6.html on July 11, 2003.

² U.S. Bureau of the Census, *Health Insurance Coverage Status and Type of Coverage by State – People Under 65: 1987-2001*, downloaded from www.census.gov/hhes/hlthins/historic/hihist6.html on July 11, 2003.

³ CBP calculations using California Health Interview Survey data as reported in E. Richard Brown, et. al., *The State of Health Insurance in California: Findings from the 2001 California Health Interview Survey* (UCLA Center for Health Policy Research: June 2002), p. 38.

⁴ E. Richard Brown, et. al., *The State of Health Insurance in California: Findings from the 2001 California Health Interview Survey* (UCLA Center for Health Policy Research: June 2002), p. 9.

⁵ U.S. Bureau of the Census, *Health Insurance Coverage Status and Type of Coverage by State – Children Under 18: 1987 to 2001*, downloaded from www.census.gov/hhes/hlthins/historic/hihist5.html on July 11, 2003; E. Richard Brown, et. al., *The State of Health Insurance in California: Findings from the 2001 California Health Interview Survey* (UCLA Center for Health Policy Research: June 2002), p. 46. Medi-Cal, California's version of Medicaid, provides health care services to children, parents, and aged, blind, and disabled persons who receive public assistance or meet income and other eligibility criteria. Healthy Families, California's State Children's Health Insurance Program (SCHIP), provides health insurance to children in families with household incomes up to 250 percent of the federal poverty level (FPL) and is funded with two-thirds federal funds and one-third state funds.

⁶ The Child Health and Disability Prevention (CHDP) program provides periodic preventive health services to Medi-Cal recipients based on the federally-mandated Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program. CHDP also provides preventive health services to non-Medi-Cal eligible children up to age 19 whose family income does not exceed 200 percent of FPL.

AB 1527 (Frommer, D-Los Angeles), AB 1528 (Cohn, D-Saratoga), and SB 2 (Burton, D-San Francisco and Speier, D-Hillsborough) adopt this approach.

- **Single payer.** This method creates a single, government-based health insurance agency to replace existing public and private health coverage. SB 921 (Kuehl, D-Santa Monica) proposes a single payer system offering coverage to all Californians.

Appendix A compares the major features of these measures.

INCREMENTAL BILLS

AB 30 seeks to expand health insurance to low-income childless workers in businesses with 50 or fewer employees.⁷ The bill would expand Healthy Families coverage to employees whose household income does not exceed 200 percent of the federal poverty level (FPL) and who work for businesses where at least half of workers earn less than 200 percent of the state minimum wage.⁸ Implementation of AB 30 would require a federal waiver to use State Children's Health Insurance Program (SCHIP) funds for childless adults.⁹

Insurance premiums would be financed through state, federal, employee, and employer contributions. Beneficiaries and their employers would share 25 percent of the monthly premium cost, while federal funds would cover 50 percent. The state would contribute the remaining 25 percent of the premium from a new, unspecified revenue source. Annual state costs for benefits received by enrollees are estimated at \$195.0 to \$391.0 million.

AB 30 imposes potentially large cost burdens on enrollees. Nationally, average annual premiums for employer-based HMO coverage, usually the least expensive insurance available, range from \$2,764 for a single worker to \$7,541 for a family of four.¹⁰ Although it asks employees to share part of the premium cost with their employer, AB 30 does not establish a minimum employer contribution. As a result, enrollees could be required to pay the majority of the 25 percent share.

AB 1062 targets the more than 650,000 low-income children under age 19 eligible for, but not enrolled in, Medi-Cal or Healthy Families.¹¹ The bill would integrate the Medi-Cal, Healthy Families, and CHDP programs into one system, the Integrated Child and Youth Health Program. While not dissolving the three programs, coordinating administration could potentially increase enrollment by decreasing paperwork burdens and misperceptions about eligibility. The new program would streamline the current four-page joint enrollment form used by Medi-Cal and Healthy Families into a one-page application. AB 1062 aims to maximize federal funds available for Healthy Families, Medi-Cal, and CHDP.

⁷ The California HealthCare Foundation found that 69 percent of businesses with 50 or fewer employees offered insurance to some or all of their full-time workers in 2000. California HealthCare Foundation, *Why Don't More Small Businesses Offer Health Insurance?* (March 2002), p. 7.

⁸ In 2003, 200 percent of FPL is \$17,960 per year for a single adult and \$24,240 per year for a family of two; 200 percent of the state minimum wage is \$13.50 per hour, or \$28,080 per year.

⁹ In 2002, California was granted a federal waiver to expand Healthy Families to parents with household incomes up to 200 percent of FPL, although implementation has been delayed until July 2006. Implementation of AB 30 would only occur after this expansion has taken place.

¹⁰ The Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits 2002 Annual Survey* (September 2002), pp. 1 and 12.

¹¹ E. Richard Brown, et. al., *The State of Health Insurance in California: Findings from the 2001 California Health Interview Survey* (UCLA Center for Health Policy Research: June 2002), p. 46.

“PLAY OR PAY” BILLS

AB 1527, AB 1528, and SB 2 adopt a “play or pay” approach to insuring more workers and their families.

- AB 1527 would require employers with 51 or more employees to provide employer-based coverage or pay a fee into a new California Health Insurance Fund.¹² Employees would pay up to 20 percent of the premium for fund-based or employer-based coverage.¹³ Employers would pay at least 80 percent of the employer-based insurance premium or an unspecified fee into the state fund. The bill includes a premium assistance provision that would cover all or part of an employee’s share of the premium for employer- or fund-based coverage if that employee is eligible for Healthy Families or Medi-Cal.¹⁴
- AB 1528 would cover employees and their dependents under employers of an unspecified size. In addition to covering workers, this bill would allow self-employed and unemployed individuals and their families to receive health coverage through the new Essential Health Benefits Fund. AB 1528 requires all Californians age 18 or older and their dependents to obtain public or private health insurance or face unspecified civil penalties. Businesses electing to offer employer-based coverage would pay 75 percent of the employee premium and 50 percent of the dependent premium, with employees responsible for the remainder of the cost for coverage.¹⁵ Those employers not offering coverage would pay an undetermined fee into the Essential Health Benefits Fund. The bill includes a provision that would decrease, on a sliding scale based on ability to pay, the premium or fee paid by employers and cost-sharing paid by enrollees.
- SB 2 would also cover employees and dependents under businesses of an unspecified size. As with AB 1527 and AB 1528, employers that do not offer insurance would pay an unspecified fee into a state-sponsored fund, the State Health Purchasing Fund. Otherwise, employers would pay at least 80 percent of the enrollee premium. Enrollees would pay up to 20 percent of the premium for employer- or fund-based coverage. Individuals who are eligible for Medi-Cal or Healthy Families would be enrolled in those programs.

The “play or pay” proposals guarantee the offer of coverage to many workers and their dependents who otherwise would not be offered or would be ineligible for employer-based insurance. “Play or pay” builds upon the employment-based focus of the current health care system. In addition, none of the bills deny coverage for those with pre-existing conditions, an important feature for those who have difficulty obtaining insurance on the private market.

However, “play or pay” may have pitfalls that could hinder the effectiveness of these proposals. In the 2001 California Health Interview Survey, 50.0 percent of uninsured workers who were eligible for, but did not participate in, employer-based health coverage cited affordability as a reason for not having insurance.¹⁶ Moreover, 71.9 percent of those making less than \$9.51 per hour enrolled in employer-based health insurance, compared to 89.0 percent of those making more than \$19.00 per hour.¹⁷ As

¹² This bill does not affect businesses with 50 or fewer employees.

¹³ For purposes of this brief, employer-based insurance is health coverage offered by an employer directly to employees and their dependents. Fund-based insurance is health coverage provided to the beneficiary through a state-sponsored fund that includes fees assessed on employers that do not offer health insurance.

¹⁴ The state, presumably, would pay all or part of the enrollee’s premium if the cost is less than what the state would pay under Medi-Cal or Healthy Families.

¹⁵ Employer contributions would be prorated for part-time employees.

¹⁶ E. Richard Brown, et. al., *The State of Health Insurance in California: Findings from the 2001 California Health Interview Survey* (UCLA Center for Health Policy Research: June 2002), p. 41.

¹⁷ E. Richard Brown, et. al., *The State of Health Insurance in California: Findings from the 2001 California Health Interview Survey* (UCLA Center for Health Policy Research: June 2002), p. 35.

actual beneficiary costs are not specified in the bills, it is unclear whether enrollees would pay more or less in a “play or pay” plan than under the current system.

In addition, it is uncertain whether these proposals would result in net state savings or costs. On the one hand, savings could result if workers who are eligible for publicly funded health care programs, such as Medi-Cal, enroll in employer- or fund-based coverage, thereby shifting costs from the state to businesses. On the other hand, the “play or pay” bills would impose start-up and administration costs on the Managed Risk Medical Insurance Board (MRMIB, which administers Healthy Families) and other state agencies. In addition, indeterminate General Fund costs could result if the fees assessed on employers are not sufficient to provide health insurance for all eligible employees. Costs and savings cannot be determined since the bills do not specify employer fees and other key variables.

SINGLE PAYER

SB 921 would establish a single payer system for all California health care services. A new department, the California Health Care Agency, would administer coverage under the plan. Insurance companies, which currently handle eligibility screening, enrollment administration, and claims processing, would play a diminished role.¹⁸ Functions currently carried out by existing publicly funded health care programs would be integrated into the California Health Care Agency.¹⁹

SB 921 would not require beneficiary cost-sharing during the first two years; however, co-pays and deductibles could be imposed thereafter. Traditionally overlooked populations, such as employees of small businesses, part-time/temporary workers, and those between jobs, who might otherwise find private insurance too expensive, would have access to coverage under SB 921.

SB 921 would aim to consolidate existing federal, state, and local health care program funding to finance the program. In addition, it may be partially financed through increased cigarette, tobacco, alcohol, and other taxes.²⁰ Cost estimates for SB 921 are not available. However, a recent analysis of similar single payer plans estimated that total health care spending in California would have been between \$3.7 billion and \$7.5 billion lower in 2002 if a single payer system had been in place.²¹ Proponents of single payer expect that the increase in spending on previously uninsured individuals would be offset by savings due to bulk purchasing of prescription drugs and reduced administrative overhead. While total spending would be lower, the burden of paying for health care would shift substantially depending upon the financing structure adopted.

Opponents question whether SB 921 can overcome the skepticism that tends to accompany universal coverage proposals. Insured Californians may be wary of giving up their private or employer-based coverage for a government-sponsored plan. Employers likewise may oppose health care taxes and fees if they increase overall costs. SB 921’s biggest challenge may be convincing the public and legislators of the value of universal coverage.

¹⁸ During the transition period, the new single payer system would seek reimbursement for services provided to individuals with access to alternative forms of health care coverage, such as employee benefit contracts and government benefit programs.

¹⁹ The California Health Care Agency’s transition advisory group would evaluate the continued roles of agencies such as MRMIB, which oversees the Healthy Families Program, and the Department of Health Services, which manages Medi-Cal.

²⁰ Provisions in SB 921 concerning employee wage, employer payroll, tobacco, and alcohol taxes were removed pending an analysis by the Franchise Tax Board.

²¹ The Lewin Group, *Cost and Coverage Analysis of Nine Proposals to Expand Health Insurance Coverage in California* (April 22, 2002), p. 32. The Lewin Group notes that their estimates of net state costs are sensitive to changes in per-capita spending as well as to employer and consumer behavior and overall health care trends. Savings under a single payer approach could be less than estimated if assumptions about per capita costs or consumer behavior are inaccurate.

CONCLUSION

In August, AB 1527, AB 1528, and SB 2 will be considered by a legislative Conference Committee convened to resolve differences among the various approaches. Assemblymembers Cohn, Frommer, and Pacheco and Senators Aanestad, Burton, and Speier have been appointed to the Conference Committee.

Veronica Richardson prepared this Budget Brief. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the California Budget Project is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's web site at www.cbp.org.

APPENDIX A: COMPARISON OF KEY PROVISIONS IN MAJOR CALIFORNIA HEALTH CARE REFORM BILLS

	AB 30 (Richman) <i>As Amended July 8, 2003</i>	AB 1062 (Bermudez) <i>As Amended February 20, 2003</i>	AB 1527 (Frommer) <i>As Amended May 15, 2003</i>	AB 1528 (Cohn) <i>As Amended June 2, 2003</i>	SB 2 (Burton & Speier) <i>As Amended March 18, 2003</i>	SB 921 (Kuehl) <i>As Amended June 26, 2003</i>
Goal	To provide health coverage to uninsured, employed childless adults who meet income and employment guidelines.	To increase the number of children enrolled in the Healthy Families, Medi-Cal, and Child Health and Disability Prevention (CHDP) programs.	To provide health coverage to certain employees and their dependents who cannot afford or lack access to employer-based health insurance.	To provide health coverage to employees who cannot afford or lack access to employer-based health insurance, as well as to the self-employed and the unemployed, and to their dependents.	To provide health coverage to employees and their dependents who cannot afford or lack access to employer-based health insurance.	To provide health coverage to all Californians.
How Does It Work?	Expands Healthy Families coverage through a State Children's Health Insurance Program (SCHIP) waiver. Expansion to employed childless adults would not occur until after the state expands Healthy Families coverage to uninsured parents	Creates the Integrated Child and Youth Health Program by combining the Medi-Cal, Healthy Families, and CHDP programs.	Requires employers of 51 or more employees to provide health insurance to their workers or pay a fee to the state in lieu of providing insurance. Creates the California Health Insurance Fund to collect the unspecified employer fees.	Requires employers that do not offer health insurance to their employees to pay a fee to the state. (The bill does not specify an employer size.) Creates the Essential Health Benefits Fund to collect the unspecified employer fees and	Requires employers to provide health insurance to their workers or pay a fee to the state in lieu of providing insurance. (The bill does not specify an employer size.) Creates the State Health Purchasing Fund to collect the unspecified employer fees and	Creates the California Health Care System as the single payer for all health care services provided to California residents.

	AB 30 (Richman)	AB 1062 (Bermudez)	AB 1527 (Frommer)	AB 1528 (Cohn)	SB 2 (Burton & Speier)	SB 921 (Kuehl)
	of children enrolled in the program. ²²		Creates the California Health Insurance Pool to purchase health insurance for eligible employees and their dependents.	other revenues. The fund will be used to purchase health insurance for specific groups. Requires all adults and their dependents who are not enrolled in publicly funded health care programs, such as Medi-Cal or Healthy Families, to obtain health insurance or pay an unspecified fine.	other revenues. The fund will be used to purchase health insurance for uninsured employees and dependents.	
How Is It Financed?	Combines state, federal, employer, and beneficiary contributions.	Combines Healthy Families, Medi-Cal, and CHDP funding.	Combines employee deductible, co-pays, and share of insurance premium cost with employer fees.	Combines beneficiary share of insurance premium, employer fees, and funds appropriated by the Legislature.	Combines employee deductible, co-pays, and share of insurance premium cost with employer fees. Fund may also receive state and federal funds.	Consolidates funding from existing federal, state, and local health care programs. May also be funded through increased taxes, such as on cigarette and tobacco products. Prior versions of the bill included taxes on wages and payroll. ²³

²² In 2002, California was granted a federal waiver to expand Healthy Families to parents with household incomes up to 200 percent of the federal poverty level (FPL), although implementation has been delayed until July 2006 due to the state's fiscal problems.

²³ The tax provisions of SB 921 were removed pending an analysis by the Franchise Tax Board.

	AB 30 (Richman)	AB 1062 (Bermudez)	AB 1527 (Frommer)	AB 1528 (Cohn)	SB 2 (Burton & Speier)	SB 921 (Kuehl)
Beneficiary Costs	Requires beneficiary to share 25 percent of Healthy Families premium cost with employer. However, bill does not cap the beneficiary's share of cost. Coverage requires payment of a high deductible before plan pays for services.	None specified in bill. Some existing programs currently require beneficiary cost-sharing.	Requires beneficiary to contribute up to 20 percent of premium for employer- or fund-based coverage. ²⁴ Beneficiary is also responsible for co-pays and deductibles.	Requires beneficiary to contribute an unspecified share of cost subject to spending caps.	Requires beneficiary to contribute up to 20 percent of premium for employer- or fund-based coverage. ²⁴ Beneficiary is also responsible for co-pays and deductibles.	Does not require beneficiary contributions during initial two years of the program. Co-pays and deductibles may be imposed thereafter. Prior bill versions included an unspecified health care tax on wages.
Employer Costs	Requires employers to share 25 percent of Healthy Families premium cost with beneficiaries. However, bill does not specify the employer's minimum share of cost.	None specified.	Requires employers to pay at least 80 percent of premium or, if electing to not provide insurance, the mandatory fee.	Requires employers to pay 75 percent of employee premium and 50 percent of dependent premium or, if electing to not provide insurance, the mandatory fee. Employer contributions would be prorated for part-time employees.	Requires employers to pay at least 80 percent of premium or, if electing to not provide insurance, the mandatory fee.	None specified. Prior bill versions included an unspecified health care tax on total payroll.
Eligibility	Extends coverage to uninsured childless adults with incomes up to 200 percent of the federal poverty	Serves uninsured children under the age of 19 with family incomes up to 250 percent of FPL.	Extends fund-based coverage to uninsured employees of companies with 51 or more workers	Extends fund-based coverage to uninsured employees in businesses of unspecified size, to	Extends fund-based coverage to uninsured employees in businesses of unspecified size,	Extends coverage to all California residents regardless of employment status. Requires the

²⁴ For purposes of this comparison, employer-based coverage is health insurance directly offered by an employer to employees and their dependents. Fund-based coverage is health insurance provided to the beneficiary through a state-sponsored fund into which employers that do not provide health insurance pay a fee.

	AB 30 (Richman)	AB 1062 (Bermudez)	AB 1527 (Frommer)	AB 1528 (Cohn)	SB 2 (Burton & Speier)	SB 921 (Kuehl)
	level (FPL). Targets low-income workers in businesses with 50 or fewer employees in which at least half of the employees earn less than 200% of the state minimum wage.		and to their dependents. Individuals who are otherwise eligible for Medi-Cal and whose employer- or fund-based insurance lapses due to job loss or other reason may qualify for state subsidies to continue their existing coverage.	unemployed and self-employed individuals, and to their dependents.	and to their dependents. However, individuals who are eligible for Medi-Cal or Healthy Families would be enrolled in those programs.	establishment of eligibility rules for residents temporarily out of the state and for nonresidents temporarily employed in California.
Pre-Existing Condition Exclusions	None.	None.	None.	None.	None.	None.
Benefits	Provides a reduced level of benefits to be determined by the Managed Risk Medical Insurance Board (MRMIB) as compared to those offered by the California Public Employees' Retirement System (CalPERS). Includes a range of preventive and primary care supplements to the	Provides all health services and benefits available under the Medi-Cal, Healthy Families, and CHDP programs.	Includes prescription drugs and physician, hospital inpatient, home health, preventive, and emergency services.	Includes prescription drugs and physician, hospital inpatient, home health, preventive, and emergency services.	Includes prescription drugs and physician, hospital inpatient, home health, preventive, and emergency services.	Includes prescription drugs and physician, hospital inpatient, home health, preventive, and emergency services.

	AB 30 (Richman)	AB 1062 (Bermudez)	AB 1527 (Frommer)	AB 1528 (Cohn)	SB 2 (Burton & Speier)	SB 921 (Kuehl)
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How Does It Address “Crowd Out”? ²⁵	base plan. Imposes a minimum six-month period of ineligibility after termination of prior coverage to prevent employers and/or employees from dropping employer-based insurance.	Bill does not address this issue. The Healthy Families Program currently includes measures to prevent crowd out.	Requires individuals and their dependents who are otherwise eligible for Medi-Cal or Healthy Families coverage to enroll in available employer- or fund-based coverage if it is deemed cost-effective for the state. Reimburses eligible individuals in whole or in part for their share of the premium cost under employer- or fund-based coverage.	Not addressed.	Authorizes MRMIB to develop regulations that address this issue.	Proposes to cover all California residents with a government-based, single payer system, thereby significantly reducing the role of private insurance.
Governance	MRMIB.	Department of Health Services. Federal approval of an amendment to the state’s SCHIP waiver would be required to remove administration of Healthy Families from MRMIB.	MRMIB.	MRMIB.	MRMIB.	Creates the California Health Care Agency. ²⁶ Establishes a “transition advisory group” to determine how to integrate health services provided by current agencies into the new health system.

²⁵ For purposes of this comparison, “crowd out” occurs when employers or employees discontinue employer-based health coverage in favor of publicly funded health care programs. Under a “play or pay” system, “crowd out” may also occur if employers drop existing coverage and pay the state-mandated fee, resulting in previously covered workers seeking insurance through the state-sponsored fund.

²⁶ The California Health Care Agency is created to administer the California Health Care System, the single payer created by SB 921 for California’s health care services.

	AB 30 (Richman)	AB 1062 (Bermudez)	AB 1527 (Frommer)	AB 1528 (Cohn)	SB 2 (Burton & Speier)	SB 921 (Kuehl)
Where Are They Now?	Senate Appropriations Committee as of August 7, 2003.	Assembly Health Committee as of August 7, 2003.	Conference Committee as of August 7, 2003. ²⁷	Conference Committee as of August 7, 2003. ²⁷	Conference Committee as of August 7, 2003. ²⁷	Assembly Health Committee as of August 7, 2003.

²⁷ Assemblymembers Cohn, Frommer, and Pacheco and Senators Aaenstad, Burton, and Speier have been appointed to the Conference Committee.