The "Insure The Uninsured Project (ITUP)" Coverage Expansion Proposal: Summary and Estimated Cost and Coverage Impacts

Second Round Estimates

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The Lewin Group

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The Insure the Uninsured Project (ITUP) Coverage Expansion Proposal

The Insure the Uninsured Project (ITUP) has introduced a proposal to expand health insurance coverage in California through a combination of public and private insurance. There are five major components of the ITUP proposal, including:

- An Employer Tax Credit to encourage more employers to offer coverage to their workers;
- Enrollment of families under Medi-Cal and Healthy Families in employer plans when possible and cost effective;
- A tax credit for individuals who do not have access to employer-sponsored coverage;
- Individual health insurance market reforms; and
- Coverage expansion under Medi-Cal and Healthy Families.

In this paper, we outline the major components of the ITUP proposal and summarize the key assumptions used to simulate their impacts. We then present our preliminary estimates of the proposal's impacts.

A. The ITUP Health Insurance Coverage Expansion Proposal

The five major components of the ITUP coverage expansion proposal are presented below.

1. Employer Tax Credit

Refundable tax credit equal to 50 percent of the premium (employer and employee share). Firms must meet the following criteria to qualify:

- Employ 2 - 200 workers;
- At least one-third of workers in the firm earn less than twice the state's minimum wage;
- Credit applies only to low wage worker (below $12.50 per hour); and
- Provide the Knox-Keene HMO benefits package plus prescription drugs with $10 co-payments.

The credit would be available for all firms meeting these criteria regardless of whether they already provide coverage.

2. Cover Medi-Cal/Healthy Families Enrollees Under Employer Plans

The state would exercise its option under Medi-Cal and Healthy Families to buy families into employer coverage where it is cost effective to do so. This would be done as follows:

- The state would screen applicants to identify families where a parent has access to employer-sponsored coverage;

- The state would pay the employee's share of the cost of family coverage in cases where it is cost effective to do so (i.e., premium is less than the cost of coverage under Medi-Cal or Health Families program);

3. Tax Credits for Persons Without Access to Employer Coverage

Tax credits would be available for persons who are not eligible for coverage under an employer's plan. This would include all classes of workers including flex workers, laid off and job changing workers and non-workers.

The tax credit amounts would be varied by age and single/family status to reflect allowable rating variation under the individual insurance market reforms discussed below as follows:

Age of Policy Holder	**Single Coverage**	**Family Coverage**
Under age 40	$1,200	$2,200
Age 40 to 54	$2,400	$3,200
Age 55 to 64	$3,600	$4,500

The tax credit would be refundable so that even those who have no tax liability will qualify. The amount of the credit would be phased-out on a sliding scale with income as follows:

- Full credit for those below 200 percent of the Federal Poverty Level (FPL);

- Credit phased-out between 200 percent of the FPL (about $28,000 for a family of three) and $40,000 for single individuals and $70,000 for families (i.e., Joint Filers and Head of Household returns).

4. Reform of the Individual Market

The individual market would be reformed to assure access to coverage for those who are eligible for the credit. We assume that these reforms would apply throughout the market regardless of whether the individual is eligible for the individual tax credit discussed above. These changes include:

- Guaranteed issue and renewal with 12 month pre-existing condition limits for those without continuity of coverage.;

- Permit age rating;
- Permit initial health status rating with a cap of plus or minus 25 percent; and
- 12 month maximum pre-existing condition exclusions.

These provisions imply that the high-risk pool is eliminated, with its revenue made available to the new program.

5. Medi-Cal/Healthy Families Coverage Expansion

Eligibility would be increased to 200 percent of the FPL for all persons. We assume that all necessary waivers and plan amendments are obtained to achieve the following:

- Children are already covered to 200 percent of the FPL;
- We assume that eligibility for parents would be increased to 250 percent of the FPL under the state's pending waiver application; Newly eligible parents would be covered under the healthy families benefits package; and
- Non-custodial adults, who currently are not eligible at any income level, would be covered up to 200 percent of the FPL.
  - Non-custodial adults below 100 percent of the FPL would all be covered under the Medi-Cal benefits package;
  - Non-custodial adults above 100 percent of the FPL would all be covered under the Healthy Families benefits package;
  - The state would receive a federal match for some portion of the non-custodial adult population based upon an 1115 waiver (discussed below); and
  - The state would be responsible for the balance of program costs in excess of the federal match under the waiver for this group.
- To avoid crowd-out, we assume that individuals must be uninsured for at least six months to be eligible.[1] Exceptions are given in cases of involuntary coverage loss or job change.
- The state would cover the full cost of benefits provided to income-eligible persons who are non-US citizens who have not met the federal waiting period requirement.
- The program would cover emergency services for income-eligible undocumented persons. The state would apply for federal matching funds for this purpose under the waiver.

[1] Crowd-out is the process wherby persons with private coverage shift to publicly subsidized coverage.

As under the current healthy families program, participants living above 100 percent of the FPL would be required to pay a premium ($9 per month per child up to a maximum of $27 per family).

As discussed above, the plan calls for obtaining a 1115 waiver to help cover the cost of the expansion for non-custodial adults. However, additional federal funds can be obtained to cover this group only by securing an equal amount of savings in the Medi-Cal/Health Families program for some other group. The plan proposes to realize these savings by:

- Enrolling the disabled population in managed care;
- Reducing benefits for optional eligibility groups under the existing program to a "benchmark plan" (similar to the Health Families benefits package);
- Imposing co-payments for optional services; and
- Using Disproportionate Hospital Share (DSH) payments as required to finance the program.

The plan would also use any of the unused portion of the SCHIP allotment that is not used to fund the pending SCHIP expansion for parents.

6. Financing

The ITUP proposal would involve new state health expenditures to fund the following:

- Employer tax credit payments;
- Assistance for persons with high family premium contribution requirements under employer plans;
- Tax credit payments to persons without access to employer coverage; and
- The state share of spending under the Medi-Cal and Healthy Families expansion.

These new costs would be partly offset by savings resulting from the coverage of program participants under employer health plans where cost effective. At this time, three sources of revenues have been identified, including:

- A maintenance of effort requirement for the counties, which requires counties to forward to the state the amount that they would have spent on coverage for persons who become covered under the Medi-Cal and Health Families program (primarily non-custodial adults).
- High risk pool funding made available by adopting guaranteed issue.
- The remainder of the state cost of the program would be financed with a tax on providers.

B. Key Assumptions

We simulated the impact of the ITUP proposal using the California version of the Health Benefits Simulation Model (HBSM). This model is designed to simulate the impact of policies affecting private coverage. It also includes a model of the Medi-cal and Healthy Families programs. The model is based upon a detailed analysis of eligibility and benefits costs in California and throughout the nation. We are currently preparing a detailed narrative description of the Model and methods used in this analysis that will be available in January. A summary of the key assumptions used in this analysis is presented below.

1. Employer Tax Credit

We estimated the impact of the employer tax credit as a reduction in the price of coverage to the employer. For example, an employer who faces a premium of $3,000 in the small group market for a typical policy and who is eligible for a 50 percent tax credit would see the price of coverage reduced to $1,500. The increase in coverage resulting from this price reduction is modeled based upon a Lewin Group analysis of how the likelihood of an employer offering coverage increases as the premium is reduced.

We simulated this change in coverage using a representative survey of insuring and non-insuring employers of all sizes in California developed by the Kaiser Family Foundation.[2] We used these data to identify the firms that would be eligible for the ITPU tax credit. We then simulated the decision to offer coverage based upon the change in the cost of coverage with the tax credit.

For non-insuring firms, we estimated the cost of a typical small group health policy in California using the health benefits simulation model (HBSM), which reflects the demographic composition of each employer. We then estimated the amount of the credit that each firm would receive under the employer tax credit. This reduces the cost of coverage to the employer by the amount of the credit.

We next estimated the number of employers who would take coverage as a result of the credit based upon a Lewin group multivariate analysis of the factors affecting the employer decision to provide coverage contained in the 1997 survey of employer establishments developed for the Robert Wood Johnson Foundation (RWJF). The model showed how the likelihood of offering coverage varies by type of employer, workforce characteristics, and the price of insurance (i.e., the premium). The model indicated that a one percent reduction in the price of insurance is associated with an increase in coverage ranging from 0.45 percent for firms with under 10 workers to 0.07 percent for firms with 1,000 or more workers (i.e. the employer price elasticity ranges between –0.07 and –0.45).[3]

[2] We use the 1999 survey of employers developed by the Kaiser Family Foundation and the Health Research and Education Trust as our primary employer data. This was supplemented with 1991 Health Insurance of American (HIAA) data, which is the most recent employer survey data available which provides information on the income and demographic characteristics of the employer's workers at the firm level (i.e., the sum of establishments within the firm).

[3] See methodology appendix (forthcoming).

Based upon these estimates, we randomly selected firms in the Kaiser employer data to offer coverage and estimated the percentage of the premium that would be paid by the employer using another multivariate model developed using the RWJF data. After we selected firms in the data to offer insurance, we simulated the employee's decision to take the coverage for each worker assigned to these employers in HBSM. Workers who had coverage from a spouse or some other source were assumed to remain with their current coverage. Others were assumed to enroll based upon a multivariate model of the worker's decision to take coverage, which we estimated from the 1996 Medical Expenditures Panel Survey data for persons offered coverage by an employer.

In this analysis, we assumed that employer tax credits would have no impact on the number of insuring employers who decided to cover their part-time and seasonal workers. This assumption was based upon another multivariate analysis of RWJF data on employer's decision to cover these workers showing little relation between premiums and coverage for these groups.

2. Covering Medi-Cal/ Healthy Families Enrollees under Employer Plans

Under current law, the state has the option of covering Medi-Cal or Healthy Families eligible persons who are also eligible for coverage under an employer sponsored plan as a worker or dependent when it is cost effective to do so. Under this option, the state would screen all applicants for the availability of employer sponsored coverage through a working parent's employer plan. The state would then compare the premium payment for family coverage to the average cost of covering children under the Medi-Cal or Healthy Families programs. The state would then pay the family premium to cover these children under the parent's employer plan if this option is less costly.[4]

In this analysis, we used the California sub-sample of the Current Population Survey (CPS) data to identify uninsured persons who are eligible for the Medi-Cal/Healthy Families programs who also have a working parent with access to employer coverage. We then estimated the number of persons who would enroll based upon a Lewin Group multivariate model of how enrollment varies with changes in the price of employer health insurance to the worker.

This program could result in savings to the state for current enrollees who could be covered under an employer's plan. However, the number of current enrollees who have access to employer coverage is expected to be small. Also, benefits cost savings would be partially offset by the increased cost of administering such a program. In fact, administrative burden has been cited as one of the reasons why few states have implemented this program.

We estimated the impact of this proposal based upon the experience of the Iowa Health Insurance Premium Payment (HIPP) program, which is the largest and oldest such program in the U.S. As of April 2000, the Iowa HIPP program covered about 8,500 people (about 2.8 percent of enrollees), of whom 3,000 would not otherwise have been covered. The state estimates that it is saving about $352 per person per year. We estimated the impact of such a

[4] The state would also be required to provide wrap-around coverage to pay co-payments and to cover services covered under Medi-Cal/Healthy Families that are not covered under the employer's plan.

program in California assuming that it would have a similar impact on enrollment and spending in California.[5]

3. Individual Tax Credit

We estimated the impact of the tax credit for individuals purchasing non-group coverage as a change in the price of insurance to the individual. For example, a person facing a premium of $4,000 in the current market who is eligible for a $2,400 tax credit would see his/her premium effectively reduced from $4,000 to $1,600 (i.e., $4,000 - $2,400). We simulated the impact of such a credit based upon a multivariate analysis of how the likelihood of purchasing coverage changes as the price of coverage (i.e., the premium) is reduced.

The multivariate model that we developed showed that on average, a one percent decrease in premiums is associated with an increase in coverage of about 0.34 percent (i.e., an average elasticity of -0.34 percent). However, the estimated impact of changes in premiums on coverage varied with the income and demographic characteristics of affected persons (e.g., the price elasticity tends to be lower for low-income persons than high income persons etc.). The increase in coverage among currently uninsured persons was estimated based upon the reduction in the net cost of insurance for these persons resulting from the tax credit.

The model also simulated any offsetting reductions in employer coverage that would result from public subsidies of non-group coverage. This is because for many workers, the value of the tax credit would be greater than the value of the employer health benefits tax exclusion (i.e., workers are exempt from paying taxes on health benefits provided by an employer). Once the relative tax advantages of employer coverage are reduced, many employers may decide to "cash-out" their plans (i.e., discontinue coverage and increase wages by the amount saved), assuming that workers would be able to obtain coverage at a lower cost on their own.

In this analysis, we assumed that employers would seek to assemble the most efficient compensation package possible for their workers. Thus, we assumed that employers cash-out their employer-sponsored health coverage in cases where their workers would on average be better off purchasing non-group coverage with the help of the credit. We modeled this employer behavior based upon the Kaiser California employer survey data and other employer survey data, which provides information on the income and demographic characteristics of each firm's workforce.

Using this approach, we estimated that employer coverage would be eliminated for about 186,000 workers and dependents under the ITUP plan. However, all but about 18,000 of these persons would obtain non-group coverage, which reflects the fact that we assumed that employer coverage is discontinued only in cases where the workers are on average better-off purchasing coverage in the non-group market.

4. Medi-Cal/Healthy Families Expansion

[5] Dan Steinberg, "Expanding Health Coverage to Working Families: State Options", National Conference of State Legislators, June 2000.

We used the most recent data available from the Bureau of the Census and the Medi-Cal/Healthy Families program to simulate the impact of the expansions proposed under the ITUP proposal. The key assumptions include:

- We estimated the number of persons eligible for the coverage expansion program using data from the CPS for 1998 through 2001.[6] These data provide information on income and insurance coverage status for a representative sample of households in the state (we corrected these data for underreporting of Medi-Cal coverage).

- We estimated the number of newly eligible persons who would participate in the program based upon an analysis of program participation rates under the current Medicaid program. This approach resulted in a participation rate of about 70 percent among eligible persons who are uninsured and about 39 percent among eligible persons who have access to private insurance (i.e., the potential crowd-out effect). We also modeled the six-month waiting period rule based upon job change data reported in the CPS.

- We assumed that currently eligible children who are not enrolled become covered under the program if one of their parents enrolls under the eligibility expansion for parents.

- The cost of coverage for newly enrolled persons was estimated based upon the average cost of coverage under the current program by type of enrollee. These amounts are:

  - $84.54 per persons per month (PMPM) for children;
  - $178.56 PMPM for each parent; and
  - Costs for non-custodial adults are based upon the Medi-Cal costs for parents that we actuarially adjusted to reflect the unique demographic mix of this newly eligible population.

- Spending for acute care services under Medi-Cal and Healthy Families is assumed to grow at the rate projected by the Actuaries of the Centers for Medicare and Medicaid Services (CMS) for 2002 through 2012.

5. Potential for Federal Waiver

As discussed above, under the ITUP plan, the state would seek a waiver that would enable the state to receive federal matching funds for the newly eligible non-custodial adult population. However, the federal waiver process requires that the plan be budget neutral to the federal government. This means that the increases in spending for newly insured persons must be offset by savings in some other part of the program. The states that have obtained this type of waiver achieved budget neutrality by covering currently eligible children and families under managed care and using the savings to offset costs for the newly eligible population.

Because California has already covered families under managed care plans, the state would need to find some other source of savings to obtain a waiver. The state could do the following:

[6] These data were pooled for 1998 to 2001 to obtain a data base with a sufficiently large sample for these analyses.

- Reduce benefits for optionally eligible groups;
- Require cost-sharing for optionally covered services;
- Cover the disabled population under Managed care and use the savings for the newly eligible group;
- Obtain a waiver to use the unspent portion of the SCHIP allotment to finance the program; and
- Redirect federal disproportionate share hospital (DSH) payments to the program.

Reduce Benefits for Optional Coverage Groups: States have the option of adopting a benefits package similar to that used under the Healthy Families program for optional eligibility groups. These include the medically needy and persons not otherwise receiving cash assistance or eligible under the mandatory poverty level eligibility (PLE) provisions. Using the Healthy Families benefits package would permit the state to discontinue certain benefits for this population including long term care, EPSDT services, and transportation. The CMS 2082 data indicate that, about 32 percent of spending under the California Medi-Cal program appears to be attributed to optional eligibility groups.

However, Medi-Cal eligibility experts indicate that many of those who are classified in optional groups could be re-qualified under the mandatory coverage groups. Under recent legislation, most currently enrolled families would re-qualify in a mandatory group. Many of those covered under the medically needy program would also qualify under the Mandatory Cash Assistance Group. Thus, it is unclear how many beneficiaries would actually qualify as members of an optional group. Moreover, many of the medically needy are in nursing homes and would be affected dramatically by a loss of the long-term care benefits.

For illustrative purposes, we assume that the Healthy Families benefits package is adopted for all non-aged adults who are not covered under cash assistance, the mandatory PLE program or the Medically needy population. This group accounts for about 7.3 percent of program enrollees and 5.7 percent of program costs (about $860 million). We assumed that moving these individuals to the Healthy Families benefits package would reduce costs by about 10 percent ($86.0 million in 2001). This estimate is based upon an analysis of CMS 2082 data on the cost of services provided to this population that would no longer be covered under the Healthy Families benefits package.

Cost Sharing for Optional Benefits: The state could impose cost sharing on optional services provided to both mandatory and optional groups provided the cost sharing does not exceed 5 percent of family income. However, the ITUP program would not exercise this option.

Enrolling the Disabled in Managed Care: State fee-for-service spending for blind and disabled persons was about $4.0 billion in 2001, excluding the disabled who qualify as Medically Needy.[7] If the state saves 5.0 percent on this population through managed care, savings would be $210 million, of which the federal share would be about $108 million. However, provider payment rates under Medi-Cal are so low that it is unlikely that this much could be saved through capitation. It would also take two or more years to establish the program and could take several more years for the program to start saving money.

For illustrative purposes, we assume that managed care for the disabled would reduce spending for this group by about 5.0 percent. These savings would phase-in over the 2005 through 2010 period.

Unused SCHIP Allotment: The unused SCHIP allotment is fully committed to funding the pending SCHIP waiver to cover parents through 200 percent of the FPL. Therefor we assume that it is not available to fund an additional waiver.

Reallocate Federal DSH Payments: Under this proposal, a waiver would be obtained to redirect to the program 70 percent of the per capita DSH payment per uninsured person. This is included in safety net savings as discussed below.

Figure 1 presents our estimates of waiver savings over the 2003 through 2012 period.

Figure 1
Estimated Savings Under the Health California Program Waivers[/a]
(in millions)

	Waivers a/		
	Cover Disabled Under Managed Care	**Reduce Benefits for Optional Groups**	**Total Waiver Savings**
2003	--	$100	$100
2004	--	$108	$108
2005	$47	$116	$163
2006	$101	$125	$226
2007	$165	$135	$300
2008	$237	$146	$383
2009	$317	$157	$474
2010	$409	$168	$577
2011	$439	$181	$620
2012	$471	$194	$665

a/ Includes State and Federal Shares. Assumes that both state and federal shares of savings under the waiver would be available to fund the program.
Source: Lewin Group estimates

[7] About three-quarters of the blind and disabled population who qualify as Medically Needy are already in managed care. Also, in four counties, the non-medically needy disabled are enrolled in managed care, which accounts for about 10 percent of the disabled population.

6. Safety-net Savings

Funds now used to provide indigent care could be redirected to pay for the cost of expanding coverage. According to the Legislative Analyst Service (LAO), the state provides about $2.3 billion in funding for safety-net programs that serve uninsured persons. Counties provide an additional $1.2 billion in spending. In addition, the federal portion of Medicaid disproportionate share hospital (DSH) funds is $1.1 billion, which is currently distributed across hospitals in the state. A substantial portion of this funding covers services for persons that would become covered under the expansion, thus making a portion of these funds available to finance these expansions.

However, not all of this funding would be available to fund the ITUP coverage expansion because there still would be uninsured persons under the plan and some benefits go to low-income elderly persons. In this analysis, we assume that 70 percent of the per capita state, county and federal safety-net spending from these sources would be redirected to the program for each uninsured person who becomes covered under the expansion.

C. Cost and Coverage Impacts

We present our estimates in two ways. First, we present estimates of the cost and coverage impacts of each provision of these proposals assuming full implementation in 2002. These estimates are useful for comparing program impacts at the current levels of health care costs and the uninsured population. However, we expect enrollment to lag for up to two years as individuals learn of the program and begin to apply for these subsidies. Consequently, for budgetary purposes, we also present year-by-year cost estimates for 2003 through 2012, which reflect these expected lags in enrollment.

1. Full Implementation Estimates

We estimated that if all of the provisions of the ITUP plan were fully implemented in 2002, the number of uninsured Californians would be reduced by about 2.7 million persons. Total state costs under the program would be about $6.7 billion. This estimate reflects the expansions in Medi-Cal and Healthy Families eligibility, and the various tax credits and subsidies for private coverage created under the plan. Coverage and costs under each of the major provisions of the ITUP proposal are presented below.

Medi-Cal/Healthy Families Expansions: About 3.0 million non-custodial adults would be eligible for the expansions in Medi-Cal and Healthy Families eligibility to 200 percent of the FPL (***Figure 2***). These include about 1.9 million persons eligible for Medi-Cal (i.e., persons through 100 percent of the FPL) and about 1.1 million persons who would be eligible under Healthy Families.

Figure 2
Medi-Cal/Healthy Families Expansion for Non-Custodial Adults: Assumes Full Implementation in 2002 a/, b/

	Number Eligible (in thousands)	Number Enrolled (in thousands	Reduction in Uninsured (in thousands)	Total Costs (in millions)	Premium Contribution (in millions)	Total Net Cost (in millions)	State Share of Costs
Non-Custodial Adults (Below 250 percent of FPL)							
Medi-Cal (Below 133 percent of FPL)	1,857	1,133	919	$2,117	N/A	$2,117	$1,090
Healthy Families Program (133 percent to 250 percent of FPL)	1,141	402	304	$756	$77	$674	$381
Total	**2,998**	**1,535**	**1,223**	**$2,872**	**$77**	**$2,791**	**$1,471**

a/ Includes non-US citizens who do not meet the federal waiting period requirement (state-only group).
b/ Includes cost of emergency room service for income eligible undocumented persons.
Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM)

Of the 3.0 million persons who would be eligible, about 1.5 million would enroll. The number of uninsured individuals in California would decline by 1.2 million persons under the program. Total program costs net of premium collections would be about $2.8 billion. This includes total program costs for newly enrolled persons of about $2.9 billion, less premiums. The state share of the $2.8 billion cost of the program would be about $1.5 billion. This reflects the fact that the state would pay the full cost of services for income eligible non-US citizens who have not met the federal waiting period requirement and emergency room services for undocumented persons.

The state could increase enrollment in the expansion by eliminating the premium requirement. Prior studies indicate that the presence of even a small premium requirement leads to a reduction in enrollment of about 35 percent. Thus, the premium reduces the cost of the program due to both offsetting premium revenue collections and a lower level of enrollment in the program. To illustrate the impact of the premium required under the program, we estimated the impact of implementing the ITUP eligibility expansion for non-custodial adults without the premium requirement and emergency room services for undocumented persons.

As discussed above, we estimated that the number of persons enrolling under the program would be about 1.5 million persons with the premium requirement. Eliminating the premium requirement would increase enrollment to about 1.8 million persons and would increase program costs by about $612 million (***Figure 3).*** This suggests that enrollment among currently eligible children could be increased by eliminating the premium requirement under the Healthy Families program.

Figure 3
Medi-Cal/Healthy Families Expansion for Non-Custodial Adults With and Without a Premium Contribution Requirement

	Enrolled (in thousands)	Reduction in Uninsured (in thousands)	Total Cost Net of Premium (in millions)
With Premium	1,535	1,223	$2,796
Without Premium	1,805	1,422	$3,408

Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM)

Medi-Cal/Healthy Families Coverage Under Employer Plans: As discussed above, the ITUP plan would permit the Medi-Cal and Healthy Families programs to cover eligible persons under employer sponsored coverage when available. We estimate that there are about 110,000 income eligible individuals with access to employer sponsored coverage who would enroll (***Figure 4***). Of these, about 38,800 would be persons who otherwise would have been uninsured. The program would save about $38.7 million in 2002.

Figure 4
Impact of Adopting a Health Insurance Premium Payment (HIPP) Program

Enrollees (in thousands)	110.0
Reduction in Uninsured (in thousands)	38.8
Cost Savings (in millions)	$(38.7)

Source: Lewin Group estimates.

Employer Tax Credit: We estimated that about 3.3 million workers and dependents would be in firms that are eligible for the employer tax credit (***Figure 5***). These include about 1.0 million persons in firms that already sponsor coverage, and about 2.3 million persons in non-insuring firms. We assumed that all of the eligible firms that are currently providing coverage would apply for and receive the credit.

However, only about 322,000 persons would be in firms that are induced to provide coverage, of whom only about 289,000 workers and dependents would take the coverage. The number of uninsured Californians would decline by about 242,000 persons. Program costs would be about $1.1 billion if fully implemented in 2002.

Figure 5
Cost and Coverage of the ITUP Employer Tax Credit

	Workers and Dependants in Firms that Qualify for a Subsidy (in thousands)	Workers and Dependants in Firms that Decide to Offer (in thousands)	Number that Take Coverage (in thousands	Reduction In Uninsured (in thousands	Cost of Employer Subsidy (in millions)
Firms that Currently Offer Coverage	1,017	1,017	1,017	--	$851
Firms that do not Currently Offer Coverage	2,299	322	289	242	$242
Total	**3,316**	**1,339**	**1,306**	**242**	**$1,093**

Source*:* Lewin Group estimates using the Health Benefits Simulation Model (HBSM)

Individual Tax Credit: About 6.3 million Californians would be eligible for the individual tax credit for persons who do not have access to employer coverage (***Figure 6***). These include about 1.1 million persons who currently purchase non-group coverage who would be eligible for the credit. About 5.2 million uninsured persons also would be eligible for the credit.

We assumed that all eligible persons who are already purchasing non-group coverage would take the credit (1.1 million). We also estimated that of the 5.2 million uninsured persons who would be eligible for a tax credit (credits are phased-out with income), about 2.0 million would obtain coverage and take the credit. These estimates reflect the fact that, as discussed above, about 186,000 of persons with employer coverage would be in firms that drop employer coverage so that their employees can purchase non-group coverage with the credit (all but 18,000 would not obtain non-group coverage).

The individual tax credit would reduce the number of uninsured in Californians by about 1.8 million persons if fully implemented in 2002. Program costs would be about $4.3 billion.

Combined Impact: The estimates presented in ***Figures 2*** through ***6*** assume that each of these four policies is implemented alone. In fact, the ITUP plan would implement them together. Due to overlaps in eligibility under these policies, the number of persons potentially affected by these policies would be less than the sum of the figures presented above.

Figure 6
Impact of the Tax Credit for Persons Without Access to Employer Coverage [a/, b/]

	Number Eligible (in thousands)	Number Enrolled (in thousands)	Reduction in Uninsured (in thousands)	Cost at Credit (in millions)
Currently Insured	1,129	1,129	18	$1,610
Uninsured	5,198	2,008	1,840	$2,698
Total	6,327	3,173	1,822	$4,308

a/Assumes that only the individual tax credit under the ITUP plan is implemented without the other programs in 2002

b/Estimates reflect a reduction in employer coverage of 186,000 persons (workers and dependents) in response to the individual tax credit for non-group coverage. All but 18,000 of these persons would obtain non-group coverage with the help of the tax credit.

Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM)

Figure 7 presents non-overlapping estimates of the cost and coverage impacts of the ITUP plan, assuming that each of its components are implemented together in 2002. We estimated that about 5.4 million Californians would enroll in one of the four programs created under the ITUP proposal. Of these, about 2.6 million would be persons who otherwise would have been uninsured.

Figure 7
Impact of the ITUP Proposal if all Components are Implemented Together in 2002 [a/, b/]

	Eligible (in thousands)	Enroll (in thousands)	Reduction in Uninsured (in thousands)	Total Cost (in millions)	State Cost (in millions
Medicaid Expansion for Non-Custodial Adults a/	2,998	1,535	1,223	$2,872	$1,471
Cover Medi-Cal & HFP Enrollees Through Employer	453	110	39	$(39)	$(19)
Employer Tax Credit for Low-wage Firms	3,316	1,282	185	$1,082	$1,082
Individual Tax Credit for Persons Without Access to Employer Coverage	4,884	2,437	1,174	$2,933	$2,933
Total	N/A	5,364	2,621	$6,848	$5,467
Safety Net Savings					
Savings to Safety Net Programs	N/A	N/A	N/A	$(1,380)	$(1,380)
Waiver Savings	N/A	N/A	N/A	$(296)	$(296)
Net State Costs	N/A	N/A	N/A	$5,764	$3,791

a/Costs net of premium and waiver savings

b/The estimates presented in this table differ from those presented above due to overlapping eligibility under these programs.

Source: Lewin Group Estimates Using the Health Benefits Simulation Model

The total cost of these programs to the state net of various offsets would be about $3.8 billion. This includes about $6.8 billion in benefits costs that would be partly offset by federal matching funds of $1.4 billion; waiver savings of $296 million; and safety-net savings of $1.4 billion.

Figure 8 presents the distribution of newly insured persons under the ITUP proposal assuming full implementation in 2002.

Figure 8
Change in Uninsured Under the ITUP Plan Assuming Full Implementation in 2002 (in thousands)

	Uninsured Under Current Policy	Change in Uninsured ITUP Plan	Remaining Uninsured
Age			
Age less than 19	1,419	(333)	1,086
19-24	1,145	(672)	473
25-34	1,487	(673)	814
35-44	1,248	(462)	786
45-54	822	(334)	488
55-64	483	(257)	226
65 and over	38	(8)	30
Family Income			
Less than 10,000	595	(336)	259
10-14,999	488	(312)	176
15-19,999	656	(397)	259
20-29,999	1,122	(553)	569
30-39,999	919	(401)	518
40-49,999	555	(206)	349
50,000 and over	2,308	(534)	1,774
Total	6,643	(2,739)	3,904

Source: Lewin Group estimates using the Health Benefits Simulation Model

2. Ten Year Budget Estimates

As discussed above, the estimates presented in ***Figures 1*** through ***8*** assume that the program is fully implemented in 2002. In fact, we expect enrollment to lag during the first two years of the program as potentially eligible individuals learn of their eligibility and take the time to enroll. In addition, the program would not be implemented until 2003.

The total cost of the ITUP proposal to the state would be $2.1 billion in 2003, rising to $3.8 billion in 2004 (***Figure 9***). After an initial two-year lag in enrolment, the program would reach $5.2 billion in 2005. This includes spending under the Medi-Cal and Healthy Families programs of $3.2 billion and private coverage subsidies of $5.1 billion; less various offsets of $3.2 billion.

Figure 9
State Expenditures Under the ITUP Coverage Expansion Proposal; 2003 – 2012 a/ b/

	Medi-Cal Healthy Families	Private Coverage Subsidies	Offsets			Net State Cost
			Federal Match	Waiver Savings	Safety-Net Savings	
2003	$1,378	$2,198	$671	$100	$663	$2,142
2004	$2,382	$3,819	$1,162	$108	$1,110	$3,821
2005	$3,218	$5,142	$1,570	$163	$1,454	$5,168
2006	$3,475	$5,492	$1,696	$276	$1,534	$5,511
2007	$3,750	$5,816	$1,830	$300	$1,611	$5,825
2008	$4,031	$6,136	$1,967	$383	$1,691	$6,126
2009	$4,326	$6,473	$2,111	$474	$1,776	$6,438
2010	$4,641	$6,842	$2,265	$577	$1,864	$6,777
2011	$4,980	$7,237	$2,430	$620	$1,958	$7,209
2012	$5,344	$7,466	$2,608	$665	$2,056	$7,481

a/ Reflects expected lags in enrollment in early years of the program.
b/ Includes savings from managed care for the disabled and the reduction in benefits for optional groups.
Source: Lewin Group estimates using the Health Benefits Simulation Model (HBSM)