THE HAWAII EXAMPLE

SUMMARY: *Hawaii has moved closer to universal coverage than any other state by reforming and strengthening its traditional system of private, employer-based health care coverage. Its required employer contributions have leveled the playing field for all businesses, showing that shared responsibility can create a climate in which businesses grow and prosper.*

- In 1974, Hawaii passed the Prepaid Health Care Act requiring all employers to make contributions towards health coverage for their employees. Under the Act, all employers must provide a defined comprehensive package of benefits, with costs shared between the employer and the employee.

- The majority of insurance is provided by *private* insurers and providers. The insurers voluntarily use modified community rating to offer small businesses the same rates as large businesses.

The Results:

- Hawaii is a small business state, with 96% of its businesses employing less than 100 people and 94% employing 50 or less. After the state began asking all employers to contribute to coverage:

  - ***Unemployment dropped:*** The unemployment rate has consistently been well below the U.S. average -- in many years one of the lowest in the country.

  - Hawaii's rate of business failures was less than half the national average.

  - ***Small businesses prospered:*** Small business creation rates remained high -- with the number of employers growing almost 200% from 1970 to 1991.

  - And Hawaii's Premium Supplementation Fund -- a "rainy day" fund which was set up to help the smallest businesses provide insurance -- has only been used 5 times in 18 years.

  - ***Hawaii achieved near-universal coverage:*** Only about 4% of the population remains uninsured -- compared to estimates of 15.3% nationwide.

  - ***Costs have been controlled:*** *"Perhaps most surprising to many experts, the near-universal access to health care has not led to soaring costs. While Hawaii ranks near the top of the states in cost of living, its average health insurance premium is near the bottom. For example, a family in Hawaii pays a premium of $263 a month, nearly half that of other states."*

Sources: The Hawaii Department of Health; *"Hawaii: Setting an Example for the Rest of the Nation"*, The New York Times, 11/14/93

STATE OF HAWAII

Summary: Hawaii has moved closer to universal access than any other state through its combination of employment-based coverage, Medicaid, and a state-subsidized insurance program for the "Gap Group" -- those not qualified for either employer-provided or Medicaid coverage. State officials estimate that only about 4 percent of Hawaii's population remains uninsured -- compared to estimates of 15.3 percent nationwide.

Features:

I. Shared Employer-Employee Responsibility: The foundation of Hawaii's approach is its 1974 Prepaid Health Care Act which requires that all employers provide health insurance to their employees. Employees must elect the insurance unless they have comparable coverage from another source. Employers and employees share financing of premiums.

- The law specifies that employers must provide an extensive package of medical, hospital, and laboratory services that meets minimum standards specified in the Prepaid Health Care Act. Employers have a second option of providing a state-approved benefits package more limited than one of the standard plans and then paying half the cost of dependent coverage.

- In 1990, 88 percent of Hawaii's under-65 population were covered by employer-based insurance, provided primarily by two large insurers -- a standard fee-for-service plan from Hawaii Medical Services Association (Blue Cross/Blue Shield) and an HMO plan from the Kaiser Foundation Health Plan.

II. Medicaid Insurance: In 1990, another 7 percent of Hawaii's residents were insured through Medicaid. Hawaii has a very expansive Medicaid program, accepting a greater percentage of it low-income population than most states. In addition, Hawaii ranks third among the states for the greatest number of Medicaid service options -- with a comprehensive benefit package that covers medically necessary, and some preventive, care.

III. State Health Insurance Program (SHIP) for the Gap Group: In 1989, the Hawaii government estimated that about 5 percent of the population remained uninsured, neither covered through employer-provided insurance nor eligible for Medicaid. In response to this problem, the Hawaii legislature created the State Health Insurance Program (SHIP) to provide state-subsidized private health insurance for the low-income uninsured.

- The state purchases health insurance for SHIP enrollees from HMSA and Kaiser. The state pays the entire premium for those whose income is under the poverty level; members with incomes above poverty pay a sliding scale share of the monthly premium.

- SHIP's benefits package is very different from Hawaii's employer-provided plan and the Medicaid program. Benefits are heavily weighted toward preventive and primary care, with full coverage for prenatal, well-baby, and well-child physicians' benefits as well as coverage for health appraisals. Other physician care and hospital coverage have set limits.

Small Business: Small businesses in Hawaii pay less for health insurance that their counterparts elsewhere in the U.S. There are several reasons: (a) since most people are insured, there is less uncompensated care and therefore less cost shifting; (b) all insurers must cover all employees in a group, regardless of medical condition or risk; (c) the two dominant insurers voluntarily established an adjusted community rating system which allows small businesses to offer their employees health care benefits comparable to those offered by large employers. The Prepaid Health Care Act facilitated the use of community rating by requiring that all employees obtain insurance, thus preventing healthy people from opting out of the system.

No Strong Cost Controls: Hawaii's reforms have not shielded it from the national trend of rising health care costs, although state officials note that while Hawaii's health care spending tracked the national average, it was providing increased access to health care for all its citizens.

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HAWAII: *DOES IT HAVE UNIVERSAL COVERAGE?*

RHETORIC:

- *"After 20 years of operation, Hawaii's employer mandate has produced coverage levels (92 percent to 93 percent) no higher than in Connecticut, Minnesota, or elsewhere."* [Jack Ferris, NFIB, Washington Post, 6/13/94]

IS THIS TRUE?

- *The statistic:* The Hawaiian Department of Health estimates that 4.3% of their population, at the most, still lacks insurance. Other estimates -- such as 6.0 from the 1992 Current Population Survey -- include people with employer coverage, Medicaid and Medicare but leave out those under the new state government supplemental program (estimated at about 2% of the population).

- Hawaiian officials are the first to agree that there is only so far they can go on their own. They argue that an employer mandate cannot get all the way to universal coverage by itself. You must have a system of shared responsibility -- such as the President's proposal. Employers contribute, employees contribute, and the government helps those who have lost their jobs or who are unemployed.

- There are people that are left out of Hawaii's employer mandate. The unemployed, of course, are not included. It also does not cover people who work less than 20 hours a week or dependents. Because Hawaii is not able to change their mandate [per the conditions of their ERISA exemption], they established a supplemental program to include these groups. This program -- the State Health Insurance Program -- has been very successful and 22,000 people are now included. Hawaiian officials welcome a federal solution that will bring more people in under the mandate.

WHAT WE COULD SAY:

- *The experience of Hawaii demonstrates that an employer mandate works: both business and employees prosper. Since Hawaii began asking all employers to provide insurance for their employees in 1974, the unemployment rate has dropped to one of the lowest in the nation and small business creation rates have remained high. But no one argues that an employer mandate can bring a state -- or the country -- all the way to universal coverage by itself. There are people who are not covered by an employer mandate -- people between jobs for example. The President's proposal of shared responsibility -- employers, employees, and the government -- will give every American private insurance.*

- **A positive conclusion:** *And, since Hawaii has come very close to universal coverage, health costs are about **30 percent lower**. Hawaii's experience proves that the more people are in the health care system, the lower costs can be.*

- Our response could also reference the Medicare program, the most popular and well-known government insurance program. According to the Census Bureau, almost 99% of people over 65 lack insurance. *"When the American people agreed that older Americans needed health security -- and when they asked the government to guarantee this -- it happened. We believe that all Americans deserve this security and, judging from the coverage rates of the Medicare program, we are confident we can get there."* **[The downside of course is that Medicare is a government-run, single-payer system -- not exactly our message.]**

HAWAII ROUNDTABLE WITH REPORTERS:
TOUGH Q & A

- **Biggest Risk: We have successfully created an atmosphere in which reporters have been convinced that non-universal reform will hurt more than it will help. Reporters might conclude that -- since Hawaii has seen remarkable results by coming close to universal coverage but not achieving it -- the U.S. can get the same results by coming close to universal coverage but not necessarily achieving it.**

  Response: There was never any doubt that Hawaii was heading toward universal coverage. They kept striving to bring new portions of the population into the system. The U.S. will only begin to see these same results as it too embarks on a path directly aimed at universal coverage. The Governor makes the point well that they never could have gotten to 96 percent coverage if they were not heading toward 100%. If they had set 96 percent as their goal, they would be in the low 90 percentages at best today.

  The best things about the Hawaiian system -- lower insurance premiums for families and businesses, early preventive and primary care, less hospitalization, fewer emergency room visits -- are the result of having the vast majority of the population in the system.

  HOWEVER, PROBLEMS STILL REMAIN SINCE UNIVERSAL COVERAGE HAS NOT BEEN ATTAINED. THESE PROBLEMS CAN ONLY BE ELIMINATED ENTIRELY WITH UNIVERSAL COVERAGE.

- ***What do you say to NFIB claims that, "After 20 years of operation, Hawaii's employer mandate has produced coverage levels (92 percent to 93 percent) no higher than in Connecticut, Minnesota, or elsewhere." Why hasn't Hawaii achieved universal coverage yet?***

  The experience of Hawaii demonstrates that an employer mandate works: both business and employees prosper. Since Hawaii began asking all employers to provide insurance for their employees in 1974, the unemployment rate has dropped to one of the lowest in the nation and small business creation rates have remained high. But no one argues that an employer mandate can bring a state -- or the country -- all the way to universal coverage by itself. There are people who are not covered by an employer mandate -- people between jobs for example. An approach of shared responsibility -- involving employers, employees, and the government -- will guarantee every American private insurance.

  And, since Hawaii has come very close to universal coverage, health insurance premiums for small businesses are about **30 percent lower** than elsewhere in the U.S. Hawaii's experience proves that the more people are in the health care system, the lower the costs.

- ***What percentage of the population is covered in Hawaii? What is difference between the numbers put out by the Hawaii Health Department, the Census Bureau/GAO report?***

  A survey from January to September 1991 by the Hawaii Department of Health estimated that 4.3% of Hawaii's population, at the most, still lacks insurance. Other estimates -- such as a 6.0 uninsured number from the 1992 Current Population Survey -- don't count newly uninsured under the new state government supplemental program (estimated at about 2% of the population).

- ***Who is not covered by Hawaii's employer mandate?***

  There are people that were not included when Hawaii originally passed its law. The unemployed, of course, are not included. It also does not cover people who work less than 20 hours a week or dependents of workers. Because Hawaii is not able to change their mandate without Congressional approval [per the conditions of their ERISA exemption], they established a supplemental program to include these groups. This program -- the State Health Insurance Program -- has been very successful and 22,000 people are now included. Hawaiian officials welcome a federal solution that will bring more people in under the mandate.

- ***Last week you said Mitchell was universal although it only got to 95%. Now, you are holding up Hawaii as an example although Hawaii has only 96% coverage. Are you saying you'll settle for 95% or 96%?***

  I want this to be very clear -- our bottom line is universal coverage which means guaranteed private insurance for every American. I have always said that I will look at any approach that works to get us to that bottom line.

  Both the Gephardt and Mitchell proposals achieve universal coverage. They take different paths but they both achieve universal coverage. Neither Senator Mitchell nor this Administration believe that 95% is universal coverage. We believe that the Senate bill will go well beyond 95% to achieve full coverage.

- ***Last week you seemed to be embracing the Mitchell bill. Senator Mitchell has repeatedly stated that CBO is scoring his bill at 95%, so the mandate will not kick in. By having a press roundtable highlighting shared responsibility, are you now saying that the mandate in the House bill is the preferable route?***

  First, I have said that I support both the House and Senate bills because they both achieve universal coverage. They take different paths, but reach the same goal.

Second, I have always said it has to be universal, and it has to work. We know Hawaii works, as the Governor has talked about today. And we know it works because employers and employees share responsibility -- Hawaii has the closest thing to universal coverage in this country. As Hawaii has demonstrated, shared responsibility does not harm small businesses and does not result in job loss.

Third, this Administration believes that shared responsibility is the best way to achieve universal coverage. It's in the House bill and is a back-up mechanism in the Senate bill. It builds on the current system where nine out of ten Americans get private insurance through the workplace.

Senator Mitchell's bill is supportive of individual state's like Hawaii that think shared responsibility is the best route. For example, states like Oregon and Washington have employer mandates on the books, but federal barriers stand in the way of implementing their reform. Under Senator Mitchell's plan, states like Hawaii would not only be encouraged, they'll be rewarded -- they could keep the savings from the Medicaid program that would otherwise go to the federal government.

- ***The recent Ed Chen article described a clinic with over $1 million a year in uncompensated care. How can this happen in a system that is almost universal?***

The fact is: although coming closer to universal coverage than any other state, Hawaii has not yet reached it and a small percentage of the population remains without insurance. When these people need care, they -- like uninsured people throughout the United States -- go to public health clinics and emergency rooms for expensive last minute care. The burden of this free care -- and the cost-shifting that results -- will only be eliminated with universal coverage.

- ***Isn't there a lot of gaming in Hawaii, with employers doing everything they can to avoid covering employees?***

There is some gaming that takes place today -- although there are mixed reports on how widespread it is. For example, some employers limit an employee's hours to fewer than 20 hours a week to avoid having to insure them. GAO said that business leaders in Hawaii found that hiring part-time workers causes additional administrative burdens and therefore is not that prevalent. And the Bureau of Labor Statistics reports that Hawaii has a smaller percentage of part-time workers than the U.S. average over the past several years.

The fact is that Hawaii has not had the flexibility to change their mandate -- to include part-timers, seasonal employees, dependents, etc. Their system has literally been frozen as originally approved in 1974. But they are committed to universal coverage and have been working towards it. The national debate has been informed by Hawaii and current proposals take care of some of the gaming but will also be more flexible.

What about dependents? Many surveys show that almost all employers voluntarily do cover dependents. A 1992 survey of 235 Hawaiian businesses by the Hawaii Employers Council reported that about three-fourths of these businesses pay at least some portion of full-time employees dependents health insurance premiums. The report concluded that covering dependents is an *"almost universal standard practice"* -- concluding that competition for workers is so strong that most employers cover dependents.

- ***Wasn't Hawaii's original proposal a 50/50 shared responsibility? Aren't small businesses in Hawaii upset because their share has grown every year while their workers' share has been capped?***

  While small business advocates still complain, on an ideological basis, about the mandate -- the fact is that the majority of businesses offer far *more* benefits than required by law, often paying 100% of the employee premium costs.

  However, Hawaiian officials -- as the Governor will tell you -- do support moving closer to the shared responsibility they originally proposed, rather than the lion's share most employers pay today. Federal law -- the terms of the ERISA pre-emption with which they implemented their mandate -- has prevented Hawaii from raising the ceiling on workers' contribution to health care. It is limited to 1.5 percent of a worker's salary, and no more than half the premium. For a minimum-wage worker in 1975, the limit of $5.20 a month was nearly a third of that year's $18.62 monthly cost of basic health insurance.

  But health insurance costs have grown much faster than the minimum wage, which was $2 in 1975 and is $5.25 here now ($910 a month). The most that can be deducted from a minimum-wage worker now is $13.65 a month -- such a small share of the $131.02 premium for a worker's basic coverage that many employers do not bother to collect it.

  And many surveys indicate that small businesses are satisfied. Hawaii is the only state where a recent United States Chamber of Commerce survey of its members -- mostly small business owners -- found a majority backing compulsory payments. A survey of 500 small businesses in 1993 concluded that: *"Small businesses in Hawaii are much more satisfied with the health care system in their state than small businesses across the country are with the national system."*

- ***Don't employers in Hawaii have a smaller burden than envisioned in the House/Senate proposals? Hawaii has many exemptions including dependents, part-timers, seasonal workers, etc.?***

  There are differences when comparing Hawaii to any of the proposals on the table today. For example, while part-time employees are completely excluded, employers pay a far greater share of the cost than envisioned under some current proposals and many contribute

the entire amount. Furthermore, by most accounts, most employers pay at least part of the cost of dependents to attract workers.

I would also note that there have never been any subsidies provided to small businesses to enable them to provide insurance. Hawaii implemented its program very quickly, without phase-in and without subsidies. And Hawaii's "Rainy Day Fund", set up to help the smallest companies provide insurance -- has been used only 5 times over the last 20 years.

- ***Although premiums are lower in Hawaii, inflation and overall per capita costs have mirrored the national average? What explains this?***

  It should be noted that, at the same time that Hawaii's costs have been increasing at the national rate, they have been steadily expanding the number of people with insurance.

  And as we have discussed, premiums are lower -- as are average increases in premiums compared to national levels. And, total annual medical costs are only 8.1 percent of the state's gross product. Canada's is 9 percent and the average on the U.S. mainland is 11.1 percent.

  But, there is only so much a state can do on its own. Hawaii's cost experience reinforces the need for a national strategy for cost control. Hawaii's original law did not have explicit cost control provisions and Hawaiian officials argue that the state is not immune to the factors that have driven up costs nationally. Administrative costs are high and rising; wages for health professionals have risen significantly and technological advances cause medical equipment costs to rise.

  In addition, Hawaii's Medicaid program has been growing very quickly -- 32% last year alone -- mirroring the national average. Hawaii has a very expansive Medicaid program -- accepting a greater percentage of the low-income population than most states. In addition, Hawaii ranks third among states for the greatest number of Medicaid service options.

DOCUMENTATION FOR NATIONAL HEALTH CARE CAMPAIGN AD: *"HAWAII (Radio)"*

AUDIO / CHYRON	FACTS
MOST REPUBLICANS SAY THERE'S NO WAY TO GUARANTEE HEALTH CARE COVERAGE TO EVERY AMERICAN.	
SO, HOW COME HAWAII HAS COME SO CLOSE?	
HAWAII'S GOT BEAUTIFUL BEACHES, GREAT SUNSETS, AND MORE PEOPLE HAVE GOOD HEALTH CARE COVERAGE THAN ANY OTHER STATE.	Sources: *"Measuring the Uninsured Population in Hawaii,"* Department of Health, State of Hawaii, November 1992 • *"After 20 years under state law that requires employers to pay a portion of their workers' health insurance, 96 percent of Hawaiians enjoy medical insurance, easily the highest percentage of any state."* [*"Hawaii Presents Possible Archetype for Clinton Health Plan,"* Los Angles Times, 7/8/94]
HOW'D THEY DO IT?	

TWENTY YEARS AGO, HAWAII BEGAN INSISTING THAT ALL EMPLOYERS CONTRIBUTE TO THEIR FULL TIME EMPLOYEES' HEALTH BENEFITS, AND THAT ALL EMPLOYEES CONTRIBUTE AS WELL.

Source: State of Hawaii, *"Prepaid Health Care Act (Chapter 393, H.R.S.)"*, 1974

- *"[C]osts are shared between the employer and the employee. . . Any employee who works more than 20 hours a week . . . is eligible for prepaid health care."* [*"Hawaii's Employer Mandate and Its Contribution to Universal Access"*, Journal of the American Medical Association, 5/19/93]

BUSINESS IS THRIVING.

- The small business creation rate in Hawaii is high -- with the number of employers nearly doubling since 1970. [Department of Labor and Industrial Relations, State of Hawaii]

- From 1977 to 1990, the rate of business failures in Hawaii was half the national rate. [Dun and Bradstreet, Monthly New Business Incorporation Report]

PEOPLE ARE HEALTHIER.

- Hawaii has been ranked first in health status among all states in two recent national analyses, one by Northwest Life Insurance Company (Milwaukee, WI) and another by the American Public Health Association (Washington, DC). [*"Hawaii's Employer Mandate and Its Contribution to Universal Access"*, Journal of the American Medical Association, 5/19/93]

THE INFANT MORTALITY RATE HAS DROPPED BY 50%.

- *"Near universal coverage can dramatically improve overall public health, further reducing spending and leading to a more productive work force. Hawaii officials cite the infant mortality rate, which is down 50 percent from its 1974 high of 16 deaths per 1,000 births and the state's life expectancy of 78, the highest in the nation."* ["*Hawaii Presents Possible Archetype for Clinton Health Plan,*" Los Angeles Times, 7/8/94]

PREMIUM COSTS ARE LOWER IN HAWAII AND SMALL BUSINESSES PAY 30% LESS FOR INSURANCE THAN IN THE REST OF AMERICA.

- *"Hawaii's system of near universal access has resulted in lower health insurance premiums, particularly for small business."*

30% LESS.

- In 1991, annual premiums for two common popular small business plans in Hawaii were lower than the U.S. average cost of $1,604 for comparable coverage by $396 (32.8%) and $385 (31.5%).

Source: *"Health Care in Hawaii: Implications for National Reform,"* General Accounting Office, 2/94

SO CALL THE REPUBLICANS WHO OPPOSE UNIVERSAL COVERAGE AND TELL THEM YOU DON'T EXPECT PALM TREES, BUT YOU DO EXPECT GUARANTEED HEALTH COVERAGE THAT CAN NEVER BE TAKEN AWAY.

THIS MESSAGE WAS PAID FOR BY THE DEMOCRATIC NATIONAL COMMITTEE, BECAUSE WE BELIEVE IN GUARANTEED HEALTH CARE COVERAGE. IF ITS WORKING IN HAWAII, IT CAN WORK FOR THE REST OF AMERICA.

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