Addressing Florida's Uninsured

The Factors Affecting Our Citizens' Health Care Coverage

Overview

Health care is the largest sector of our nation's economy with consumer health care spending making up 14.8% of our nation's US Gross Domestic Product (GDP). Ranking a distant second is housing with 10.3% and spending on food with 9.9% of the GDP. Although the Congress and state legislatures have tried to stop the hemorrhaging of out-of-control health care costs, all stakeholders acknowledge there is no one "silver bullet" to fix this growing problem.

Florida's four largest employer associations, the Florida Chamber, NFIB, AIF, and the Florida Retail Federation, have joined forces to identify sources of the problem and provide recommendations for consideration to the Governor's Task Force on Access to Affordable Health Insurance. This document focuses on the first three goals the task force to be discussed on October 13th:

- Cost drivers that increase the cost of coverage as well as the number of uninsured;
- Barriers to accessing affordable health insurance coverage; and
- Federal issues that may affect availability to affordable insurance coverage.

Employer Dilemma

In 2003, Florida employers faced yet another year of double-digit premium increases and more of the same is predicted for 2004. Nationally, the average premium increase for 2004 will be 11%. Undoubtedly, skyrocketing premiums have led to increases in the number of uninsured workers and the time has come to address the issues that are driving the costs.

Many employers elect to provide their employees health insurance and 62% of non-elderly insured Floridians are covered through employer-sponsored plans. As a result, health insurance has become an extremely important recruitment and retention tool for employers and a recent survey indicated 74% of employees would rather have health insurance than a salary increase. However, the future of employer-sponsored health insurance is at risk.

To gauge employers' opinions, the Florida Chamber and NFIB conducted member surveys that reached, in total, more than 6,000 large and small employers in Florida. The Chamber's annual report, "The State of Health Insurance in Florida" found that while most employers offer health insurance, the number quickly is eroding. In the

three years this survey has been conducted, a significant dip was found from 1999 when 91% of employers offered employee coverage to 2002, when 77% offered coverage. Equally troubling is that 42% of employers providing insurance reported they would consider dropping it if cost continued to escalate.

The NFIB study found most small employers pay more than $2,500 per employee each year for health insurance benefits. Almost 85% of small employers indicated they want to provide health benefits if it was affordable, yet more than 22% of the respondents dropped health benefits in the last two years. Both surveys found that 75% of employers, large and small, experienced more than 10% premium increases last year.

This troubling trend could devastate Florida's economy because an employee's health may have a significant economic impact on a business, especially a small business. Among insured Floridians under age 65, approximately 42.1% reported being in excellent health while only 28.9% of uninsured Floridians under 65 described their health as excellent. Simply put, citizens with insurance tend to be healthier than those without insurance. Simply put, an unhealthy workforce can negatively affect Florida's economy and derail economic development initiatives.

Cost Drivers

To abate the rising costs of insurance, specific cost drivers must be identified and eliminated. Although there has been much discussion on which factors drive costs, disagreement remains. Some blame insurers for increasing premiums, yet the Kaiser Family Foundation found that costs for self-insured plans have increased "at roughly the same rate as premiums for insured plans." Further, the Kaiser report found that "insurers' decisions about premiums are being influenced more by cost trends than by catch-up pricing associated with the underwriting cycle."

To protect employer-sponsored health coverage, insurers must remain solvent. And, like any other business, insurers make a reasonable profit to continue operating. According to the Office of Insurance Regulation, Florida HMOs currently average a 2.9% profit margin and over the last five years, have averaged a 2.4% profit margin. OIR also reports that 85% of a premium dollar pays for health services.

- Hospital costs. The Center for Health Systems Change (CHSC) reports that hospital spending, for the second consecutive year, accounted for the largest portion of the increase (51%) in total health care spending. In 2001, per capita hospital spending increased 14.6% for outpatient care - including emergency services - and 5.6% for inpatient services. Medicare spending on hospital inpatient services grew 53% from 1992 to 2002, with a 6.7% growth between 2001-02 alone. Further, inpatient care accounts for 40% of all Medicare spending.

Confusion remains on the adequacy of hospital service reimbursements. Jackson Health System reported it makes 14% on every Medicare patient served. Yet, Florida Hospital reported Medicare reimbursement was .5% below costs in 2002 and 1.1% below costs in 2001. Further, in order to cover shortfalls in Medicare, Medicaid and self-pay patients, Florida Hospital assesses a $1,690 surcharge per hospital admission on privately insured patients. We believe the Task Force should study government reimbursement levels for both Medicare and Medicaid to ensure pertinent information is available to make recommendations for solving the problem of a growing uninsured population.

- Benefit Mandates. Mandated benefits are state and federal laws that require private insurers to cover specific treatments, conditions, and providers. Between 1970-1996, state mandates increased 25 fold and despite health insurance costs, over 800 new mandates were considered by state Legislatures in 2002. A 2001 House committee determined our state currently subjects 51 mandates on health insurers. The only state with a higher number is Maryland.

Admittedly, a single mandate's cost is difficult to quantify, but one study estimated mandates are responsible for increasing costs by 15%. A survey of six states' claims costs found that increases for mandated benefits were between 5.4% (Iowa) and 22% (Maryland).13 In 1987, the Legislature required a "systematic review of current and proposed" mandated benefits and at that time only 16 mandates were in law. Since then an additional 35 mandates have been approved, most without the systematic review. In 2001 and 2002, legislators appropriated funds to study the cost of mandates, but ultimately a study has not been conducted.

- Any Willing Provider (AWP) Mandate. This term refers to making insurers contract with any health care provider willing to meet certain terms, such as contracting and reimbursement. This type of mandate was found to increase administrative costs by 34% and claims costs by 8.8%.14 AWP laws may appear innocuous, but the restrict insurers' ability to contract with the highest quality providers and erode the quality of services provided. Further, the primary reason providers negotiate discounts with insurers is to receive guaranteed patient volume. If all providers must be allowed in networks, an appropriate patient load cannot be assured and an insurer's ability to negotiate cost saving discounts is eliminated.

- Prescription Drug Costs. Spending on prescription drugs per privately insured person rose 13.2% in 2002, but has decelerated for three years in a row. Some of the factors leading to this growth slowdown include development of a three-tier payment structure for policies; increased co-payment differences between these tiers; and slowed technological innovation. Also, the Food and Drug Administration (FDA) approved only 15 new drugs in 2002 compared to 31 each year for the previous 5 years and a number of costly drugs have recently gone off patent.15 Finally, direct to consumer marketing increases prescription drugs use further increasing costs.

- Labor shortages. Labor costs in Florida hospitals grew 11% in 2002, fueled by higher salaries due to workforce shortages. Florida has one of the highest vacancy rates for Registered Nurses (RNs) in the U.S. and also suffers from a shortage of radiology technicians and pharmacists. In 2002, Florida hospitals spent more than $300 million for overtime, temporary or contract staff.16

- Fraud and Abuse. A major financial burden on third party payors - be it a private insurer or the government - is reimbursing providers and facilities for fraudulent health claims. Over the last several years, Florida has aggressively cracked down on fraud and abuse in the Medicaid Program but estimates still indicate fraud and abuse in Medicaid costs taxpayers between 3 and 10% of the Medicaid budget. This translates into between $261 and $870 million annually.17

- Unhealthy Lifestyles. Poor lifestyle choices, such as smoking, drinking, over-eating and lack of exercise contribute to lost wages and ultimately increase health care costs. Overweight or obese people have an increased risk for high blood pressure, type 2 diabetes, coronary heart disease, stroke, gall bladder disease, osteoarthritis, sleep apnea, respiratory problems and some types of cancer. Direct and indirect medical costs associated with treating those conditions cost $117 billion annually.18 Additionally, studies have shown that obesity is directly related to increased incidences of diabetes.19 Based on health data of 360,000 Americans from 1984 to 2000, the number of people suffering from diabetes is estimated to increase to over 28 million in 50 years.

Barriers to Coverage

Florida continues to grapple with its uninsured population as evidenced by the recent U.S. Census report that our state has the fourth largest uninsured population in the nation, following California, Texas, and New York. Specifically, the number of uninsured Floridians grew by more than 20% in 11 years, from almost 2.4 million in 1990 to over 2.8 million in 2001.20 Another startling statistic is that one half of uninsured Floridians are under age 30:

- Employment status - 50 % work full or part time;

- Employer Size - Employers with one to nine employees have the highest rate (24.6%) of un-insurance, compared to 4.78% for those with 100 or more employees

- Ethnicity - Hispanics make up nearly one fourth of our uninsured and the uninsured rate for Hispanics is more than twice the rate for white non-Hispanics and almost 50% more than African Americans.

Cost is the most important factor affecting access to health insurance as more than 1.5 million uninsured Floridians say they don't have coverage because they can't afford it.21 The four employer groups who prepared this document support providing insurers more flexibility to develop lower-cost plans to meet the special needs of an employer's workforce. In 2002, increased flexibility allowed OIR to update the standard and basic health plan offerings required for small groups resulting in 20 to 40% premium reductions.22

In 2003, the Legislature gave employers the ability to choose more appropriate cost-sharing arrangements to reduce premiums. Now, policymakers must allow insurers to offer a variety of benefit and provider network configurations to further reduce costs and meet consumer needs. The lessons we learned from the Health Flex Pilot Project allowing benefit flexibility should be applied to employer-sponsored health benefits regulated under state and federal law. Outlined below a few factors that can keep Floridians from gaining health insurance.

- Entitlements. Florida's Medicaid system provides health services to our state's most needy citizens. Although most agree this is good public policy, a 2002 study found that regardless of the support received by the uninsured, those efforts could not eliminate or even narrow access barriers to the same extent as insurance.23 This is an important finding indicates that recommendations to lower the number of uninsured Floridians should be based on private market incentives and expansions not increased government regulations or new costly public programs.

Clearly, the best way to reduce uncompensated care is to insure more people. In order to reach that goal, market inequities through inappropriate cross-subsidies must be eliminated. As noted before, we recommend an in-depth evaluation of the rules and regulations for Medicaid and Medicare to determine if these programs are unknowingly impeding access to coverage.

- Economy. A downturn in the economy may also contribute increase uninsured numbers. When employers experience reduced revenues they must make difficult decisions to ensure the business survives. When faced a tight budget, employers may discontinue health insurance coverage or lay off employees both of which increases the rolls of Florida's uninsured. The good news is that, according to the Agency for Workforce Innovation (AWI) Florida is weathering the downturn better than most states as over 85,000 new jobs were created in the last year.

Federal Issues To Address

While health care is considered a state and local issue, programs at the federal level must be examined to create more affordable alternatives. Employers have identified a number of federal programs that could be altered to help Florida reach its goal of lowering the number of uninsured.

- Flexible Spending Accounts (FSA). FSAs that allow employees to use pre-tax dollars to pay their health-related bills encourages employees to take personal responsibility for planning their health care needs. We believe Congress should authorize rollover for these accounts to ensure employees do not lose unspent funds each year.

- State Children's Health Insurance Programs (S-CHIPs). This highly successful program provides access for uninsured children to health insurance. Employers believe this program be improved if families and children were given more choice of plans. A way to improve upon this program could be to have the state/federal dollar "follow the child". If funds could be used to buy into employer-sponsored coverage, younger healthy people could be brought into employer plans thereby lowering the overall cost of coverage for everyone.

- Health Coverage Tax Credit (HCTC) Program. This recently established federal pilot project will teach us how tax credits can be used to subsidize former employees. If successful, Congress may expand the program which could ultimately help over 13,000 Floridians. Program expansion would allow former employees to receive a tax credit equal to 65% of the premium paid and the individual would pay the remaining 35%. Eligibility is determined on whether an individual lost his or her job due to the effects of international trade and whether he or she is eligible for certain Trade Adjustment Assistance benefits or eligible for benefits under the Alternative Trade Adjustment Assistance program. Eligibility is also based on whether an individual receives benefits from the Pension Benefit Guaranty Corporation and is at least age 55.

- Trade Adjustment Assistance Act. Recent federal legislation provides states up to $1 million in "seed money" to establish high-risk pools for the chronically ill that meet certain criteria. Chronically ill citizens are a societal problem and employers believe the state should not open (or re-open) a high-risk pool until a broad-based, long-term funding source is identified. An assessment on insurance policies previously funded the Florida Comprehensive Health Association (FCHA) which has been closed to new enrollment since 1991. Ultimately, this assessment was passed on to employer premiums. Finally, a high-risk pool appears contrary to the HCTC program.

Summary

Florida's four major employer organizations are aware that this report is only the first step in a long road to decreasing the cost of employer-sponsored health insurance and the number of Florida's uninsured. However, it is imperative that all stakeholders work together with the Task Force to ensure appropriate reforms are developed and ultimately implemented. The Florida Chamber, NFIB, AIF and the Florida Retail Federation pledge our commitment to this goal.