



**ESTIMATES OF ELIGIBILITY AND ENROLLMENT FOR A PREMIUM  
ASSISTANCE PROGRAM FOR FAMILIES OF CHILDREN ENROLLED IN  
PEACHCARE FOR KIDS**

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## **Executive Summary**

This analysis provides policymakers in Georgia with information about the feasibility and implications of a Premium Assistance program, under which a portion of PeachCare dollars would be used to pay employee contributions for employer-sponsored health insurance (ESI) for some PeachCare eligible children. These children and their families would then have coverage through a private rather than public plan. We use data from multiple sources to estimate the share of those children and families who were enrolled in PeachCare for Kids in 2003 who potentially have access to employer sponsored plans, their likely take-up rate for such a program, the expansion of private coverage that would occur, and the potential increased cost to the state as income-eligible families currently paying for private coverage qualify for the Premium assistance program.

We use data from 2003 for this initial estimate of cost and take up for premium assistance in Georgia. As the enrollment file available for this analysis is comprised of participants and their parents who applied for coverage during 2003, we use premium and cost information from 2003 to generate the estimates of participation. Further, the estimates of participation that we model depend heavily on estimates of the likely response to a change in price (price elasticity). These price elasticity estimates are found in the literature and are determined by studies of populations that are quite different from the PeachCare population. Therefore, we view these estimates as preliminary and plan to revise them when accurate eligibility files and claims data for 2004 can be obtained. From the 2004 eligibility file, we can calculate the response of the PeachCare population to the change in premium introduced in July 2004 so that our estimated price elasticity will be derived from the same sample as used in the analysis. Furthermore, the cost per participant and employer premium information will be in 2004 dollars.

We estimate that of the 251,000 children enrolled in PeachCare for all or part of 2003, at most 125,000 (or 49 percent) are eligible for an employer-sponsored health benefit program. Given a cost neutrality assumption and the 2003 PeachCare per member per month expenditures of \$111 per enrolled child, we assume a maximum potential ESI supplement of \$111 per child in each eligible family and a maximum of three eligible children in each family. We estimate take-up rates that vary between 6,000 and 45,000 children, with a mid-range estimate of 26,000, or ten percent of all PeachCare children. We also estimate that for each of the children transitioned from public to private coverage, one additional family member would gain coverage. Furthermore, we estimate that between 1,000 and 5,000 currently uninsured children with PeachCare eligibility would participate in a premium assistance program. However, it is likely that there would be some 'crowd in' of publicly subsidized private coverage. We estimate that without any change in the current look-back for private coverage, at most 8 percent of the families of the 350,000 children in this income range that are now privately insured would transition to premium assistance, for an added programmatic cost of about 11 million dollars to the state.

Drawing on examples from other states, we describe the implications of mandatory, rather than voluntary, enrollment and estimate the reach of a mandatory program based on the experience of 4 other states that have implemented such programs. We further discuss the need for the state to consider several administrative issues that would be associated with a premium assistance program.

The potential for premium assistance programs to simultaneously shore up the employer-sponsored market, provide a single source of continuous coverage for low and moderate income families, save the state (and federal government) money, and reduce the number of uninsured appears limited. Each of these policy goals might be achievable through a premium assistance program, but not all of them would be simultaneously achievable, as each goal has different implications for how such a program would be designed and implemented. Before forging ahead with such a program, the state would need to prioritize these goals so that the design and administration would reflect the priorities of policymakers.

## **Rationale for Study**

This analysis provides policymakers in Georgia with information about the feasibility and implications of a premium assistance program, under which a portion of PeachCare dollars would be used to purchase employer-sponsored health insurance (ESI) for some children rather than to provide direct care through the public sector. A premium assistance program could have several potential benefits to the enrolled populations and to the state.

For enrollees, coverage through employment-based plans would likely improve continuity of coverage by reducing the potential for late or non-payment of premiums to disrupt coverage. Furthermore, there is evidence that families with multiple sources of coverage are inefficient users of the child's coverage when compared to children in which all family members are covered under the same program. Finally, family coverage would include parents of covered children, some of whom are likely foregoing coverage while their children are enrolled in PeachCare for Kids.

For Georgia, such a program can leverage state dollars with employer and employee contributions to garner coverage for entire families. If uninsured parents are receiving care at all, such care is likely reported as uncompensated care and partially funded through the Disproportionate Share Hospital program with state and federal dollars. In addition, there is substantial evidence of the need to shore up employment-based coverage, particularly among low wage workers and workers at small to mid-sized firms. If a premium assistance program increases enrollment in and demand for ESI, this may have the secondary effect of expanding such plans for other non-qualified workers.

This document first provides background statistics on the children enrolled in PeachCare and the sources of income available in their families, followed by a description of the Georgia labor market and the characteristics of the firms at which PeachCare parents work. We then provide an estimate of the number of PeachCare children with employed parents working at firms that offer health insurance, the likely coverage eligibility of those children, and a range of estimates of take up of ESI that might be expected given a subsidy based on the current per-member per-month cost. Finally, we discuss the potential for crowd-in to increase the cost of a premium assistance program and several alternative premium assistance program structures that might be considered, depending upon policy goals.

## Background and Descriptive Statistics

### *PeachCare Children*

During calendar year 2003, a total of 379,600 children were enrolled in either PeachCare or PeachCare Plus for one or more months. All of these children had applied for coverage through the PeachCare system. The total eligibility months (combined for PeachCare and PeachCare Plus) for these children are shown below.

**Table 1**

#### Eligibility in Months

	Children	Percent of Total
Less than 6 months	35,020	9%
6 to 11 months	97,997	26%
Full Year	246,583	65%
Total Children	379,600	

The mean number of months enrolled for all children is 10.5, with the majority of children enrolled for the entire calendar year. Almost 15 percent of these children (almost 56,000 children) had eligibility for both PeachCare and PeachCare Plus during the year. Many of these (20 percent or 11,000) were likely dually enrolled because of aging out of PeachCare Plus (ages one and six at year end), but over 44,000 moved between the programs for reasons other than the eligibility changes that come with attaining ages one or six<sup>1</sup>.

For purposes of the remaining evaluation, we only consider those children with at least one month of PeachCare eligibility. Although many of the PeachCare Plus children have a working parent and potential access to ESI, inclusion of these children would mandate that the program be administered under Medicaid Health Insurance Premium Payment (HIPP). Analysis of such a program would require obtaining information about all of the Medicaid eligible children, not just those obtaining coverage because of their application for PeachCare.

The tables below describe the 251,000 children from over 157,000 families who were enrolled for at least one month in PeachCare during 2003.

**Table 2**

#### Location

	Children	Percent of Total
Atlanta	117,650	47%
Other MSA	30,213	12%
Rural Georgia	102,950	41%

<sup>1</sup> That is, over 44 thousand children live in families with income fluctuations such that their eligibility moves from Medicaid to PeachCare or from PeachCare to Medicaid. This group of children comprises over 17 percent of the total PeachCare enrollees.

Enrollment in PeachCare for Kids mirrors the distribution of the population in Georgia. Rural Georgians comprise 38 percent of the total population, while metropolitan Atlanta residents comprise 49 percent of the total population.

**Table 3**

**Monthly Family Income**

	<b>Children</b>	<b>Percent of Total</b>
Below \$500	11,144	4%
>\$500 to \$1200	17,730	7%
>\$1201 to \$1725	57,675	23%
>\$1726 to \$2400	82,719	33%
>\$2401 to \$3100	55,159	22%
>\$3100	26,469	11%

The mean monthly family income of these children (\$2,225) is well below the mean family income for all children in Georgia (\$5,146) as measured by the Current Population Survey (CPS) for calendar year 2003. Over one-third of the children enrolled in PeachCare live in families with monthly family income below \$1,725 and over two-thirds live in families with monthly incomes below \$2,400. Statewide, less than one-third of all children live in families with monthly incomes below \$2,560.

**Table 4**

**Family Size**

	<b>Children</b>	<b>Percent of Total</b>
1 child	76,941	31%
2 children	102,185	41%
3 children	51,613	21%
4 or more children	20,157	8%

PeachCare families are slightly smaller than all families with children in Georgia as measured by the CPS. Among all families with children in Georgia, 25 percent have only one child age 18 or younger and 10.5 percent have 4 or more children ages 18 and under. As shown above, 31 percent of PeachCare families have only one child age 18 or younger and only 8 percent have 4 or more children in this age range.

***PeachCare Parents***

A separate file provides information about the parents of the children who are enrolled in public coverage through PeachCare or PeachCare Plus. There are 214,605 unique families represented in the parent file. We have data on a total of 355,580 unduplicated sources of income for these 214,506 families. Of these sources of income, 227,369 are income related to employment.

When we eliminate the parental records for those children only eligible for PeachCare Plus, we retain information from almost 158,000 families with almost 264,000 sources of reported income. The table below describes the sources of income reported per family.



**Table 5**

<b>Source of Income</b>	<b>None</b>	<b>One</b>	<b>Two or More</b>	<b>Total Families</b>
Employment	8%	74%	18%	157,518
Child Support	76%	21%	3%	
Social Security	99%	1%	0%	
Unemployment / Worker Compensation	97%	3%	0%	
Other Income	96%	4%	0%	
Child Care (Out-flow)	75%	22%	3%	

About eight percent of the families granted coverage for children under the PeachCare for Kids program have no source of income related to employment, almost 75 percent have a single source of employment related income, and almost 18 percent report more than one source of employment related income.

The table below describes the income reported for the almost 172,000 work-related sources of income associated with families of PeachCare enrollees. The third column in the table translates the reported income into an annual income assuming full-time employment. It is important to note that the data provided for this analysis did not provide a measure of hours, days, or weeks worked, so the estimate of annual income should be seen as the upper limit if the employment is full time.

**Table 6**

<b>Frequency of Reported Income</b>	<b>Mean Income</b>	<b>Mean Annual Estimate</b>	<b>Share of Records</b>
Hourly	\$ 11	\$ 21,453	4%
Weekly	\$ 414	\$ 20,702	45%
Bi-weekly	\$ 980	\$ 24,502	25%
Semi Monthly	\$ 962	\$ 23,093	2%
Monthly	\$ 1,637	\$ 19,644	16%
Annual	\$ 25,716	\$ 25,716	8%

Among all working parents of PeachCare children, those reporting income based on a monthly total appear to earn the least and those reporting income based on an annual salary the most, yet all of the reported incomes are below average for the state. While mean annual income for all private sector workers in the state is just over \$35,000, over 95 percent of the employment-related sources of income have an estimated annual upper limit income of \$35,000 or less, and 50 percent of these sources of employment-related income have an estimated annual upper limit income of \$20,000 dollars or less.

### *Working versus non-working families of PeachCare children*

The eight percent of families with children covered under PeachCare who do not have a source of employment-related income are only marginally different from those PeachCare families with work-related income. Families with work-related income are significantly larger (1.7 versus 1.5 children) The calculated income as a percent of the federal poverty level (FPL) for families with work-related income is significantly higher than for families without work-related income (157 versus 78 percent). However, annual per-child expenditures and months enrolled are not significantly different between these two groups.

### *Matching working parents to employers*

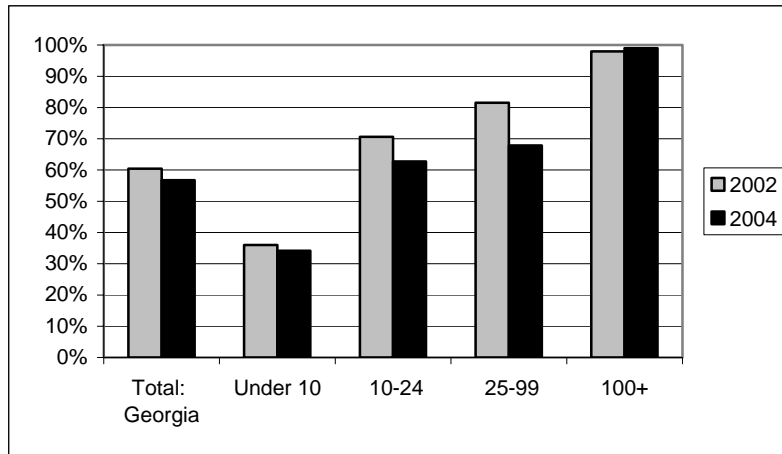
Parents generally report the source of their employment income by employer name. We use those employer names to attempt to match PeachCare parents to a specific employer in our employer data base (described below). However, some of the employer names reported cannot be matched to an employer for the purpose of estimating the likelihood of eligibility for coverage under a premium assistance program. Therefore, we classify our parental work records as “matched” and “unmatched” based on our ability to identify the relevant employer for each work record.

### *Employers in Georgia*

There are over 4,000,000 participants in the labor force in Georgia, and over 150,000 private sector and local public sector establishments employed almost 3.5 million workers during the last quarter of 2003. Under a State Planning Grant for the Uninsured from the Health Services and Resources Administration (HRSA), the State of Georgia collected information on health insurance benefits from a representative sample of over 1,700 of these firms during late 2004. The sample for this survey was drawn from the ES202 file. The ES202 Firm-level Employment and Address Data is collected by the Georgia Department of Labor and compiled from the Tax and Wage Report, which is filed quarterly by each Georgia employer covered by unemployment insurance legislation. The ES202 file contains a field for the firm’s trade name and another field for the corporate and legal name. In addition to the firm’s names, the ES202 file provides valuable information about the characteristics of the employer that influence the likelihood an employer offers health insurance benefits, such as firm size, average wages, and industry. Using the responses from the survey, we are able to estimate the likelihood that each of the ES202 firms offers health insurance and the likely cost of that coverage for individual and family plans.

Of Georgia’s 151,000 establishments, 57 percent offered at least one health insurance plan to at least some employees during the latter part of 2004. This is down from 60 percent in 2002. As in 2002, it remains true that firm size is the most important predictor of whether or not an establishment offers health insurance to at least some of its employees. While 34 percent of Georgia’s smallest establishments (those with fewer than 10 employees) offered a plan in 2004, almost all of Georgia’s firms with 100 or more employees offer at least one plan. Offer rates remain essentially unchanged among these largest employers in 2004. As figure 1 (below) demonstrates, the decline in likelihood of offering coverage is most significant among the establishments with 25 to 99 employees, declining from 82 to 68 percent in just two years.

**Figure 1**  
**Share of Establishments Offering One or More Health Plans, 2002 and 2004**



We used the information from the 2004 employer survey to estimate the availability of ESI for parents of PeachCare children. Parents report their employer’s name as part of the application process for PeachCare. These names are self reported by the parents and are captured as a text field in the parental database associated with the PeachCare plan. This self-reporting process means that the field is not always easily matched to a corporate or legal employer name or a trade name in the ES202 file. Fifteen different algorithms were developed to match all or part of the name provided by parents to all or part of the trade or corporate legal name of a firm in the ES202 file.<sup>2</sup> We successfully matched 88,332 out of 227,000 sources of employment income to a Georgia employer for a match rate of 42 percent. Random testing of over 1,000 matches to ascertain the potential error rate found fewer than four percent possible errors. We limit the matched records to parents with a child in PeachCare for a total of 64,195 sources of employment income that can be matched to a specific Georgia employer (37 percent of all work related income records).

*Matched versus unmatched parental work records*

When we compare the characteristics of those working parents whose employer was identified with the characteristics of those whose employer was not identified, we find no significant differences. Family size and family income for matched and unmatched parental records are almost identical. We hypothesize, however, that the matching process was more likely to be successful for parents working at larger firms. The evidence for and implications of this are discussed below.

***Firm Characteristics where PeachCare Parents Work***

As the table below demonstrates, significantly more parents of PeachCare children work at smaller firms than do employees in the general population. While less than 20 percent of all Georgia workers are employed by firms with fewer than 25 employees, over 42 percent of PeachCare parents work at these small firms.

<sup>2</sup> Details from these algorithms are available upon request.

**Table 7**  
**Comparison of Firm Size:**  
**All Georgia Workers Compared to PeachCare Parent Workers**

	<b>General Employee Population</b>	<b>Working PeachCare Parents - Matched</b>
Under 10	9.2%	29.8%
10 to 24	9.4%	12.4%
25 to 99	16.9%	16.5%
100-999	32.2%	22.5%
1000+	32.3%	18.8%

Similarly, significantly more parents of PeachCare children work at firms that pay lower average wages than do employees in the general population. While less than half of all workers in Georgia are employed at firms that pay, on average, less than \$2,500 per month (\$30,000 per year), almost 57 percent of all PeachCare parents who work are employed at these low-wage firms.

**Table 8**  
**Comparison of Firm Average Monthly Wages:**  
**All Georgia Workers Compared to Firms Employing PeachCare Parents**

<b>Average Monthly Wages</b>	<b>General Employee Population</b>	<b>Working PeachCare Parents - Matched</b>
Under \$1,000	9.2%	10.4%
\$1,000 to \$1,749	16.9%	21.8%
\$1,750 to \$2,499	20.2%	24.2%
\$2,500 to \$3,499	23.7%	21.2%
\$3,500 to \$4,999	16.7%	13.6%
\$5,000 or higher	13.3%	8.1%

These characteristics help explain the fact that our upper-bound estimate of PeachCare parents working for a firm that offers coverage is only 68.4 percent, while, across all employees in the state, 85 percent work at a firm that offers health insurance. This estimate should be seen as an upper bound of potential access to ESI among parents of all PeachCare children, if, as we suspect, the matching process was more likely to be successful for large - rather than small - employers. To test this hypothesis, we compare the firms that matched at least one PeachCare working parent to firms with no matches in the table below.

**Table 9**  
**Comparison of Firm Size:**  
**Firms that Matched One or More Worker, Firms with No Matches**

<b>Number of Workers</b>	<b>Total Firms</b>	<b>Matched Firms</b>	<b>Non-matched Firms</b>
Under 10	52%	20%	67%
10 to 24	15%	11%	17%
25 to 99	10%	14%	8%
100-999	14%	31%	6%
1000+	9%	25%	2%

Although PeachCare parents work at smaller firms to a greater extent than the general population, the smaller firms were less likely to match a record in the data base. This is not surprising, given the nature of the data used for this study, but, again, it suggests that our estimate of coverage availability should be seen as an upper bound.

Working for a firm that offers coverage is no guarantee of eligibility for coverage, since workers may be excluded from eligibility for a variety of reasons. Many firms exclude part-time workers from eligibility for coverage. Furthermore, firms may have exclusionary periods that restrict workers from eligibility for coverage during an initial phase of employment. Other workers are ineligible because they are classified as temporary or seasonal workers. Across all workers in Georgia, eligibility as a share of total workers at firms that offer coverage is almost 80 percent. While PeachCare parents are more likely to work part-time, thus potentially reducing the share that is eligible from the 80 percent estimate, they also work disproportionately at small firms, which have slightly higher eligibility rates than the largest firms. Thus, we use the state average for eligibility as a share of offer rates to derive the table below. The table shows our upper bound estimate of PeachCare for Kids families and children with a worker at a firm that offers coverage and our upper bound estimate of families and children eligible for that coverage based on the data described thus far.

**Table 10**  
**Estimate of Eligibility for ESI among PeachCare Children**

	<b>Children</b>	<b>Families</b>
Totals	250,896	157,518
At least one source of employment	230,111	143,045
Estimate: Parent working where coverage offered	156,348	97,814
Estimate: Parent eligible to enroll in offered plan	125,032	79,025
Share Eligible for Coverage	49.8%	50.2%

Thus, we estimate that no more than half of the children enrolled in PeachCare for Kids have a parent who is eligible for ESI coverage.<sup>3</sup>

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<sup>3</sup> These estimates are consistent with other published results: The Institute for Health Policy Solutions estimated in 2003 that just over 50 percent of children with incomes between 100 and 200 percent of FPL had access to ESI.

## Take Up Rates

Under a voluntary premium assistance program, families with children who qualify for public coverage would be able to choose between enrolling the children in PeachCare at an income relevant premium or using the subsidy provided by the state to enroll the family in the employer sponsored plan at their place of employment. The likelihood that a family will choose PeachCare for their children over participation in the ESI coverage for which they are eligible depends in part upon the respective cost of each option. The marginal cost for those choices changes with:

- Potential contribution available through the premium assistance program, which we model as a function of family size,
- Required contributions for family and single coverage, which are dependent upon firm size,
- Current participation of parent in employee-only coverage, and
- Current contribution levels for PeachCare participation.<sup>4</sup>

In order to estimate the premium change each family will face, we make several assumptions:

1. We use the PeachCare premiums that were in effect in 2003 (\$10 for a single child, \$20 for two or more children over age six with family income of 150% FPL, \$15 for two or more children over age six and family income 150% FPL or lower).<sup>5</sup> Based on the calculated family income provided to us and 2003 federal poverty rates obtained from the Census Bureau, we estimate that among children with working parents, 12 percent pay no premiums, 33 percent pay premiums at the lower rate, and 55 percent pay the highest level of premium.
2. We estimate employee share of premium for single and family coverage based on an interpolation from the 2002 and 2004 Georgia Employer Survey. The firm size adjustments for these contributions are obtained from the Medical Expenditure Panel Survey Insurance Component (MEPS-IC). The estimated contributions for individual and family coverage by firm size are shown in the table below.

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Estimates of eligibility for ESI in Rhode Island were similar, while Colorado estimates of eligibility for ESI among all publicly covered children (Medicaid plus S-CHIP) were somewhat lower at only 36 percent.

<sup>4</sup> Marginal cost would also include the expected difference in cost sharing based on the plan design. For simplification of these estimates, we assume that the higher expected out of pocket cost for co-payments and deductibles a family might experience under ESI will be at least offset by the value of covering all family members under a single plan, adding coverage for previously uninsured family members and a likely expansion of access to office-based physicians.

<sup>5</sup> Once we obtain the 2004 eligibility file, we will revise these estimates with the up-to-date premiums that are scaled by family income up to a maximum of \$70. In general, the higher PeachCare premiums will induce a slightly larger share of the eligible families to choose ESI over remaining in PeachCare. However, the base number of enrollees will be smaller because of the higher premiums.

**Table 13**

<b>Estimated Employee Premium Contributions by Firm Size - 2003</b>	<b>Single</b>	<b>Family</b>
Under 10	\$ 46.97	\$ 279.18
10 to 24	\$ 50.26	\$ 348.27
25 to 99	\$ 61.67	\$ 410.61
100 to 999	\$ 64.52	\$ 348.59
1000+	\$ 65.51	\$ 284.05

3. We assume that the per-member per-month (PMPM) (\$111 for 2003) for current PeachCare enrollees would determine the potential subsidy, with a maximum subsidy of 100 percent of the employee share for the premium or three times the PMPM for families with three or more children.
4. We use CPS data to estimate that slightly less than 25 percent of PeachCare eligible children have a parent currently enrolled in ESI. We assume that all of these parents are enrolled in employee-only coverage.

#### ***Estimated Price Change for Family Coverage***

All of this information is used to determine the change in the marginal contribution required for family coverage under a premium assistance program. To clarify this, we provide an example below for six different families: Families with one, two, or three children, and families in which the parent has elected employee-only coverage or in which the parent remains uninsured. The examples below assume the families have children over age six and pay PeachCare premiums at the rate of \$10 for one child and \$20 for two or more children. Furthermore, the examples assume eligibility for ESI at a firm with 25 to 99 employees, where monthly employee contributions are \$411 for family coverage and \$62 for individual coverage.

**Table 14**

	<b>Current Monthly Payments for PeachCare Coverage*</b>	<b>Potential Premium Assistance**</b>	<b>Current Marginal Cost for ESI Family Coverage***</b>	<b>New Marginal Cost for ESI Family Coverage****</b>	<b>Percent Change in Price of Family Coverage with Premium Assistance</b>
<b>Parent Uninsured</b>					
One Child	\$ 10.00	\$ 111.00	\$ 400.61	\$289.61	-28%
Two Children	\$ 20.00	\$ 222.00	\$ 390.61	\$168.61	-57%
> Two Children	\$ 20.00	\$ 333.00	\$ 390.61	\$57.61	-85%
<b>Parent Covered by ESI</b>					
One Child	\$ 71.67	\$ 111.00	\$ 338.94	\$227.94	-33%
Two Children	\$ 81.67	\$ 222.00	\$ 328.94	\$106.94	-67%
> Two Children	\$ 81.67	\$ 333.00	\$ 328.94	0	-100%

\* Total PeachCare + Employee Only for ESI if relevant

\*\* Number of Children\* PMPM

\*\*\* Contribution for Family ESI less current monthly payments

\*\*\*\* Current Marginal Cost for ESI less premium assistance available, with maximum support = premium

As this table demonstrates, the effect of premium assistance under this model varies substantially between families depending upon family size and whether or not the parents have chosen to enroll in employee only coverage when their children are covered under PeachCare.

***Price Elasticity***

The choice each family will make when faced with multiple coverage options at different prices will also depend upon the estimated price elasticity of demand for coverage. Estimates of the elasticity of take-up (or percent increase in families buying private coverage with the percent decrease in premium) of employer-sponsored health insurance vary substantially. Recent estimates of elasticity with respect to employee premiums have been quite low. Gruber and Washington (2005) estimate a very small impact of premium subsidies on take-up (-0.02). Chernew, Frick, and McLaughlin estimate elasticity with respect to contributions of -0.0666, and Cutler (2002) finds an estimated elasticity of take-up of -0.12.

On the other hand, Cutler and Reber (1998) estimate the effect of employee contribution on health plan choice from -0.30 to -0.60. Royalty and Solomon (1999) utilized data from a single employer in a setting where benefits are standardized and employees pay the full marginal cost of their health plan option for both single and family level coverage. They calculate the price elasticity based on the employee share of the premium ranging from -.44 to -.76. These higher estimates are measured by evaluating the change in plan choice for employees who already purchase coverage when faced with an exogenous price shock, while the lower estimates are obtained by looking at the effect of a price change on purchase/non-purchase decision. For this particular analysis, it is not clear whether those who have opted to cover their children through PeachCare would behave more like those facing a choice of plans, with higher elasticity of demand, or those choosing whether or not to purchase at all, with relatively inelastic demand.

We use the average of these estimates (-.3) to estimate take-up, then use the average of the lower elasticity estimates (-.068) to estimate a lower bound and the average from the high elasticity estimates (-0.52) to estimate an upper bound for take-up rates. The results are shown below:

**Table 15: Estimate of Take-Up of ESI for Voluntary Premium Assistance Program**

	Family Size			Total
	1 Child	2 Children	3 or More Children	
Monthly Subsidy	\$ 111	\$ 222	\$ 333	
Estimated Children Eligible	43,725	51,164	30,144	125,033
<b>Point Estimate of Take Up</b>	<b>4,965</b>	<b>11,851</b>	<b>9,153</b>	<b>25,969</b>
Estimated Take Up (Lower Bound)	1,125	2,686	2,075	5,886
Estimated Take Up (Upper Bound)	8,607	20,541	15,866	45,013



The mid-range estimate of participation in a premium assistance program targeted at families of PeachCare children is 25,969 children, with a range from 5,886 to 45,013 children, or between two and 18 percent of all PeachCare children. It is important to note that these estimates are consistent with the experiences of other states, where enrollment in premium assistance programs has been generally disappointing. Pennsylvania, which has almost 3 million children, had enrolled 21,000 members in its Medicaid Health Insurance Premium Payment (HIPP) program as of April 2004<sup>6</sup>. This is one of the highest enrollment levels of any state, while Rhode Island's reported enrollment of 3,500 is one of the highest in terms of the percentage of individuals enrolled.

### ***Coverage Expansion***

We also anticipate an expansion of private coverage to parents of PeachCare children through such a program. Based on data from the Current Population Survey (CPS) for Georgia, we estimate that more than half of the children enrolled in PeachCare have at least one family member lacking coverage and that the total number of uninsured family members of PeachCare enrollees is 80 percent of enrolled children. We anticipate that children in families with an uninsured family member would comprise many of the families opting for premium assistance. Therefore, the state would likely reduce the number of currently uninsured adults by one individual per child enrolled in a premium assistance program.

### **Crowd Out (or “Crowd In”)**

There is a generally accepted belief that private coverage is more valuable than public coverage to those seeking health insurance. Therefore, if the state were to make premium assistance available to low income workers with privately insured children, it is likely that a significant number of workers currently paying for family coverage would take advantage of the subsidy. This is commonly referred to as ‘crowd out’ of private insurance. In this instance it does not result in fewer privately insured individuals but rather a shift in the financing of their coverage to the state (if allowed). Therefore, we use the term “crowd in” because the individuals are covered in the private sector, but have accessed that coverage using some public dollars. Furthermore, some of the workers with uninsured children who are not enrolled in PeachCare but who have access to ESI in the private sector would apply for the premium assistance program. This “crowd in” would substantially increase the cost of the premium assistance program.

The table below describes the healthcare coverage status of children in Georgia living in families with incomes under 235 percent of the FPL but above the Medicaid eligibility limits based on their age by the work status of the parent reporting the greatest annual earnings (the family head).

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<sup>6</sup> “Pennsylvania: Health Insurance Premium Assistance Program,” The Commonwealth Fund, [http://www.cmwf.org/tools/tools\\_show.htm?doc\\_id=235063](http://www.cmwf.org/tools/tools_show.htm?doc_id=235063)

**Table 16**  
**Coverage Status of PeachCare Eligible Children by Work Status of Family Head**

	<b>PeachCare Eligible Children</b>		
	<b>Parental Work Status</b>		
	Total	Full-Time, Full Year Worker	Part-Time, Part-Year or Non-Worker
Total Children	626,046	530,260	95,786
Private Coverage	364,332	324,916	39,416
Employer Coverage	<b>344,203</b>	309,903	34,300
Public Coverage	223,585	172,082	51,503
Uninsured	102,213	<b>86,236</b>	15,977

Of these children, about 86,000 are uninsured but living in a family with a full-time, full-year worker. If eligibility for ESI for these 86,000 children mirrors that of PeachCare children, just about half would be eligible for coverage and, therefore, candidates for participation in a premium assistance program. We estimate that take up among this group would be lower than the rates for current PeachCare enrollees, as these families have already opted not to enroll in the lower cost PeachCare program. Nonetheless, between 1,000 and 5,000 of these children would potentially participate in a premium assistance program. It is important to note that these newly covered children should not be considered under “crowd in” if they were previously eligible but not enrolled in PeachCare.

The larger potential problem with crowd in will arise from the almost 350,000 children in this income bracket who are already participating in ESI without any premium assistance. Depending upon program design, it is likely that some number of the parents of these children would accommodate any programmatic stipulations in order to take advantage of the premium assistance, especially if doing so would enable their children to maintain current coverage at significantly lower rates. LoSasso and Buchmueller (2004) estimate crowd-out of private coverage because of S-CHIP to be as high as 50 percent. On the other hand, individual states have reported substantially lower estimates of crowd out between 5 and 7 percent.<sup>7</sup> There are no known estimates of the levels of “crowd in” associated specifically with a premium assistance program. Given the 6 month waiting period for eligibility and the existing stability of PeachCare, it is probable that crowd-out of 50 percent as found by LoSasso and Buchmueller is higher than expected..

We consider the experience of Rhode Island’s Rite Share program, which has no requirement for a period without coverage prior to eligibility for premium assistance. After 3 years, the total enrollment in Rite Share is about 6,000 enrollees, of which about 4,000 are children. If we consider all of the potentially eligible children in Rhode Island with incomes under 250 percent of FPL, (approximately 104,000 children), about 49,000 were covered under employer plans (average for 2001-2003, Current Population Survey). The 4,000 enrollees reflect 3.9 percent of the potentially income eligible population and 8 percent of those with private coverage during

<sup>7</sup> See the report on crowd out found at [http://www.ahrq.gov/chip/content/crowd\\_out/recentdev.htm](http://www.ahrq.gov/chip/content/crowd_out/recentdev.htm).

that time period. Even if we make the unlikely assumption that all of the enrolled children are from previously covered families (crowd-in), this would imply maximum crowd-in of 8 percent after 3 years<sup>8</sup>. Therefore, after adjusting for differences in the private coverage market, work status, and firm size of Georgia families compared to Rhode Island families, we estimate as an upper bound that crowd-in after 3 years might reach 28,000 children (8 percent of the children currently covered through ESI). These additional covered children would impose a cost of approximately 11 million state dollars (37 million total dollars). Given that the reported Rite Share enrollment is largely from previously covered children, these estimates should be seen as an upper bound of the 3 year crowd in potential. If the state maintains a 6 month waiting period for eligibility, crowd in and the associated costs would likely be substantially below this estimate.

### **Policy Options and Policy Goals**

Under Health Insurance Flexibility and Accountability (HIFA) waivers, states have substantial latitude in designing a premium assistance program. Even in the absence of a HIFA waiver, SCHIP provisions allow for coordination with private coverage, although the coordination and cost-effectiveness requirements are more restrictive than under HIFA. In order to understand the rationale and impact of policy options that accompany a premium assistance program, whether under HIFA or as a component of SCHIP, we draw on the reported experience of other states and consider those experiences in light of the health insurance sector in Georgia in the section below.<sup>9</sup>

#### ***Mandatory versus Optional Premium Assistance***

We have modeled a voluntary system with a premium subsidy that is based on the PMPM for public coverage. As noted by Neuschler and Curtis (2003), this “voluntary approach would be in compliance with federal requirements for premium assistance under SCHIP, because the additional premium the worker has to pay to enroll all family members in their employer’s plan would not ...count towards the five percent of the income cumulative limit on cost-sharing on behalf of children.” The take-up rates estimated in this report, however, particularly under the inelastic demand assumptions supported by recent literature, are quite low.

Some states with premium assistance programs have approached this obstacle through a mandatory enrollment process. Iowa, Massachusetts, Maryland, New Jersey, Oregon, Pennsylvania, Rhode Island, Texas, and Wisconsin all mandate enrollment in ESI using premium assistance as the only publicly subsidized coverage options for eligible enrollees under some circumstances. For example, Wisconsin has stipulated that income eligible applicants for BadgerCare with eligibility for ESI must participate in the private plan rather than enroll in public coverage if their employer pays 80 percent of the premium for family coverage. If the employer pays less than 80 percent of the family premium, premium assistance dollars are used to supplement employee contributions so that the net cost of coverage to the employee is no more than 20 percent of the cost of the plan. Similarly, Iowa has required applicants for public

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<sup>8</sup> In an analysis of Rite Share for the state of Connecticut, Robin Cohen reports that in fact most of the 5,100 enrollees are previous Rite Care enrollees and hence not individuals previously covered under ESI. For further details see <http://www.cga.ct.gov/2005/rpt/2005-R-0377.htm>.

<sup>9</sup> This section draws heavily on reports by Ed Neuschler and Rick Curtis, “Premium Assistance: What Works? What Doesn’t?” (Institute for Health Policy Solutions, April 2003) and by Claudia Williams, “A Snapshot of State Experiences Implementing Premium Assistance Programs,” (National Academy for State Health Policy, April 2003). These reports provide more exhaustive treatment of the questions raised briefly in this section.

coverage to provide verification from their employer of both wages and the availability and contribution requirements for private coverage.

Implementation of a mandatory program creates a host of secondary policy considerations, including:

- Determining the characteristics of a plans that will qualify it for mandated coverage through ESI rather than PeachCare,
- Administrative questions about how to verify employer plan characteristics and contribution levels,
- Potential ERISA limitations on the state’s ability to compel employers to provide information regarding employee benefits,
- Establishing a process for eligibility determination and enrollment that manages the time consuming process of verification of information regarding ESI,
- Ensuring through state regulation that qualification for public coverage is considered a “qualifying event” for fully insured plans so that workers can enroll without waiting for the next open enrollment period.

Although we estimate that as many as 49 percent of current PeachCare enrollees may be eligible for an employer-sponsored plan, under a mandatory enrollment requirement not all of these individuals could be shifted into private plans. Mandatory enrollment would be limited based on specifications regarding the level of employer contribution to family coverage, the benefit design, and cost sharing requirements. Certainly not all of the plans to which these families would have access would qualify for mandatory enrollment. For example, Wisconsin’s plan was to supplement employer paid premiums that were at least 60 percent of the cost of family coverage up to a maximum of 80 percent of the cost of family coverage. While 50,000 applications for premium assistance payments for ESI were processed, only 109 plans qualified for premium assistance. This was because 25 percent of the applicants had changed jobs since the original application, many were ineligible for the offered coverage, and others worked for employers that contributed less than the required 60 percent of the family premium.<sup>10</sup> In response, Wisconsin has recently reduced the required contribution for family coverage to 40 percent in an effort to increase plan eligibility and enrollment.

The table below identifies several states that have made enrollment in available employer coverage mandatory as the only possible source of public assistance for at least some group of qualified recipients and provides details on policy and estimated eligibility.

Using the reported enrollment in each state as a share of the number of children in the income-eligible population with likely access to coverage, we estimate potential enrollment for Georgia. We adjust for differences in the work status of parents of Georgia’s children compared to the reference state (share of parents working full time and firm size) and make the assumption that the program would be administered in the same way as the reference state.

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<sup>10</sup> Williams, Claudia. “A Snapshot of State Experiences Implementing Premium Assistance Programs,” (National Academy for State Health Policy, April 2003).

**Table 17**  
**Estimates of Mandatory Enrollment**

	Massachusetts	Rhode Island	Oregon	Wisconsin
Number of Lives Covered under Premium Assistance Program (12/31/03) <sup>11</sup>	2,693 (SCHIP)	4,000 (children out of 6,000 total individuals)	6,800	<200
Child Eligibility Level for Programs (%FPL)	150% - 200%	<250%	<185% (adults and children)	<185% (initial) <200% continuing
Enrollee Premium for Public Program and PA	>150% FPL: Adults \$25-\$50 Children \$10-\$30	\$61-\$92 if >150% FPL	\$6 to 50% of premium	\$30-\$165 if >150% FPL
Estimated income-eligible children (2002-2004 Current Population Survey)	114,686	104,101	353,665 (children only)	453,723
Enrolled as share of eligible	2.35%	3.8%	1.93%	.04%
Enrolled as share of income eligible with at least one parent employed full time at a firm with 25 or more employees	3.62%	8.8%	5.66%	0.12%
Estimate: Potential Covered Lives adjusted for work status of parents	11,679	20,285	18,250	400

Given a program that would mirror Rhode Island’s Rite Share, we estimate a potential enrollment of almost 21 thousand for a mandatory premium assistance program, an estimate that is slightly lower than our point-estimate (almost 26,000) for a voluntary program. The estimates based on every other state’s experience are far less optimistic. However, it is important to note that many of these S-CHIP or HIFA Waiver based programs are still relatively new, and enrollment may grow over the coming years.

***Qualifying Plans and Supplementation of Benefits***

Under SCHIP qualified programs, benefit design must meet a specific benchmark or a benefit wrap-around must be provided for qualified children. However, under HIFA, states are only required to verify that optional and expansion populations have coverage for primary care. Similarly, cost sharing for programs administered under SCHIP is limited to five percent of family income, while HIFA allows for some flexibility but maintains the five percent limit on cost sharing for children. Therefore, the state would need to determine whether to supplement coverage based on benefits, cost sharing, both, or neither. Failure to supplement at all would reduce the number of families that would qualify for premium assistance because plans would have to meet some benchmark for cost sharing and benefit design. On the other hand, supplementation can be administratively cumbersome. Furthermore, supplementation can work hand in hand with “crowd out” strategies to further erode equity between similarly situated

<sup>11</sup> Enrollment numbers are from the National Association of State Health Policy Premium Assistance Toolbox, Table 2 ([http://www.nashp.org/docdisp\\_page.cfm?LID=8535A94A-0EDF-448C-BBBA6BF6CB7AAD49](http://www.nashp.org/docdisp_page.cfm?LID=8535A94A-0EDF-448C-BBBA6BF6CB7AAD49)).

families. Maryland and Oregon are examples of states that have opted to benchmark the plans and forgo supplementation. Iowa, Wisconsin and Texas are states that use the Medicaid fee-for-service system to administer supplementation of the private plan.

Several states have established minimum employer contribution levels to determine plan qualification, consistent with the SCHIP requirement that the employer contribution be at least 60 percent of the total cost of a family plan. This requirement is waived under HIFA and can be modified under certain circumstances under SCHIP. Massachusetts only requires a 50 percent employer contribution, as does New Jersey. Wisconsin's minimum contribution level is only 40 percent, while Maryland's is only 30 percent. Rhode Island has no minimum contribution level.

Average employer contributions in Georgia are only 52 percent of the cost of family coverage, and the trend toward reducing employer contributions for family coverage appears to be worsening. Based on the surveys of Georgia employers conducted in 2002 and 2004, employer share of premiums for family coverage fell from 61 percent in 2002 to 52 percent in 2004. Establishing a minimum employer contribution for family coverage above 50 percent would substantially reduce the number of eligible families identified in this report. However, providing premium assistance in the absence of a substantial employer contribution for the plan will make it difficult, if not impossible, to meet the cost effectiveness requirements under SCHIP or the more lenient requirements under HIFA.

#### ***Determining Level of Premium Assistance***

In order to establish a cost-neutral base line for estimating potential enrollment in a Premium Assistance Program, we have linked premium assistance available to each family to the PMPM rate, and thus to the number of children in each family. As employee contributions for family coverage rarely fluctuate with the number of children enrolled, this assumption reduces substantially the potential take up among small families and enhances the likely take up among families with multiple children enrolled in PeachCare. Other states have tied premium assistance to a share of the required contribution and family income. For example, in Wisconsin, premium assistance is available to qualified families as needed to reduce the required employee contribution for ESI to 20 percent of the total premium.

As noted above, Georgia employers contribute an average of 52 percent of the total cost of almost \$800 for family coverage, while employee contributions average \$382 per month. In order to achieve the maximum 20 percent contribution level, PeachCare families would require an average monthly contribution of \$223, or the approximate per-member per-month cost for a family with two children. Thus, for families with fewer than two children (30 percent of families), net PeachCare costs to the state would actually increase relative to the current program design. Under SCHIP, cost effectiveness can be measured on an individual or aggregate basis, so establishing contributions independent of family size would require measurement of cost effectiveness in the aggregate or administration of the program under a HIFA waiver.

### ***Crowd Out***

States take radically different approaches to the problem of crowd out. If the policy goal is to support ESI and provide a mechanism for leveraging public dollars to gain employer contributions to coverage, then enrollment in a premium assistance program by workers who would not otherwise take advantage of public programs for their children is not seen as a problem. For example, Rhode Island has no exclusionary or waiting period. Any qualified applicant can receive premium assistance under the Rite Share program as long as they were not covered at the time of application, and Iowa and Massachusetts permit those with current group health coverage to participate if income-qualified.

On the other hand, states that view cost neutrality as a primary policy goal have implemented rather rigid crowd out prevention strategies. Maryland, New Jersey, Oregon, and Wisconsin require that applicants must have been uninsured for at least six months in order to participate in the premium assistance program. Our estimate crowd out is based on Rhode Island's experience with no elimination period for eligibility. Maintaining Georgia's current elimination period would likely reduce crowd out from our estimate.

### ***Administrative Issues***

The success of a premium assistance program and the effect on the labor market for low-wage workers will be dependent, in part, on the administration of this program. A consensus seems to be building that employers cannot be expected to provide administrative support to such a program; for example, Rhode Island has switched from paying subsidies directly to employers to making the payments to employees. The following table summarizes some of the policy trade-offs that have been discussed and their implications for program design.

**Table 18: Policy Goals and Implications for Program Design**

<b>Policy Goal</b>	<b>Implications</b>
Minimize cost	Minimize "crowd in" through waiting periods Low enrollment when subsidies are capped on a PMPM basis - voluntary program
Shore up ESI	Some increased financial burden for families- mandatory program Accept some crowd in Higher subsidies for small families - voluntary program Mandatory enrollment for as many as possible with wrap around benefits for mandatory populations
Reduce the number of uninsured	Accept some crowd in Higher subsidies for small families - voluntary program
Maintenance of benefits for enrollees	Wrap around benefits to ensure no increase in financial burden Voluntary program preferable because of high turnover among the working
Single source of continuous coverage	parents of this population
Increase self-sufficiency	Mandatory program with some increased financial burden for families
Promote job stability	Voluntary program with adequate subsidies for all families
Simplicity of administration for state	Voluntary program for expansion populations only to avoid wrap-around benefit

<b>Policy Goal</b>	<b>Implications</b>
Simplicity of administration for employers	Shift burden of plan verification and enrollment to employees
Simplicity of administration for enrollees	Shift burden of plan verification and enrollment processing to employers (ERISA implications)
Reduce stigma associated with public programs	Accept some crowd in

## **Dynamics of Employer Sponsored Insurance**

### ***Premium Increases***

Premiums in the employer sponsored market have been increasing at double digit rates for the past few years. In Georgia, our survey demonstrated two successive years of premium growth of about 12 percent. While some analysts predict a slight slowing of that trend in the next year or two, it is nonetheless true that the cost of private coverage will grow faster than inflation, and likely faster than the cost of public coverage. Furthermore, employers have increased the contributions required for family coverage at a rate substantially higher than the rate of increase for the total premium. If this trend continues, then the take up rates under a voluntary program would likely decrease. Alternatively, the premium subsidy necessary to achieve enrollment targets under a mandatory program would necessarily increase. Thus, the estimates provided in this report should be seen as point in time estimates in a market that is dynamic.

### ***Employer Response to Premium Assistance***

None of the premium assistance programs have been in existence long enough to provide solid evidence of the response of employers to public funding of employee contributions to the premiums. If employers structure employee contributions in an attempt to sort workers into compensation groups based on their preference for coverage, such subsidies will distort that sorting. In the long run, employers will respond to the subsidies in order to minimize total compensation for each group of workers. However, the nature of that response is not yet known. Premium assistance would be one among many market forces influencing the choices of employers, and close monitoring of trends in the employer market would be required to anticipate any funding or administrative changes that would be necessary to continue a premium assistance program in such a dynamic environment.

## **Conclusions**

The potential for premium assistance programs to simultaneously shore up the employer-sponsored market, provide a single source of continuous coverage for low and moderate income families, save the state (and federal government) money, and reduce the number of uninsured is limited. Each of these policy goals might be achievable through a premium assistance program, but not all of them would be simultaneously achievable, as each goal has different implications for how such a program would be designed and implemented. For example, a program designed to expand and strengthen the employer sponsored market will be less concerned about the increased cost associated with crowd-out, while a program designed to reduce overall cost must take a more rigorous approach to eligibility design in order to control crowd out. Before forging ahead with such a program, the state would need to prioritize these goals so that the design and administration would reflect the priorities of policymakers.



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