Health Insurance Subsidies for the Temporarily Unemployed: How Many Workers Will Gain Protection?

Of the 127 million civilian workers in the U.S. today, approximately 7 million workers, would gain added protection against being unable to afford health insurance while unemployed. Women would account for between 39 percent and 49 percent of these, or between 2.7 million and 3.5 million protected workers.

This is a conservative estimate near the lower end of possible estimates, which range between 6.0 million and 9.1 million protected workers (including from 2.3 million to 4.5 million women), as explained below.

Workers "gaining protection" is a broad measure, encompassing many workers who might become eligible to receive subsidies but who would not, in fact, receive them. They are defined to be those who (1) are expected to be eligible to claim unemployment benefits and (2) are covered by a health plan at their job prior to becoming unemployed. This includes some individuals who actually would not become eligible for subsidies under the program because they (1) would be able to maintain their families' incomes above 240 percent of the poverty threshold while they are unemployed or (2) would be eligible for coverage under their spouses' plans. It also includes some individuals who would be eligible but who would not claim the subsidy.

These estimates are derived as follows:

1. Twelve percent of workers are assumed to be claiming unemployment benefits at some point during the year (Bruce Meyer and Dan Rosenbaum, NBER working paper 5423, footnote 8, page 8).

2. We arrive at a range of estimates of the total number of workers gaining protection because of uncertainty over the total number of workers who are eligible for unemployment benefits. The best estimates are that between 83 percent and 55 percent of workers eligible to claim unemployment benefits actually do so (Patricia Anderson and Bruce Meyer, NBER working paper 4787, footnote 1, page 1). Therefore, between 14.5 percent and 21.8 percent of workers will be eligible to claim unemployment benefits at some point in 1997 (12% / 0.83 = 14.5%; 12% / 0.55 = 21.8%).

3. We assume that 33 percent of workers who are eligible for unemployment benefits have health coverage at a job sometime that year.

   As a proxies for workers eligible for unemployment benefits, we examined (1) workers who worked less than 52 weeks in 1995 and (2) workers who looked for work or were on layoff from a job while not working in 1995. According to the March 1996 Current Population Survey, 31 percent of the former and 33 percent of the latter reported that they were covered by health insurance at their jobs at some time in 1995.

To be eligible for the subsidy, a worker must have 6 months of prior coverage on the job. The proportion with such coverage is probably not too different from the 33 percent that had coverage at some time during the year.

Therefore, the proportion of workers "gaining protection" is between 4.8 percent and 7.2 percent (14.5% X 0.33 = 4.8%; 21.8% X 0.33 = 7.2%).

4. According to BLS, there were 126.7 million civilian workers in the U.S. as of December 1996 (seasonally adjusted). Hence, the number of protected workers is between 6.0 million and 9.1 million (4.8% of 126.7MM = 6.0MM; 7.2% of 126.7MM = 9.1MM).

5. Women make up 49 percent of those who worked in 1995 and 39 percent of 1995 workers who looked for work or were on layoff on while not working in 1995. Using this as the range of protected workers likely to be women, and applying it to the range of workers likely to be protected, we conclude that 2.3 million to 4.5 million protected workers will be women (39% of 6.0MM = 2.3MM; 49% of 9.1MM = 4.5MM).

FAX COVER

DATE: 1/31/97

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COMMENTS:

HEALTH COVERAGE FOR WORKERS BETWEEN JOBS

Over the past few months, HHS has worked with staff from OMB, Labor and Treasury to refine the analysis and policy of the Health Coverage For Workers Between Jobs program. The following summarizes the contents of the proposal as agreed to by the Secretary in her discussions with the President.

Changes to Last Year's Proposal

The essential elements of last year's proposal are retained, except for the following changes which are unresolved:

1. The cap.

HHS proposal: HHS had proposed a mechanism for adjusting the base budgeted amount each year to reflect significant changes in the economy. OMB, however, has raised concerns about how such a mechanism would be scored and whether it would be a "capped entitlement." [Last year's proposal would have relied more on a loan program and the ability of states to carry over excess grant money (up to five percent of an annual grant); however, these mechanisms may not be sufficient to accommodate significant changes in unemployment over short periods of time and would not result in funds flowing to the states that experience the most significant changes in unemployment.]

OMB proposal: OMB would eliminate any adjustment in the base. Instead, they would add a five percent increase to the base as a loan fund, with the provision that the loan fund be restored to the five percent level annually to cover any outstanding loans. HHS has two concerns with this approach: 1) a five percent loan fund is not adequate to cover a sharp increase in unemployment (twice in recent years the annual change has been close to 40 percent); and 2) loans would be repaid by a reduction in future grants to the borrowing states, which could put states into a death spiral (i.e., not have a large enough grant to pay their current costs and service the debt).

HHS position: Given that this is to be a four year demonstration program, HHS would prefer to keep the structure and administration of the program simple and not include the loan program. In explaining the proposal, we will explain that an adjustment mechanism is one of the issues the department will examine further and address in any recommendations at the end of the demonstration.

2. COBRA first.

HHS proposal: To align the proposal with the Kennedy-Kassebaum bill and to assure the most efficient use of federal money, eligible participants would retain COBRA coverage where available. States will still have the flexibility to develop alternative delivery mechanisms, but they will have to demonstrate that the alternatives are cost-efficient and protect the insured's rights under the Kennedy-Kassebaum law. [Last year's proposal would have given the states greater flexibility to use alternatives to COBRA.]

OMB proposal: They tentatively agreed to accept the HHS proposal.

3. **Adjustment for geographic variation in health care costs.**

HHS proposal: Grants would be allocated on a quarterly basis based on a state's share of the national unemployment and adjusted to reflect the relative cost of health care among the states. We have not specified the specific index that would be used because we are still exploring several options and expect that any index will be the subject of extensive discussion and negotiation with the Congress. [Last year's proposal did not include an adjuster for geographic differences in health care costs.]

OMB proposal: OMB would drop the inclusion of a health care adjuster and leave the issue to be a study item in the evaluation of the program (see below).

HHS position: The department will defer to the White House.

4. **Change in the phase-out of the subsidy level.**

HHS proposal: People at 100 percent of poverty would receive a 100 percent subsidy; the subsidy is reduced to 50 percent at 240 percent of poverty. [Last year's proposal would have reduced the subsidy to zero at 240 percent of poverty.]

OMB proposal: OMB has tentatively agreed to this (they want to recheck the numbers once more).

HHS position: HHS wants to retain the 50 percent subsidy at the 240 percent of poverty level phase-out because the cost is not significant and it is embedded in all the recent estimates for the cost of the program.

5. **Conduct an evaluation of the program.**

HHS proposal: HHS would conduct an evaluation of the program in consultation with the Department of Labor. [Last year's proposal would have established a Presidential Commission.] Recently, Labor asked that the study be a joint evaluation of the two departments.

OMB proposal: OMB wants to retain the Presidential Commission established in last year's proposal. HHS believes that with the Quality Commission and possibly a Medicare commission that another commission for a relatively small programs such as this is unnecessary.

HHS position: HHS opposes the Presidential Commission as being unnecessary. The department opposes the "joint evaluation" as being administratively burdensome, but would support language that requires HHS to consult with Labor in conducting a program evaluation.

6. **One-Stop Centers:** The current proposal requires state unemployment insurance offices to make program information and applications available to UI applicants. In addition, the

Department of Labor would like specific language requiring worker "One-Stop Center" to also provide the information. HHS will accept the Labor proposal.

Last Year's Proposal – FYI

The following elements of the program have been retained from last year's proposal.

1. **Federal Funds for States.**

   o Would establish a four year demonstration project and provide annual grants to states which choose to participate. HHS would operate a program in a state that chooses not to participate.

2. **Eligibility for Coverage**

   o Recipients must be in active unemployment insurance claims status.

   o Coverage would not exceed 6 months.

   o Individuals must have had health insurance coverage through their last employer for at least the six previous months (including plans where the employee paid the full cost).

   o An employed spouse must not have health insurance coverage or, if covered, the employer contributes less than 50% of the premium.

   o The individual or family must not be eligible for Medicaid or Medicare.

   o Individuals will be eligible based on their place of residence.

   o No reduction can be made in the duration or amount of unemployment benefits as the result of an individual participating in the health care coverage program.

3. **Benefits**

   o State would have the option of extending eligibility periods or providing a more generous package using state funds.

   o Any reduction in either the duration or extent of health coverage benefits would have to be approved by the Secretary of HHS.

4. **Administration**

   o The state (or its contractor) must conduct all eligibility determinations.

- Unemployment claimants are informed of possible coverage eligibility at the time that an eligibility determination for UI benefits is made.

- Recipients must be informed that program funds are limited, which could result in reduction or elimination of benefits if funds become exhausted.

- Funds from the grant will take the form of letters of credit to the states.

- Program information and applications will be available in every local unemployment office/one-stop office.

c:\ui97.wh

HHS

~~$11.5/5 years~~
$2.3/year

Final Model Adjustments and Program Recommendations for Workers Between Jobs

Over the past few months, HHS has worked with the Urban Institute and staff within the Department and from OMB, Labor, and Treasury to refine the analysis and policy parameters of the Health Coverage for Workers Between Jobs program. This memorandum outlines methodological changes that have been accepted by technical staff, and recommended program design changes from last year's proposal and documents.

Program Design Changes

On November 1, there was a meeting at the White House with the other departments to discuss possible program design changes. (See Attachment A). At the meeting there was general agreement on the recommendations but there was no closure on the issues. The proposed changes were:

1. The cap: The program is, and will remain, a ~~capped~~ entitlement. However, there are several options for structuring the cap to allow adjustments to reflect sudden changes in unemployment. (See Attachment B.)

The current proposal contains two mechanisms to ameliorate, at least partially, sudden changes in unemployment or estimation errors without circumventing the cap. It would 1) establish a federal loan program (two percent of the annual expenditures); and 2) allow states to carryover unspent funds, up to five percent of their highest annual grant. The concerns with these options are that it may be difficult to collect loans (without undermining future coverage) and that allowing states to accumulate carryover funds may be inefficient (i.e., the states that have carryover funds would not necessarily be the states to face a shortfall due to a sharp increase in unemployment).

OMB likely to score

Staff recommendation: The objectives remain the same--maintaining sufficient flexibility to allow for sudden changes in unemployment while retaining the reality of a "capped" entitlement. Attachment B sets forth two options that maintain a cap and provide flexibility in responding to shortfalls. The outstanding issue is how OMB and CBO would actually score either option-- that is, would they view the adjusters and other provisions in the bill as sufficiently viable that they would score the proposal at the base rather than the ultimate cap?

→ present as fallback is COBRA-first if → State can't

anyway shifts costs to employers

2. COBRA first: States would have to require beneficiaries to use COBRA coverage, if available; alternatives would be permitted only if the state could demonstrate that they were cost-efficient and they did not jeopardize a person's portability rights under the Kassebaum-Kennedy legislation. This would minimize program cost to the federal government, but employers may strongly oppose this approach because COBRA effectively means they bear some of the risk and cost of the unemployed.

. cost 15% higher

Staff recommendation: Require COBRA coverage unless the alternatives are as cost efficient and protect portability rights.

- define efficiency if cost-neutral
- consistent w/ K-K

OK - change presentation

*3. **Flexibility in subsidy levels and benefit duration:*** Because states could experience a shortfall in funds, the current proposal would allow a state to "reduce the duration or extent of a program's assistance." Staff agree that shortening duration should be an option, but there was some concern about reducing subsidy levels. Urban's analysis shows that reducing the subsidy level from 50 to 20 percent at 240 percent of poverty would save 6 to 8 percent, which would probably be too little to assist a state facing a significant shortfall. Reductions in duration would have more significant effects on reducing costs (e.g., imposing a one month waiting period could reduce costs 20 to 25 percent).

Staff recommendation: Only allow changes in duration.

*4. **Adjuster for geographic variation in health care costs:*** The current proposal does not contain any adjustment for health care cost differences in the allocations of grants to the states. Ideally, we would want an adjuster that reflects the relative cost of health insurance premiums among the states, but unfortunately, no such index exists. A number of other options were considered, and the best proxy appears to be an index developed by HCFA's Office of the Actuary which reflects private sector expenditures based on residency. This incorporates both cost and utilization. However, staff continue to explore other options, including the use of OPM's claims data file which might be used to construct an index of costs for a common set of benefits.

Staff recommendation: Draft the new proposal to include a health care adjuster but not specify a particular index, knowing that this will inevitably be the subject of extensive discussion on the Hill regardless of what the Administration initially proposes.

*5. **Demonstration or permanent program:*** The current proposal is to establish the program as a four-year demonstration. The question is whether to retain it as a time-limited demonstration program or propose it as a permanent program. The five year cost (FY '98-'02) would be $12.4 billion (see Table 1; impact of the program is contained in Tables 2-6).

Staff recommendation: The decision is a function of the overall budget.

*6. **Eliminate UI participation for health coverage eligibility:*** The proposal currently requires UI participation as a criterion for program eligibility. Congressional staff suggested eliminating this requirement, thereby expanding program eligibility.

Staff recommendation: Retain the UI participation requirement for two reasons: 1) eliminating requirement would increase the cost (we do not have a specific cost estimate) and administrative complexity of the program; and 2) requiring UI participation would induce new participation in the UI program, which is itself an economically desirable goal (state participation rates in UI vary from as low as 20 to over 60 percent).

7. Allow unemployed people with non-group coverage to be eligible: The current proposal requires the unemployed to have had at least six months of employer sponsored insurance (i.e., group coverage, though the language provides the Secretary with some flexibility to define eligible coverage). The Department of Labor has proposed allowing people with non-group coverage also to be eligible. They argue that this would be more equitable. Urban estimates that this change would increase program costs approximately 10 to 12 percent (i.e., $230-260 million in FY 1998); a Rand analysis of SIPP data suggest an increase closer to 20 percent ($460 million).

Staff recommendation: The decision is a function of the overall budget.

8. Allow program participants who take jobs without insurance to remain eligible for subsidies for the remainder of their six months coverage: The Department of Labor proposed this change, arguing that this would reduce, slightly, the incentive to not take a job without health insurance. Urban estimates that this change would increase program costs approximately 10 to 12 percent (i.e., $230-260 million in FY 1998).

Staff recommendation: The decision is a function of the overall budget.

Model Changes

1. Under reporting: The most serious estimation problem has been the observed under reporting, both numbers of recipients and the dollar amounts of benefits, in the CPS compared to administrative data compiled by the unemployment insurance program in the Department of Labor. The under reporting is as much as 30-35 percent. Using tax filing data, Urban was able to reduce the under reporting to 10-15 percent. The assumption has been made that this remaining under reporting is primarily from non-filers of tax returns--that is, lower income people. Thus, out-of-model adjustments were made to eliminate this under reporting by assigning it to lower income people.

2. Other changes: Several other aspects of the model were revised to incorporate better data and more realistic assumptions, including the likely "take-up" rates for insurance as the subsidy level is phased-out and the cost of insurance for this population.

These modeling changes are reflected in the final estimate for FY 1998.[1] (Last year, the estimate for FY 1998 was $1.9 billion; the revised estimate is $2.3 billion, a 19 percent increase.)

Attachment C explains the model changes in more detail. These changes have been reviewed within HHS, Labor, Treasury and OMB, all of which concur with the changes.

[1]The estimate does not include the effects on the unemployment insurance program--that is, the existence of a health insurance subsidy will induce more people to enroll in the UI program. Since the UI program is an existing entitlement, the induced participation in UI is not considered "scoreable." For information purposes, however, we will work with Labor to prepare such an estimate.

Attachment A

Updated Proposal: Coverage For Workers Between Jobs

There are six design and three estimation issues that need to be resolved before final estimates and statutory language can be prepared. This memorandum provides an update on the status of the issues.

Program Design Changes

The work of the last few months has raised issues about the initial design and possible refinements and changes.

1. **How can we best provide more funding flexibility to respond to changes in unemployment and still maintain a capped entitlement?**

   Issue: We can produce a reasonably reliable estimate for the course of a business cycle (4 to 6 years), but the margin of error for any particular year is potentially significant. The issue is how to design the program to allow changes in costs, given the fundamental estimation problem and the potential for relatively rapid changes in unemployment.

   Current Draft Proposal:

   To address the uncertainty in estimates, the current proposal would establish a two percent federal loan program and allow the states to carry over unexpended funds, up to five percent of an annual allocation. The current draft sets the cap at the lower of a specified dollar amount ($1.519 billion in 1997) or a formula reflecting change in unemployment and GDP per capita.

   Discussion:

   As an alternative to the loan program and state carryover, the entitlement could be changed to permit greater annual fluctuation and still be "capped". The alternative legislative language would:

   - specify an annual amount (e.g., $1.5 billion) based on the projection procedure we agree upon.

   - specify adjustment factors to rebase the grant (these would probably be changes in projected UI claims and health care costs). The adjustments to the specified amount would be made based on the most current data available before the fiscal year (e.g., use July, 1996 data for adjusting the base amount for FY 1997).

- establish a high upper bound that could not be exceeded, regardless of what the adjusters generate (i.e., it would be set at a level that would cover most possible contingencies).

This approach is analogous to the cap in the Ryan White program. The formulation meets the "capped entitlement" criteria; yet, by allowing for adjustments close to the beginning of the fiscal year, we are able to set a funding level that reflects more current economic conditions and forecasts. This method captures the flexibility that we had previously sought to provide through the loan program and the state carryover provisions and it eliminates their administrative complexity. Moreover, CBO would score the two approaches at virtually the same level.

2. Should we narrow the state flexibility in delivery mechanisms to minimize federal cost?

Issue: Because the program is federally funded, states have no incentive to minimize the cost of the program. The issue is whether we should specify that the least costly approach be taken.

Current Draft Proposal:

The current proposal would allow the states to determine how the benefits would be provided to the unemployed--e.g., COBRA, private insurance, special pools (e.g., Massachusetts), or other approaches.

Discussion:

Analysis of the adverse selection issues demonstrates that the lowest cost is COBRA coverage because employers bear some of the health risk inherent in this population. Over 85 percent of the insured population is in firms that must provide COBRA coverage (i.e. firms with 20 or more employees). Requiring COBRA coverage, if available, would lower total program costs by approximately 10 percent.

Requiring COBRA coverage to be primary is also consistent with the Kassebaum-Kennedy legislation. Under the law, people must exhaust their COBRA coverage (if available) before they are guaranteed access to the individual market. If a state were to allow or encourage the unemployed to take another option, they would be undermining the portability provisions of the law. Thus, the COBRA requirement makes sense from both a financial and a coverage perspective. States should be allowed to use alternatives only when they can demonstrate that they are cost-effective and not harmful to the individual's portability rights. However, the COBRA requirement might be strongly opposed by the employer community because of the implicit subsidy.

3. **Should we provide states with greater flexibility by allowing states to adjust subsidy levels rather than benefits?**

Issue: The potential for significant estimation errors, or rapid and unexpected changes in unemployment, could result in a state having inadequate funds to pay for all eligible people.

Current Draft Proposal:

The current proposal provides that grants will be based, in part, on the cost of providing the equivalent to the federal employees BC/BS standard option plan. If a state exhausts its funds before the end of the year, the proposal would allow the state to 1) use carryover funds, if any, from previous years; 2) borrow funds from a federal loan program; 3) reduce benefit levels, with HHS approval; or 4) cease providing coverage for the remainder of the year.

Discussion:

As noted above, if the Administration adopts the revised capped entitlement (#1), then the need for the carryover and loan program is mitigated. Furthermore, if a state relies heavily on COBRA or other private sector options for coverage, then it may not be feasible to change benefit packages quickly to reduce costs. In short, the current draft needs to provide better options. As alternatives, the program could:

1) allow the states to alter the duration of the benefit, either by not providing coverage in the first month or reducing the maximum coverage to a period of less than six months;

2) change the subsidy level so that it phases out at less than 240 percent of poverty;

3) maintain a loan program; or

4) cease providing benefits for the remainder of the year once funds are exhausted (states would have the option of using their own funds to continue the program).

Finally, the legislation could require the Secretary to notify Congress informing them when the program in any state anticipates exhausting funds within 60 days.

4. **How should we adjust for geographic variation?**

Issue: Health care costs vary among the states. The issue is how to reflect this variation in the allocation of grant funds.

Current Draft Proposal:

The current proposal does not provide any adjustment for variation in health care costs among the states; it simply allocates funds based on a state's relative share of unemployment.

Discussion:

HCFA's Office of the Actuary has provided two potential rankings: one based on a weighted average of the hospital wage index and physician price adjuster; the other based on private sector expenditures based on residency of beneficiary (an example of the effects of the indices is attached).

The "price index" reflects a weighted average of the hospital wage index and the physician price adjuster utilized in the Medicare program. These are well known indices, but they reflect only input prices for two significant variables in overall health care costs. The private sector expenditure index is based on research by HCFA, but it has not yet been published and has never been used for operational purposes.

5. **Should we continue to require UI participation for health coverage eligibility?**

Issue: Eliminating UI participation as a condition of eligibility has the advantage of increasing program eligibility, particularly in states that offer relatively low UI benefits. The issues are whether the elimination of UI participation would broaden health care coverage, the effects on program cost, and the broader effects on the unemployment insurance system.

Current Draft Proposal:

The current proposal has UI participation as a precondition to obtaining health care coverage. This has the effect of lowering the number of potential eligible participants; it also simplifies administrative screening of potential applicants.

Discussion:

The option of eliminating the UI participation requirement would make significantly more people eligible for the program. Currently, about 35 percent of those eligible for UI actually receive it; the range among states is from approximately 20 to 55 percent. This change would have two distinct drawbacks, however. First, it would require different (and probably more expensive) administrative systems to identify potential recipients. Second, the UI requirement for the health insurance benefit might induce significant numbers of new people to register for UI benefits, which would be an economically and socially desirable objective. (Two years ago when this issue was first raised, staff concluded that additional enrollment in the UI program would not be "scoreable"

by CBO because participants would be exercising an existing entitlement. If CBO were to decide that it is scoreable, the cost implications for the UI program could be significant.)

6. **Should participants who take a job without insurance be allowed to maintain their insurance coverage under the program for up to six months?**

   Issue: The issue is whether allowing the coverage to continue into employment would encourage people to take a job sooner.

   Current Draft Proposal:
   The current draft would terminate coverage when a person ceases to receive unemployment insurance benefits.

   Discussion:
   No data are yet available on the cost of this change or the number of people potentially affected.

Modeling Issues:

1. **How should we adjust base year estimates to account for under reporting in the CPS?**

   Under reporting of UI benefits (both numbers of people and dollars) is significant, perhaps 30% or more. We will test alternative adjustments to see what their effects would be.

2. **How will estimates be "synchronized" with the official OMB unemployment projections for the base year?**

   The estimates we are currently using are based on generally much higher unemployment rates than we currently have (or expect). The issue is how to adjust these estimates to reflect the projected UI claims and unemployment rates in the Administration's budget. There is still no clear consensus on how to adjust the estimates to the projected 1997 (or 1998) unemployment rate of 5.7%. We will have additional estimates on a number of factors by November 6. In short, however, it appears that any estimate we ultimately agree upon will have a margin of error greater than we would like.

3. **How should we reflect changes in premiums to reflect adverse selection?**

   Actuarial analysis shows that the original premium rates in our model are appropriate, assuming that states do require people to take COBRA coverage when available. If states allow people to choose more costly options, premium estimates would increase due to adverse selection (and hence, the total cost of the program would increase).

Attachment B

Capped Entitlement Structure:
Health Coverage for Workers Between Jobs

Current Legislative Proposal

The current proposal specifies a federal appropriation for each year. Within that appropriation, it includes two provisions that attempt to create flexibility to address sudden increases in unemployment. The first provision is a reservation for a federal loan fund. Each year, one percent of the federal appropriation is reserved, until the loan fund is at two percent of the current year's appropriation. If a state can show the Secretary that it needs more than its grant, it can take a five year loan from the loan fund, up to ten percent of its yearly allotment.

Federal loans could be hard to enforce. A state would have to repay loans from subsequent year grants. If a state did not have a sufficient surplus, it could find itself unable to repay or face ever large shortfalls. Furthermore, if loans are not repaid, the program could become a *de facto* open-ended entitlement.

The current proposal also includes a provision for carryover at the state level. A state can have a reserve of up to five percent of its annual appropriation. If the state can show the Secretary that it needs more than its grant, it can use these surplus funds to make up the difference. A state carryover program may not target funds efficiently, however. Some states may carryover the maximum amount without ever needing to expend the funds. Other states may be hit by high costs at a time when they have not yet been able to carryover funds. Because of the problems with the state carryover and a federal loan program, we have developed alternative structures for a capped entitlement.

Alternative Proposals

The following are alternative ways to structure the capped entitlement in legislation. It could be I, II, or some combination of both. Table B-1 illustrates the differences between the two models.

I. Adjusted Cap Model

1. The first fiscal year base would be calculated as follows:

   a. A specified amount (e.g., $2 billion).

   b. The base amount in the budget submission is subject to revision based on changes in UI first claims rates, using June data ("preliminary" data are available by the 3rd week of July; the "final" data are available by mid-August--we would use the final data). The recalculation would be done prior to October 1. [The formula for adjustments would be specified in the legislation. It would say that if UI claims rise by more than 0.X% from the rate in the base estimate--based on the most recent 6 month average-- grant funding

would increase by $Y. If the claims rate has dropped, the grant would be lowered.]

The final adjustment (i.e., $2 billion + $Y) could not exceed K * initial specified amount (i.e., K * $2 billion, where K is a fixed ratio).

2. In subsequent fiscal years, the budget estimate would be calculated as follows:

a. The lesser of Adjusted Base or the cap where:
   --Adjusted Base = Initial Base [1b, above] * (GDPx)
      --GDPx = GDP per capita, based on a five-year rolling average using the most recent data available

b. As in the first year, the second (and subsequent) year base is subject to an adjustment (i.e., the $Y in 1b, above) based on the most recent data (i.e., July) on UI first payment rates. Again the adjustment ($Y) could not exceed {K* adjusted base}.

3. Based on historical data from 1980, staff recommends that the "K" ratio be 1.4. Since 1980, there have been two years when the annual increase in UI recipients exceeded 40 percent: in 1980 it was 49 percent and in 1982 it was 41.2 percent. In three years (185, 1991, 1992) the rate was between 35 and 40 percent. See Table B-2.

II. Federal Carryover Model

1. The initial grant would be as in 1a & 1b above.

2. If the June adjustment (1b) is below the initial amount (1a) (e.g., UI first claims have dropped from the previous year), the "excess" would be carried over at the federal level "until expended".

3. In the second (and subsequent) years, the previous year grant (#II-2) would be adjusted to reflect changes in GDP per capita (#I-2 above).

4. There would be a cap on the maximum federal carryover (e.g., 10% of the highest FY grant in the previous four years).

- If the maximum carryover is reached, then if the final adjustment in any year (i.e., based on July data) shows that that year's base should be reduced because of a drop in first UI payments, then the final grant for that year would be reduced by $Y. [For example, if the adjusted base in FY4 is $2.6 billion, but the July data shows a decline in first UI payments and therefore only $2.4 billion is needed, the $2.4 would be the funding level if the federal carryover max had been reached.]

5. The carryover would be used in years in which the annual grant is "too little".[1] The carryover funds would be used to fund states that have shortfalls in their annual grant allocations (e.g., shortfalls due to sudden increases in UI first payments not fully reflected in the annual grant calculation).

--maintaining the carryover at the federal level allows for the most efficient allocation of funds in cases of shortfalls. Unemployment, particularly in the early phases of a recession, is not evenly distributed among the states--i.e., certain states or regions may experience much sharper increases in unemployment than other areas. The federal carryover assures that the funds can flow quickly to the areas most in need.

--if a state has "leftover" funds at the end of the year, the next year's grant would be reduced by that amount. (Since grants would be allocated on a quarterly basis, it is unlikely that a state would accumulate significant surpluses.)

[1]Last year's proposal also contained a loan program to assist states that experience a shortfall. Subsequently, we concluded that a loan program was probably not an effective option because a state would only be able to use subsequent year funds to repay the loan (including interest), which might mean shortfalls in those years because grant funds were being used to repay loans, etc.--there is no assurance that a state would have a "surplus" year which would provide funds to repay the loans.

Other options in the program for providing state flexibility in the operation of the program are a better way of addressing the potential "shortfall" problem for states.

Table B1

Federal Appropriations, FY 1998-2002
Adjusted Cap and Federal Carryover Models

	Federal Appropriation				
	1998	1999	2000	2001	2002
BASE					
Scenario 1: Unemployment steady (1)					
Unemployment rate (percent)	5.7	5.7	5.7	5.7	5.7
Base ($ billions)	2.30	2.40	2.50	2.61	2.72
Adjusted Base ($ billions)	2.30	2.40	2.50	2.61	2.72
Scenario 2: Unemployment rises in 1998 (2)					
Unemployment rate (percent)	6.2	5.7	5.7	5.7	5.7
Base ($ billions)	2.30	2.40	2.50	2.61	2.72
Adjusted Base ($ billions)	2.55	2.40	2.50	2.61	2.72
Scenario 3: Unemployment falls in 1998 (3)					
Unemployment rate (percent)	5.2	5.7	5.7	5.7	5.7
Base ($ billions)	2.30	2.40	2.50	2.61	2.72
Adjusted Base ($ billions)	2.26	2.40	2.50	2.61	2.72
CAP (4)					
Scenario 1					
Base	2.30	2.40	2.50	2.61	2.72
Adjusted Base	2.30	2.40	2.50	2.61	2.72
Cap	3.18	3.22	3.36	3.50	3.65
Scenario 2					
Base	2.30	2.40	2.50	2.61	2.72
Adjusted Base	2.55	2.40	2.50	2.61	2.72
Cap	3.18	3.57	3.36	3.50	3.65
Scenario 3					
Base	2.30	2.40	2.50	2.61	2.72
Adjusted Base	2.26	2.40	2.50	2.61	2.72
Cap	3.18	3.16	3.36	3.50	3.65
FEDERAL CARRYOVER					
Scenario 1					
Base	2.30	2.40	2.50	2.61	2.72
Adjusted Base	2.30	2.40	2.50	2.61	2.72
Federal Carryover	0	0	0	0	0
Scenario 2					
Base	2.30	2.40	2.50	2.61	2.72
Adjusted Base	2.55	2.40	2.50	2.61	2.72
Federal Carryover	0	0	0	0	0
Scenario 3					
Base	2.30	2.40	2.50	2.61	2.72
Adjusted Base	2.26	2.40	2.50	2.61	2.72
Federal Carryover	0.04	0.04	0.04	0.04	0.04

Notes:

1) The 5.7 percent unemployment is in the Administration's economic forecast for FY 1997-2002. The current rate is 5.3 percent.

2) The FY 1997 unemployment rate is assumed to be 5.7 percent.

3) The FY 1997 unemployment rate is assumed to be 5.2 percent.

4) As noted in the attached document, cap = 140% of previous year's adjusted base.

Table B2

Changes in Unemployment Insurance Receipt, 1980-1994

	average (1	% of unemployed	Percent change from 1 year	2 years	3 years	4 years	5 years
1980	3,849	50.4	49.0%	43.3%	-2.2%	-22.9%	-35.7%
1981	3,425	41.4	-11.0%	32.6%	27.5%	-13.0%	-31.4%
1982	4,837	45.3	41.2%	25.7%	87.2%	80.1%	22.9%
1983	4,705	43.9	-2.7%	37.4%	22.2%	82.1%	75.2%
1984	2,912	34.1	-38.1%	-39.8%	-15.0%	-24.4%	12.7%
1985	2,735	32.9	-6.1%	-41.9%	-43.5%	-20.2%	-29.0%
1986	2,693	32.7	-1.5%	-7.5%	-42.7%	-44.3%	-21.4%
1987	2,339	31.5	-13.2%	-14.5%	-19.7%	-50.3%	-51.6%
1988	2,111	31.5	-9.8%	-21.6%	-22.8%	-27.5%	-55.1%
1989	2,154	33.0	2.1%	-7.9%	-20.0%	-21.2%	-26.0%
1990	2,530	36.8	17.4%	19.8%	8.2%	-6.1%	-7.5%
1991	3,505	41.6	38.6%	62.7%	66.1%	49.9%	30.1%
1992	4,795	51.1	36.8%	89.6%	122.6%	127.2%	105.0%
1993	4,088	46.8	-14.8%	16.6%	61.6%	89.7%	93.6%
1994	2,887	36.1	-29.4%	-39.8%	-17.6%	14.1%	34.0%

Attachment C

THE URBAN INSTITUTE

MEMORANDUM

TO: Steve Finan and Christy Schmidt

FROM: Eric Meier

THROUGH: John O'Hare and Sheila Zedlewski

DATE: November 12, 1996

RE: New HIFTU Estimates and Projection to 1998

This memorandum describes the adjustments we made to the HIFTU model and the approximate effects they have on estimates of program costs. It also presents our recommended model for projecting the program cost for 1998.

Corrections for Underreporting

Part-year Workers

In previous versions of our model, only persons who reported UI benefits and also reported that they were looking for work or on layoff were eligible for the HIFTU program. These persons account for about 72 to 83 percent (depending on the analysis year) of CPS-reported UI benefits. Between 12 and 19 percent of CPS-reported benefits are attributable to persons who do not report that they were looking for work or on layoff, but do report periods in which they did not work[1]. In the latest version of our model, we spread the reported UI benefits of these persons over the weeks in which they were not working and grant them eligibility in months in which they did not work. This adjustment results in an increase in subsidy costs in the range of 18 to 24 percent.

Carryover Population

In my October 25, 1996 memorandum, I suggested that we attempt to make an adjustment to our model to account for the one-third of UI beneficiaries that would have used up some of their benefit weeks in the previous calendar year. The issue is that the maximum number of weeks receiving benefits for these persons should not be 26 (or 39 in a EUC year), but rather should be 26 less the number of weeks in which they received benefits in the previous year. However, it is unclear how we would identify the carryover population, and if we chose it randomly, two-thirds of our estimated carryover population would be characterized incorrectly. Furthermore, even if we could identify the carryover population, deciding how

[1] The balance of reporters of UI benefits report that they worked for all 52 weeks of the previous year. We do not grant eligibility to these persons.

many weeks they were unemployed in the previous year would at best be guesswork. Taking into account these difficulties and our assessment that the probable effect of such an adjustment to the carryover population's maximum number of weeks would be quite small[2], we recommend that no adjustment be made for this group.

Alignment to SOI

We use the distribution of UI beneficiaries by Adjusted Gross Income (AGI) from Statistics of Income (SOI) data in order to make another partial correction to the underreported CPS/TRIM UI data. We assign UI benefits to persons who report unemployment but not UI benefits on the CPS if their AGI class is under represented compared to the SOI data. We assign them the average weekly benefit of CPS reporters in their AGI class and allow them to receive the weekly benefit over the time that they were unemployed, up to a maximum of 26 weeks. Over the five years that we aligned, the ratio of the increase in subsidy dollars to the increase in UI benefits seems to be fairly stable: a one percent increase in UI benefits results in an approximately half percent increase in subsidy dollars.

Health Coverage

One of the limitations of the CPS\TRIM data is that they do not allow us to accurately identify whether a person had his or her own employer sponsored insurance ("ESI own") prior to his or her spell of unemployment. For example, the carryover population would not be reporting their health insurance coverage prior to unemployment. In addition, we are unable to determine whether a person had 6 months of continuous coverage.

Previously, in order to approximate the "ESI own" population, we granted eligibility to persons with non-group, state-optional Medicaid, and other coverage as well as those who reported their own employer coverage. The idea being that we were missing a significant portion of the "ESI own" population and that other small coverage groups could serve as substitutes for the missing.

After reading Jacob Klerman's recent memorandum, we decided that it would be more appropriate to use the SIPP ratio of UI recipients with 6 months of continuous ESI coverage to all UI recipients (0.26%/0.82%=32%) in order to come up with a method for adjusting our coverage eligibility methodology. Using the CPS\TRIM data, we found that the percent of UI recipients that reported their own ESI fell in the range of 30 to 36 percent for each of our analysis years. Since this range was so close to the SIPP estimate stated above, we decided to use this population (those reporting ESI own at some time during the analysis year) to approximate the UI beneficiary population that received 6 months of continuous ESI coverage prior to unemployment. Although we are certainly miscategorizing some persons, it seems unlikely that we could get closer to the true population using CPS\TRIM data.

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[2] Only a subset of the carryover population would be effected by the adjustment. These UI beneficiaries who received benefits in the previous year, exhaust them in the current year.

Adjusting the model such that only "ESI own" reporters are eligible for subsidies results in a reduction in eligible subsidy dollars in the range of 20 to 25 percent[3].

Take-up

Our previous take-up assumptions were very crude. Seventy-five percent of ESI-covered persons and 100 percent of persons covered by one of the other coverage groups (mentioned above) took-up.

Our new assumptions are somewhat less crude. Persons eligible for a full subsidy take-up at 100 percent. The take-up rate for persons eligible for a partial subsidy is a linear function of the rate of subsidization with 100 percent take-up at 100 percent subsidization and 50 percent at no subsidization. We also specify an alternative take-up assumption that applies a 20 percent take-up at no subsidization.

Adjustment to 1998 premiums and population

We have adjusted our estimates to reflect 1998 premiums and population growth. This should result in an approximately 12 percent increase in program costs. Components of this estimate are listed below.

Premium growth from '97 to '98	1.048
Inflation from '96 to '98	1.058
Population growth from '97 to '98	1.010

The new monthly premiums in 1998 dollars are:

Single	$241
Couple	$482
One Parent	$470
Family	$639

Out-of-Model Correction

After aligning to the SOI UI beneficiary data, we still have a significant amount of underreporting of UI beneficiaries and benefits. One reason for this is that the SOI only has data on tax filers. Another reason could be that UI benefits are also underreported on the SOI. Leaving aside the second reason, it seems likely that the residual underreporting (after the SOI correction) is concentrated among lower income persons who are more likely to be non-filers. Therefore we have decided to use the ratio of subsidy dollars to UI benefits

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[3] This range increases to about 23 to 30 percent for *program costs* (or take-up dollars) because, in our old model, eligible persons who had non-ESI coverage participated at a greater

among poor families to make an out-of-model adjustment to our estimate of program costs. This implicitly assumes that most of the characteristics of poor persons including their health insurance status mirror that for non-reporting non-filers[4].

An example helps to illustrate our adjustment. Our 1993 UI benefit data is underreported by $5.1 billion and the ratio of subsidy dollars to UI benefits among poor families (calculated from the 1993 data) is 0.080. Therefore, our out-of-model adjustment adds $0.408 billion (0.080 x 5.1) to the subsidy estimate. We choose to do this by UI benefits rather than beneficiaries because (1) we have more faith in DOL's benefit data than their beneficiary data (see my October 25, 1996 memorandum on the potential for double counting beneficiaries) and (2) we believe that the remaining underreporters have shorter spells than the CPS reporters; adjusting by beneficiaries would assume that they have, on average, the same spell lengths as the reporters and therefore overstate costs.

Projection to 1998

Our recommended method of estimating the program cost for 1998 is to use a linear regression model with unemployment rate and lagged unemployment rate as the independent variables. This simple model seems to explain a good portion of the variation in the subsidy estimate over the 6 years of data and uses inputs (projected unemployment rates) that are easily obtainable. Using this model and the assumption of a 5.7 percent unemployment rate both in 1997 and 1998, we arrive at an estimate of $2.3 billion for 1998 (see attached results).

[4] Since we are using benefits rather than beneficiaries to adjust...

Health Coverage for Workers Between Jobs
Comparison of Estimates
(Amounts in Millions; Persons and Families in Thousands)

	Calendar Year						
	1989	1990	1991	1992	1993	1994	1998
I.) Macroeconomic Aggregates							*(estimate)*
Labor Force (millions)	123.9	124.8	125.3	127.0	128.0	131.1	*136.3*
Unemployment Rate	5.3%	5.5%	6.7%	7.4%	6.8%	6.1%	*5.7%*
UI First Payments (millions)	7.50	8.78	10.25	9.94	9.44	8.21	*9.05*
Unemployment Compensation (DOL)							
Recipients	10,010	11,662	13,788	15,065	13,990	12,028	
Amount	14,607	18,439	26,980	39,910	34,951	24,275	
Average Weeks On UI	10.0	10.2	12.0	15.7	14.4	11.5	
II.) TRIM (Unadjusted)							
Unemployment Compensation							
Recipients	5,974	7,629	8,978	9,700	8,893	7,755	
Amount	10,372	14,258	21,359	27,896	26,016	20,955	
Percent Under DOL ($)	29.0%	22.7%	20.8%	30.1%	25.6%	13.7%	
Subsidy Cost							
Families (in 1998)							
Eligible	1,640	2,091	2,461	2,094	1,851	1,606	
Take-up 1[1]							
Participants	1,366	1,734	2,019	1,740	1,528	1,316	
Subsidy ($1998)	1,203	1,564	1,938	1,620	1,503	1,204	
HCWBJ duration	430	445	433	348	267	235	
Total Subsidy Cost	1,632	2,009	2,371	1,967	1,769	1,438	
Take-up 2[2]							
Participants	1,203	1,487	1,777	1,501	1,364	1,175	
Subsidy ($1998)	1,135	1,439	1,810	1,508	1,413	1,128	
HCWBJ duration	417	411	414	323	252	225	
Total Subsidy Cost	1,553	1,850	2,224	1,832	1,666	1,353	
III.) TRIM (Adjusted for Underreporting)							
Unemployment Compensation[3]							
Recipients	7,402	8,336	10,466	10,808	10,089		
Amount	13,117	15,627	24,731	30,934	29,846		
Percent Under DOL (#)	26.1%	28.5%	24.1%	28.3%	27.9%		
Percent Under DOL ($)	10.2%	15.3%	8.3%	22.5%	14.6%		
Subsidy Cost[3]							
Families (in 1998)							
Eligible	2,007	2,261	2,791	2,265	2,084		
Take-up 1[1]							
Participants	1,664	1,882	2,294	1,886	1,738		
Subsidy ($1998)	1,389	1,667	2,117	1,716	1,620		
HCWBJ duration	453	458	460	361	284		
Subsidy Cost	1,842	2,125	2,577	2,077	1,904		
Out-of-Model Adj[4]	253	425	295	682	414	362	
Final Estimate							
Families	1,829	2,144	2,478	2,301	2,004	1,555	
Subsidy Cost	2,095	2,550	2,872	2,759	2,318	1,800	*3,265*[5]

Notes

1. Take-up 1, linear, 100% at full subsidy, 50% at no subsidy.
2. Take-up 2, linear, 100% at full subsidy, 20% at no subsidy.
3. Only includes alignment to Statistics of Income (SOI) data.
4. 1994 has no SOI correction and assumes that all underreporting occurs amongst low-income families.
5. Estimate assumes use of a regression model with first payments and lagged unemployment rate as independent variables.

Date: November 21, 1996

Regression Results

Year	Y Subsidy Cost	X1 UR	X2 UR-lag	Estimated Cost	Error (% of Actual)
1989	2.166	5.8	6.0	2.200	102
1990	2.507	6.0	5.8	2.374	95
1991	2.809	7.2	6.0	2.870	102
1992	2.695	7.9	7.2	2.736	102
1993	2.294	7.3	7.9	2.174	95
1994	1.717	6.1	7.3	1.834	107
1996		5.7	5.7	$2.27	

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.966291791
R Square	0.933719824
Adjusted R Square	0.889533041
Standard Error	0.13217506
Observations	6

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	0.738334594	0.369167297	21.13120136	0.017063789
Residual	3	0.05241074	0.017470247		
Total	5	0.790745333			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*pper 95%*	*Lower 95.000%*	*Upper 95.000%*
Intercept	1.771512292	0.53069274	3.338112922	0.044449833	0.082609559	3.460415	0.082609559	3.460415024
X Variable 1	0.479026073	0.079022419	6.061900902	0.009008512	0.227541231	0.730511	0.227541231	0.730510914
X Variable 2	-0.391687176	0.077655834	-5.043866008	0.015027828	-0.638822931	-0.14455	-0.638822931	-0.144551421

Urban Institute Estimates

Date: November 12, 1996

Table 1

Preliminary Estimates: Workers Between Jobs Program

(Fiscal Years, Billions of Dollars)

	1998	1999	2000	2001	2002	Total 1997-2002
OUTLAYS						
Workers Between Jobs Program	2.3	2.4	2.5	2.6	2.7	**12.4** = 5 9.8 - 4

Assuming 5.5% Unemp.

22-Nov-96

Current @ 8.5/4 years

Table 2

Health Coverage for Workers Between Jobs

Estimates Reflect Premium and Labor Force Growth to 1998: Based on 1993 Data
(Persons and Families in Thousands, 1998 Dollars in Millions)

	Cash Income as Percent of Poverty								
	Under 100%	100-133%	133-150%	150-185%	185-200%	200-240%	240-300%	Over 300%	Total
Families									
Eligible	250	258	201	314	111	242	312	678	2,365
Participating	241	248	181	268	94	204	244	525	2,004
Adults									
Eligible	321	320	261	407	154	314	455	930	3,162
Participating	311	306	231	338	126	255	348	694	2,610
Children									
Eligible	15	82	67	124	55	114	148	227	853
Participating	15	77	70	103	45	89	108	163	671
Subsidy Dollars									
Eligible	333	350	265	293	110	227	226	372	2,176
Participating	330	338	231	265	97	201	199	316	1,977
Duration Effect	55	58	31	49	14	25	33	76	341
Program Cost	385	395	262	314	110	226	232	394	2,318

Notes:

1. Out-of-model adjustment of $414 million is attributed to low-income families (less than 150%). Counts of persons and families are adjusted to reflect this increase.

Date: November 21, 1996

Table 3

Health Coverage for Workers Between Jobs

Estimates Reflect Premium and Labor Force Growth to 1998: Based on 1993 Data

(Persons and Families in Thousands, 1998 Dollars in Millions)

	Cash Income Quintile					
	Q1	Q2	Q3	Q4	Q5	Total
Families						
Eligible	169	752	747	543	155	2,366
Participating	164	695	632	394	118	2,004
Adults						
Eligible	181	865	1,000	855	260	3,162
Participating	175	804	831	603	197	2,610
Children						
Eligible	0	66	259	371	158	853
Participating	0	66	211	270	124	671
Subsidy Dollars						
Eligible	197	771	695	408	108	2,176
Participating	194	739	613	336	95	1,977
Duration Effect	20	110	113	69	30	341
Program Cost	214	849	725	405	125	2,318

Notes:

1. Out-of-model adjustment of $414 million is attributed to low-income families (less than 150%). Counts of persons and families are adjusted to reflect this increase.

Date: November 21, 1998

Table 4

Health Coverage for Workers Between Jobs

Estimates Reflect Premium and Labor Force Growth to 1996: Based on 1993 Data

(Persons and Families in Thousands, 1996 Dollars in Millions)

	Family Type				
	Individual	Married Couple	Single w/children	Married w/children	Total
Families					
Eligible	1,356	324	163	523	2,365
Participating	1,200	248	146	409	2,004
Subsidy Dollars					
Eligible	939	294	174	770	2,176
Participating	876	266	167	668	1,977
Duration Effect	103	75	35	128	341
Program Cost	979	341	202	796	2,318

Notes:

1. Out-of-model adjustment of $414 million is attributed to low-income families (less than 150%). Counts of persons and families are adjusted to reflect this increase.

Date: November 21, 1996

Table 5

Health Coverage for Workers Between Jobs

Estimates Reflect Premium and Labor Force Growth to 1998: Based on 1993 Data

(Persons and Families in Thousands, 1996 Dollars in Millions)

	Firm Size of Unemployed Person						
	NA	<10	10-24	25-99	100-499	500+	Total
Families							
Eligible	71	234	214	434	414	999	2,365
Participating	56	194	161	379	360	834	2,004
Subsidy Dollars							
Eligible	91	209	199	392	368	918	2,176
Participating	75	182	169	366	337	827	1,977
Duration Effect	0	21	22	67	78	153	341
Program Cost	75	203	210	434	416	980	2,318

Notes:

1. Out-of-model adjustment of $414 million is attributed to low-income families (less than 150%). Counts of persons and families are adjusted to reflect this increase.

Date: November 21, 1996

Table 6

Health Coverage for Workers Between Jobs

Estimates Reflect Premium and Labor Force Growth to 1998: Based on 1993 Data

(Persons and Families in Thousands, 1996 Dollars in Millions)

	Age of Unemployed Person					
	18-24	25-34	35-44	45-54	55-64	Total
Families						
Eligible	249	763	694	405	255	2,365
Participating	221	666	571	340	207	2,004
Subsidy Dollars						
Eligible	181	683	693	346	273	2,176
Participating	167	622	624	313	250	1,977
Duration Effect	46	88	113	56	39	341
Program Cost	213	710	737	369	289	2,318

Notes:

1. Out-of-model adjustment of $414 million is attributed to low-income families (less than 150%). Counts of persons and families are adjusted to reflect this increase.

Date: November 21, 1996

HCFA
Health Care For All

To: Pauline Abernathy, Domestic Policy Council
From: Robert Restuccia
Re: Health Care For the Unemployed Uninsured
Wednesday, November 27, 1996

As an organization representing uninsured consumers in Massachusetts, Health Care For All has played a leading role in the development of most health access programs in the state including the Medical Security Plan (MSP), Massachusetts' program for the unemployed uninsured. The first section of the memo provides you with an overview of the MSP. In the second section I comment on the President's plan to establish a demonstration project to make funds available to states to provide coverage to unemployed workers.

The Medical Security Plan

• *Background*

The Medical Security plan is a very popular program that has helped thousands of unemployed people in Massachusetts get basic health coverage. The MSP (originally called the Health Security Plan), was created by Chapter 23 of the Acts of 1988, the Health Security Act, also known as the Universal Health Care Law (UHCL). The MSP is funded by an "unemployment surcharge", i.e. a tax, of .0012% of the first $14,000 of an employee's salary which totals $16.80 per employee per year. All employers with six or more employees are required to pay. The tax generates almost $40 million per year. The program was managed by the Department of Medical Security until this July when the Department was eliminated and the MSP was moved to the Department of Employment and Training. The state has contracted with two private insurers, John Hancock and Blue Cross for administration of the program. The MSP began enrolling residents in June of 1990. The MSP was part of a broader strategy to expand access to health insurance that originally included an employer mandate. Implementation of MSP was originally set to begin two years before the employer mandate provisions of the UHCL were due to go into effect. The MSP has had little external opposition. Once the program was up and running, there has been no serious threat to its survival despite the initial hostility of the Weld administration and their ongoing indifference to the program. In contrast, the employer mandate provisions of the law was always a lightning rod for business opposition. It was twice delayed, and finally repealed this summer.

• *Current Program Description*

Eligibility for the MSP requires that an individual be collecting unemployment benefits (or eligible to collect) for employment in Massachusetts, other than for the federal government or the armed forces. The individual must also be a resident of Massachusetts, and their total family income must meet the following requirements. To qualify for a COBRA subsidy, the total income for the six months prior to applying for MSP coverage - plus their projected income for the next six months - must be less than 400% of the federal poverty level. To qualify for free coverage through the direct coverage program family income cannot exceed 200% of the fpl for the *twelve months* prior to applying for MSP coverage.

Under the **Direct Coverage Plan**, an enrollee receives health care services and the MSP pays for this care. Eligibility for the Direct Coverage Plan is limited to those who do not have a COBRA option or who meet the hardship test.

The **Premium Assistance Plan** provides partial reimbursement for premiums paid to continue a health plan whose coverage began while the individual receiving unemployment benefits was still employed. The individual must be responsible for the entire premium, with no assistance from any past employer or government agency. Currently, eligible individuals receive up to $100 and eligible families receive up to $200 toward qualified health plan coverage.

Coverage for both plans begins when the Department of Employment and Training receives a completed application or, for the Premium Assistance Plan, retroactive to the date on which all MSP eligibility criteria are met 30 days prior to the date the Department of Employment and Training receives a completed application, whichever is later. MSP coverage ends when you stop receiving unemployment benefits.

• *Implementation Issues*

The Medical Security Program has assisted almost half a million people in the state since 1990 and it has a strong base of support. Many people are very appreciative that the state is willing to provide them a helping hand during very difficult transitions. Surveys by Professor Robert Blendon of the Harvard School of Public Health has shown that even a majority of Republicans in the state support the MSP.

Health Care For All has monitored the MSP since its inception. We were very involved in the passage of the UHCL, the development of the MSP in 1989 and 1990, and in all aspects of its implementation. It is important to note that the program was conceived and developed during the Dukakis Administration but implemented largely during the Weld Administration. Governor Weld, a strong opponent of the UHCL, was originally committed to repealing the MSP in his first term. Thus, over the past six years Health Care For All has been forced to defend the program from an administration often bent on gutting it. Without the efforts of Health Care For All and our strongest ally on this issue, the AFL-CIO, the MSP would have been undermined, perhaps fatally.

Some implementation issues relate to the problems in the program's design, others were the result of hostile attempts by the administration to undermine the program. The following are issues we confronted and which may be relevant to any state attempting to develop its own plan for the uninsured.

• The original administrator of the program, John Hancock, did a very poor job, and lost the contract after two years. The Department of Medical Security did a poor job of contract oversight.

• Balancing revenues and expenditures has been difficult. Planners concerned with budget overruns designed the program with very restrictive eligibility requirements, high co-payments and deductibles, and a poor benefit package. As a result, in the first year of the programs existence, few people used the program. By the second year, the balance in the trust funds had built up to about $60 million.

• The low utilization in the early years coupled with an administrative contract that paid a fixed fee regardless of enrollment resulted in administrative costs of over 30% during the start up period. Administrative costs remain high - about 17%.

• Because MSP was implemented without the employer mandate for people without health insurance, the program was a bridge to nowhere. People who left a job without health insurance collected unemployment benefits and qualified for health insurance through the MSP until they their benefits ran out. This is perhaps not the best use of limited resources for them.

• The Department of Employment and Training was very uncooperative in assisting in the design, implementation and outreach. This limited program options, made it impossible to collect sliding scale premiums, and made the program more expensive than it needed to be.

• Mental health and substance abuse providers took advantage of how the benefit package was designed and marketed aggressively to patients and doctors to take advantage of that provision.

•. The surcharge is regressive since it only falls on the first $14,000 of wages.

• Union members of health and welfare funds that pay for the health insurance during periods of unemployment do not qualify for this program.

• The Weld Administration added a 60 day waiting period in an attempt to undermine the program. Given the time limited nature of the benefit, the waiting period resulted in a plunge in utilization. The administration's goal was to use the moneys accumulated in the trust fund to give a tax rebate to businesses. HCFA was able to intervene to eliminate the wait.

• Despite a provision in the law requiring that the surcharge be adjusted to meet medical inflation, the Weld Administration has never increased the surcharge.

Comments on the President's Plan

Overall, I think the President's plan is a great idea. The flexibility for states is very important. I have a few specific comments:

• Coverage not to exceed six months or receipt of UI whichever is longer. Benefits shouldn't be terminated while a person is still collecting UI.

• Conditioning eligibility on prior insurance coverage eliminates the anomaly in MA where people go from being working uninsured to non-working insured. However, eligibility should include people who have purchased non group insurance as long as they meet the other eligibility criteria.

• Income eligibility should include some sort of prospective look at expected income during the eligibility period, not previous income (Massachusetts looks back six months and forward six months). A family's income prior to unemployment is not necessarily a reasonable guide to what they can afford during a period of job loss. This will also help build a middle class constituency for the program.

• Eligibility based on residence (and a national program) solves the problem of people living in MA but working in NH and not being eligible when they get laid off.

• Giving states flexibility in approach is an attractive program feature since a COBRA subsidy alone may not reach those who have the hardest time maintaining insurance during a period of unemployment. In addition, the Massachusetts experience has shown that a

private program may have high administrative costs. The Medicaid buy-in option may be more cost efficient.

• Coverage under the plan should count as continuous coverage and allow a person to reenter the regular insurance market without additional waiting periods.

• If the program is launched in the context of significant Medicaid cuts it will be viewed by many who would otherwise be supportive as assistance for the near-poor at the expense of the poor.

• It maybe necessary to amend federal regulations concerning employment and training to allow a more cooperative relationship between DET and other state agencies. Interagency problems hampered the development in Massachusetts.

If you have any please call me anytime. I have enclosed some press clippings, the Department of Medical Security's report from last year on the MSP, and a descritption of the program.

Network II:Rob:Communications:WhiteHouse.MSPfinal

Termination of Coverage

You become ineligible for coverage when you stop receiving unemployment benefits. Your MSP coverage ends seven days after the week-ending date of your final unemployment insurance check or seven days after the date you become ineligible.

Out-of-State Coverage

Effective June 1, 1996, benefits for out-of-state medical services have been significantly improved. The Medical Security Plan will reimburse you for out-of-state urgent and emergency medical services. Some of the most common urgent and emergency medical diagnoses are listed below:

- Abdominal pain
- Acute ear infection
- Aneurysms
- Blood infections
- Coma
- Contusions
- Heart attack
- Lacerations
- Scrapes and bruises
- Severe headaches
- Some second degree burns
- Sprains

If you have any further questions or concerns regarding out-of-state coverage, please contact our customer service office at 1-800-914-4455.

Eyewear Discount Program

Looking for savings on eyeglasses and contact lenses? We offer a new and improved eyewear discount program for all Medical Security Plan members. When you present your MSP identification card to a participating BCBSMA eyewear provider, you are eligible for a 25 percent discount on lenses and frames and a 20 percent discount on contact lenses (10 percent on disposables).

If You Have Any Questions

This brochure provides a brief review of the Medical Security Plan. For a more detailed description, or if you have any other questions, please call us at the MSP customer service office. Our toll-free number is 1-800-914-4455. We'll be glad to give you whatever information you need.

Administered by Blue Cross and Blue Shield of Massachusetts.
Printed at Blue Cross and Blue Shield of Massachusetts.
32-3070 (6/96) 35M

What You Need to Know

About the

Medical SECURITY PLAN

Health Care Benefits Provided by

HEALTH ACCESS AND FINANCE DMS

Commonwealth of Massachusetts
Department of Medical Security
Jeffrey W. Ritter, Commissioner

This is an important notice. Please have it translated.

Este es un aviso importante. Sírvase mandarlo traducir.

Esta é uma notificação importante. Favor traduzí-la.

Ceci est une notice importante. Veuillez la faire traduire.

本通知很重要。請將之譯成中文。

What Is the Medical Security Plan?

The Medical Security Plan (MSP) is a health plan that's provided by the Department of Medical Security to eligible Massachusetts residents who are receiving unemployment compensation benefits under the provisions of Chapter 151A of the Massachusetts General Laws.

This brochure explains who is eligible, how to apply for coverage, and other important information you need to know about the Medical Security Plan.

About the Two MSP Plans

The MSP provides health insurance through two different programs.

- Under the *Direct Coverage Plan*, you receive health care services, and the MSP pays for the medical care rendered, according to the benefit description inside this brochure. Benefits are similar to those offered to employees of the Commonwealth. You are eligible for the *Direct Coverage Plan* only if you do not have the option of continuing a health plan in which you were enrolled prior to applying for unemployment insurance benefits. If you do have the option of continuing an existing health plan, you may qualify for a hardship waiver into the *Direct Coverage Plan*. Once you have been approved for coverage, MSP will send you a Plan Description, which contains the complete description of your benefits.
- The *Premium Assistance Plan* can provide partial reimbursement for premiums paid to continue a health plan whose coverage began while the individual receiving unemployment benefits was still employed. You are required to be 100 percent responsible for the entire premium, with no assistance from any past employer or government agency. Currently, eligible individuals receive up to $100 (eligible families, up to $200) per month toward a qualified health plan.

To find out if you are eligible, you should fill out the application and mail it back to Blue Cross and Blue Shield of Massachusetts (BCBSMA).

If you are approved for coverage, your Medical Security Plan policy will be effective from the date we receive your completed application. You may also qualify for *Premium Assistance* coverage retroactive to the date on which you satisfy all MSP eligibility criteria or 30 days prior to the date we received your completed application, whichever is later.

Who Is Eligible for Coverage?

To be eligible for MSP coverage:

- You are required to receive (or be eligible to receive) unemployment benefits for employment in Massachusetts, other than from employment with th federal government or the armed forces.
- You are required to be a Massachusetts resident.
- Your total family income for the six months prior to date you apply for MSP coverage—plus your projecti income for the next six months—is required to be le than the amount shown below under Maximum Fan Income for MSP.
- If you are eligible for the *Premium Assistance Plan*, y are not eligible for the *Direct Coverage Plan*, unless y total family income for the 12 months prior to the da you apply for MSP coverage is less than the amount shown below under Maximum Family Income for Direct Coverage Plan Hardship Waiver.

Family Size	Maximum Family Income for MSP	Maximum Family Income for Direct Coverage Hardshi Waiver
1	$30,960	$15,480
2	$41,440	$20,720
3	$51,920	$25,960
4	$62,400	$31,200
5	$72,880	$36,440
6	$83,360	$41,680
7	$93,840	$46,920
8*	$104,320	$52,160

**For each additional family member, add $10,480 to Maximum Family Income for MSP and $5,240 to Maximum Family Incom for Direct Coverage Hardship Waiver.*

Note that "total family income" does not include income of dependent children. Your "projected income" will be determin by the Plan, based on the information you send us, plus your projected unemployment income.

		PLAN PAYS	YOU PAY
Inpatient Hospital (including maternity)			
Room, board, and ancillary services	$250 inpatient (per admission)	100% for first 120 days, then 80% of allowed charges for remainder of the calendar year	Days 1–120: Nothing (after the deductible) Day 121: 20% of allowed charges
Physician's services, including surgery and anesthesia	None	80% of allowed charges	20% of allowed charges
Outpatient Hospital			
Nonemergency	$100 (contributes to yearly deductible)	100% of allowed charges	Nothing (after the deductible)
Accident or sudden and serious illness	None	100% of allowed charges	Nothing
Physician's Services			
Office, home, outpatient, or nonemergency	$100 (contributes to yearly deductible)	80% of allowed charges	20% of allowed charges (after the deductible)
Emergency treatment or inpatient care	None	80% of allowed charges	20% of allowed charges
Lab/X-ray Services	None	100% of allowed charges	Nothing
Well-Baby Care			
Routine exams (The number of routine exams varies with the age of the child. Please call Customer Service for more information at 1-800-914-4455.)	None	100% of allowed charges less co-pay	$5 co-pay per visit
Psychiatric, Substance Abuse, and Alcohol Abuse Services			
*Inpatient****—Care in a psychiatric hospital is limited to 60 days. Substance abuse and alcohol abuse care are limited to 30 days each.	$250 inpatient (per admission)	100% of allowed charges	Nothing (after the deductible)
Outpatient Alcohol and Substance Abuse—Limited to a maximum of $500 per calendar year	$100 (contributes to yearly deductible)	80% of allowed charges (up to $500 calendar-year maximum)	20% of allowed charges (after the deductible)
Outpatient Psychiatric—Limited to a maximum of $500 per calendar year	$100 (contributes to yearly deductible)	70% of allowed charges (up to $500 calendar-year maximum)	30% of allowed charges (after the deductible)
Prescription Drugs****			
Available through pharmacies participating in the PAID Rx managed care network	None	100% of allowed charges less co-pay	$5 co-pay per prescription for generic drugs $10 co-pay per prescription for brand-name drugs
Chiropractic			
Limited to 20 visits per calendar year	$100 (contributes to yearly deductible)	80% of allowed charges (maximum allowance of $50 per visit)	Deductible, if any, and balance up to amount billed

* Benefits for services provided outside Massachusetts are only included when (1) in the judgment of Blue Cross and Blue Shield of Massachusetts, you receive services rendered in an urgent care situation or (2) services are furnished to a full-time student dependent residing outside of Massachusetts. Services rendered in Massachusetts must be furnished by a Massachusetts provider who participates with Blue Cross and Blue Shield of Massachusetts.

** You are responsible for a $250 inpatient deductible each time you or a family member covered under the MSP is admitted to a facility. The yearly deductible for certain other services is capped at $100 per individual or $200 per family.

*** Inpatient psychiatric and substance abuse services are covered only for admissions to hospitals or facilities participating with Blue Cross and Blue Shield of Massachusetts.

**** You must present your ID card at a participating PAID Rx pharmacy.

Applying is easy. We will automatically mail MSP applications to all Unemployment Insurance recipie We receive the names and addresses of Unemploym Insurance recipients each week from the Departmer Employment and Training (DET). Once you have re your application, please fill out the application compl Please make sure that you have provided all the information requested, including your four most rec pay stubs (and your spouse's four most recent pay st applicable) and your DET Benefit Determination forn you are applying for a Direct Coverage Plan hardship waiver, to avoid delays in processing. Once you have completed the application, please mail it to BCBSMA immediately. We will notify you of your eligibility in writing within 10 business days of receiving your completed application. If you have not received your application, please feel free to contact our MSP custor service office at 1-800-914-4455, and a representative gladly mail you one. You may begin using your health benefits as soon as you receive your identification car

Getting Approval for Inpatient Admissions

Medical, Surgical, Mental Health, and Substance Abuse Admissions

For medical and surgical admissions, your physician or hospital is responsible for calling BCBSMA toll-free, at 1-800-231-5295.

For mental health and substance abuse admissio you, a friend, or a family member are responsible for calling BCBSMA toll-free, at 1-800-524-4010.

Your mental health and substance abuse hospital benefits may be reduced if BCBSMA does not receive a telephone call.

Please call 1-800-524-4010 in any of the following situations:

- Before you are admitted for mental health or substance abuse inpatient treatment
- Within three days of an emergency mental health or substance abuse admission

BCBSMA can be called 24 hours a day, any day of the week.

You are also required to contact BCBSMA toll-free, at 1-800-231-5295, within the first three months of pregnancy.

The Boston Globe

TUESDAY, FEBRUARY 11, 1992

State makes health plan easier to join

By Richard A. Knox
GLOBE STAFF

The Weld administration, stung by criticism it is sitting on nearly $50 million in funds intended to provide health insurance for the unemployed, liberalized the income guidelines for the nationally unique program yesterday.

Administration officials essentially admitted that overly restrictive eligibility rules and poor marketing efforts are the reasons that only 12,000 out of the state's 247,000 unemployed citizens have signed up.

They promised to do a better job of notifying unemployed citizens who might be eligible for the program, which was enacted in 1988 as part of former Gov. Michael Dukakis' universal health insurance law.

"We will make every effort to get the word out and improve the visibility of the program," Jeffrey W. Ritter, commissioner of medical security, told the Legislature's joint Health Care Committee. "It was never our intention, and it will not be, to minimize enrollments in this program by trying to keep it out of sight."

The Health Security Plan was designed to provide basic health insurance for families and individuals who lost health

■ INSURE
Continued from Page 17

coverage when they lost their jobs. It is funded by an annual $16.80-per-worker payroll tax paid by every Massachusetts employer.

For months critics have charged that the income guidelines exclude too many of the unemployed and that high deductibles and out-of-pocket payments required by the benefit package discouraged people from applying – if they learned about the program in the first place.

Meanwhile, the state Department of Medical Security and the Department of Employment and Training have squabbled over who is responsible for widespread ignorance and confusion about the program. Medical security officials, for instance, have been frustrated in obtaining computer tapes that would allow them to do direct-mail marketing to potential subscribers.

"This isn't rocket science," Rep. Carmen Buell, a Greenfield Democrat, told Ritter. "We're talking about getting computer tapes from one place to another. What seems to be the stumbling block?"

Only 12,000 unemployed people are now in the program, which had been projected to serve up to 40,000 jobless citizens under the prior eligibility limits. With dependents, as many as 69,000 people might have qualified for coverage under the old rules.

Under the new rules taking effect March 1, Ritter said, thousands more unemployed families and individuals will become eligible. The program's income eligibility ceiling will be raised from 300 percent of the federal poverty standard to 400 percent, based on the applicants' earnings in the year prior to becoming jobless.

This means a family of four whose income had been up to $53,600 would qualify for the coverage, up from $40,200 currently. The new income ceiling for individuals will be $26,480, compared to $19,860 now.

Officials said they have invited 33,000 chronically unemployed citizens, who did not qualify for the program under earlier income guidelines, to reapply. They predict half will sign up in the next six weeks.

Mark Rukavena of Health Care for All, a consumer advocacy group, said the group would continue to press for legislation that would further expand eligibility by changing the way applicants' earnings are figured and other steps. The legislation was endorsed yesterday by the Health Care Committee, with the personal support of House Speaker Charles F. Flaherty.

Ritter said that as of January 1 his department has liberalized the benefits paid by the Health Security Plan. The amount of hospital bills the subscriber must pay has been lowered from $1,200 to $300 per family, while subscribers' responsibility for outpatient care, including drugs, has been lowered from $300 to $150.

Prescription drug benefits will be improved beginning April 1, Ritter said. Subscribers will have to pay only $5 for a month's supply of a generic drug and $10 for a brand-name drug, compared to $10 for any prescription now.

Legislators and advocates say they have many first-hand reports of unemployed people who did not know about the Health Security Plan, including many who would have been eligible. Workers at the state's 42 unemployment offices have sometimes been unfamiliar with the program or its eligibility guidelines, according to some reports.

Some subscribers say they were not aware of the benefit improvements Ritter said went into effect on January 1 and were given wrong information when they inquired about coverage from John Hancock Mutual Life Insurance, which is paid more than $5 million a year to administer the program.

Boston Sunday Globe

SUNDAY, SEPTEMBER 29, 1991

Jobless miss out on care

Few made aware of health benefits

By Richard A. Knox
GLOBE STAFF

A new Massachusetts program to provide free or subsidized health insurance to the unemployed has accumulated $40 million in unspent funds while as many as 69,000 eligible jobless workers and their dependents go without coverage.

Only 6,000 jobless people and an equal number of their dependents have been enrolled on average during the 15 months of the program's existence.

The state has collected $53 million so far to fund the Health Security Plan, as the program is called. But only $5.5 million has been paid out in medical claims, while John Hancock Mutual Life Insurance Co. has collected $7.6 million to administer the plan.

Critics charge that the Weld administration, which last winter left the Dukakis-sponsored program out of its initial budget proposal, is neglecting to inform unemployed workers about the benefit.

Weld administration officials acknowledged in interviews that not enough is being done to get the word out, but denied they are deliberately letting the program languish.

The program's failure to sign up eligible families means "there probably are people out there who are going without medical care," said Carol VanDeusen Lukas of the state Department of Medical Security, which administers the plan.

"They may not have problems serious enough to send them to the hospital, but they're not taking care of problems when they should," Lukas said.

The program's high administrative costs are also drawing fire. State officials say they have negotiated a $1.5 million rebate from Hancock and lower administrative fees in the contract with the insurer for the coming year. But they point out that the program is bound to be expensive to administer due to subscriber recruitment efforts, eligibility determination and rapid turnover.

The plan is one of the lesser-known and least controversial parts of the Massachusetts universal health care law passed in 1988. No other state has such a stopgap program to provide health insurance to workers who lose their medical coverage along with their jobs.

Leaders of Massachusetts businesses, which fund the program through an annual $16.80-per-worker payroll tax on firms with six or more employees, have grumbled in the past about the new tax, but their opposition to the Health Security Plan has been muted. To many, the program seemed fortuitous as unemployment rates soared.

"If there's anyplace you want to build a floor in the health care system, this is where you want to do it," said Robert Hungate of Hewlett-Packard Co., which pays $67,000 a year in payroll taxes to support the Health Security Program.

Business leaders were surprised to learn last week that eligible families were not getting health insurance as intended.

"The business community is not going to be thrilled about this," said Marijo McCarthy of the Smaller Business Association of New England. "By no means should the state be sitting on money because the program isn't providing benefits. They should be reworking it."

"We're concerned that the program is building up a large surplus at a time when people really need the benefits," said Mark Rukavena of Health Care for All, a consumer advocacy group that pushed for the universal health care law. "This is a benefit that's due the unemployed of this state. But it's a well-kept secret."

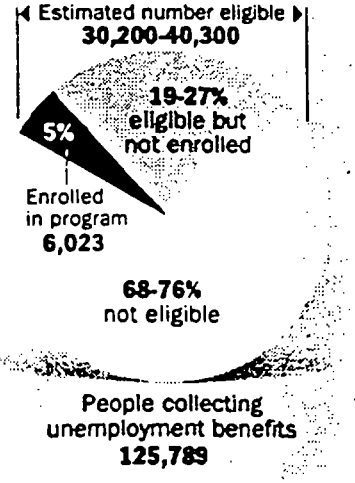
The state official in charge of administering the Health Security Plan said charges that the Weld administration is not committed to the program are "not true."

Jeffrey W. Ritter, commissioner of the state Department of Medical Security, blamed the state's failure to market the benefit effectively on a staff shortage in his agency and on the failure of the Department of Employment and Training to make it a priority. That department is supposed to inform the unemployed about the availability of free health insurance.

"I am at a loss to understand why, if a benefit is free and available, people would not apply for it," Ritter said. "The obvious reason is that they haven't heard about it."

Undersubscribed

Few people benefit from a health care program for the unemployed. Average monthly figures for Massachusetts residents during fiscal year 1991.



SOURCE: Mass. Dept. of Medical Security

GLOBE STAFF CHART

ew e o led i s a e l eal l la fo jobles

In fact, last summer when gram personnel were dispatched three of the state's 40 unemployment offices to encourage clients to n up, applications soared. This ates, officials said, that there is a nuine demand for the program ce people know about it and unrstand it.

"A decision on insurance is a mplicated decision to make," comented Ritter. "Without someone to eract with and explain it in terms u understand, it's difficult to make at decision, especially at a time ien you're confronting a lot of ecomic uncertainty."

However, Ritter said one-on-one ecruiting at unemployment offices too expensive. His agency would e to do direct mailings to new unnployment insurance beneficiaries, at so far has been unable to get the epartment of Employment and raining to make available the necssary computerized mailing lists.

Other means of informing the unmployed about the Health Security lan, such as brochures and informational kiosks in unemployment offices, have not been effective, state fficials said.

"We're struggling with the fact hat we've designed a program that elies on the Department of Employnent and Training to get the information out, and that's not working as vell as we'd hoped," said Lukas, assistant commissioner of medical security.

One rationale for the Health Security Plan was that it would take some pressure off the fund that pays for free hospital care.

Paying twice

Dukakis administration planners had estimated that the Health Security Plan would save the free care pool $10 million to $12 million a year – about 4 percent of current expenditures – by providing insurance to unemployed families. By paying both the $16.80 tax and their share of the free care fund, however, Massachusetts businesses are paying twice for the care of eligible unemployed patients.

So far, about 45,000 unemployed workers and their families have benefitted from the stopgap insurance program since it was launched in July 1990, Lukas said. Since the plan's health benefits end when people are reemployed or their unemployment insurance runs out, the program has a high turnover.

One such beneficiary is Laura Sharpe Mace of Wareham, who lost her job as a waitress while she was pregnant with twins. Her baby girls were born prematurely in July and required five months of hospitalization at a cost of more than $100,000, most of it covered by the Health Security Plan.

"I don't know what I would have done without it," Mace said. "I would have been in a lot of trouble. I was really grateful."

Complaints from those who have used the plan, Ritter said, have involved its low visibility, the high out-of-pocket costs that beneficiaries must contribute to their medical bills and the income limits on eligibility.

"People say they didn't hear about this plan until they have been unemployed for some time," Ritter said. Some have complained because their income while employed was barely above the eligibility limits, which require clients' income during the previous 12 months to be below 300 percent of the federal poverty level, or $40,200 for a family of four.

High deductibles

Once qualified, beneficiaries must pay the first $1,200 of hospital bills, $300 in prescription drug costs, $300 of hospital physicians' charges, $300 in hospital outpatient fees and $50 in physicians' office fees.

"We've heard that a lot of people see these deductibles and don't even bother to sign up," Lukas said.

Ritter said his agency is studying the fiscal impact of more generous benefits and eligibility standards.

"I expect to make changes after the first of the year," he said. "With the reserve as high as it is we don't have worry about bankrupting the plan; far from it," he said. On the other hand, he added, the agency does not want to set new standards that would outstrip the plan's tax income when more eligible beneficiaries apply.

Asked if he views the Health Security Plan as a good idea or a Dukakis-era program that his agency is stuck with implementing, Ritter replied: "A little bit of both in my heart of hearts.

"I think these dollars might be expended a little more efficiently," the commissioner said. "But that's not to say the program isn't worthwhile. For many who participate, it is literally a lifesaver, the difference between financial catastrophe and being made whole."

TELEGRAM & GAZETTE

MONDAY, MAY 13, 1991 ■ WORCESTER, MASSACHUSETTS ★★★

Plan can help insure unemployed

Little-known state health program

By Pamela Hayes Sacks
Staff Reporter

FITCHBURG — Thousands of unemployed people are taking the risk of going without health insurance because a state program that helps cover the cost has received little publicity, according to health advocates.

Mark A. Rukavina, a spokesman for Health Care for All, a private, non-profit coalition of 100 Massachusetts philanthropic organizations, said that of the 300,000 people on unemployment in Massachusetts, only 7,000 to 8,000 have availed themselves of the health-security plan.

"Something seems to be wrong here," Rukavina said, adding that unemployment is hovering around 13 percent in both Leominster and Fitchburg.

UTILIZATION LOW

"We've found utilization is very low," he said.

Thomas V. Abbott, director of the Community Action Center of Fitchburg/Leominster, said it is common for those struggling with financial problems to let health insurance go. Such a situation can have tragic consequences, he said.

Abbott told the story of a family who came to CAC to seek aid in paying a mortgage. The father had lost his job at a bank but had found part-time work. The mother also worked part time. Neither of them had health coverage. They were able to meet their monthly mortgage payments until their son became ill. Their mortgage money had to be diverted to cover medical costs.

DOUBLE WHAMMY

"People are hit with a double whammy," Rukavina said. "They are out of work, and they have no health-care insurance. If you have medical bills or if you have kids, it can be very frightening."

The program was created under the Universal Health Care law of 1988 and was implemented in July 1990. It is specifically designed to help those collecting unemployment benefits.

There are two options for coverage:

● The state will subsidize part of the premium if a person wishes to continue coverage through the previous employer. Companies

Turn to HEALTH/Page A6

Continued From Page One

with 20 or more employees that provide health coverage must allow those laid off to continue for 18 months at their own expense. The state will provide $80 to $140 a month for individual coverage or $200 to $350 a month for family coverage, depending on the level of family income.

● The state will provide direct coverage for those who have no health insurance or those who want to drop continuing coverage with the previous employer. Such coverage costs nothing, but there are deductibles and co-payments. For instance, for major medical coverage, the deductible is $300 with a 50-50 co-payment, except for prenatal and well-baby care, which is fully covered.

The insurance program is funded by a surcharge of up to $16.80 a year per employee on unemployment taxes paid by employers. The fund now holds between $30 million and $40 million, Rukavina said.

Those seeking more information should call the Health Plan Service Center, 1-800-367-7781. Applications are available at the office of the Department of Employment and Training in Fitchburg.

MEDICAL SECURITY PLAN:
Health Insurance for the Unemployed
Status report: December, 1995

AUTHORITY:

The health insurance program for unemployed residents of the Commonwealth, now known as the Medical Security Plan (MSP), was created by Chapter 23 of the Acts of 1988, which was Massachusetts' "Universal Health Care" legislation. The program was codified in Massachusetts General Law Ch.118F, §9A and is managed by the Department of Medical Security (DMS).

ELIGIBILITY AND BENEFITS:

The MSP provides health insurance coverage for certain individuals who are eligible to receive unemployment benefits through the Department of Employment and Training (DET) and for their family members. To be eligible for the MSP, the total of the enrollee's family income for the six months prior to application and the projected family income for the following six months may not exceed 400% of the Federal non-farm poverty guidelines.

Through the **Premium Assistance Plan**, MSP enrollees who have the option of continuing enrollment in an existing health plan may receive monthly subsidies towards their COBRA premium payments. Enrollees may receive $100 per month for an individual plan or $200 for a family plan. Those who do not have the option of continuing an existing plan may enroll in the **Direct Coverage Plan**. This plan provides a comprehensive benefit package and requires some co-payments and deductibles. DMS contracts with BlueCross BlueShield of Massachusetts for administration of the MSP.

PROGRAM FUNDING:

All funding for the MSP is derived from an employer tax of .12% on the first $14,000 of each employee's salary, or $16.80 per employee per year. This tax is levied on all Massachusetts employers with 6 or more employees. The funds are collected quarterly by DET and placed into a trust fund for DMS to pay claims and administrative costs. The revenue cycle fluctuates, and the payment of claims has corresponded closely to the revenue cycle.

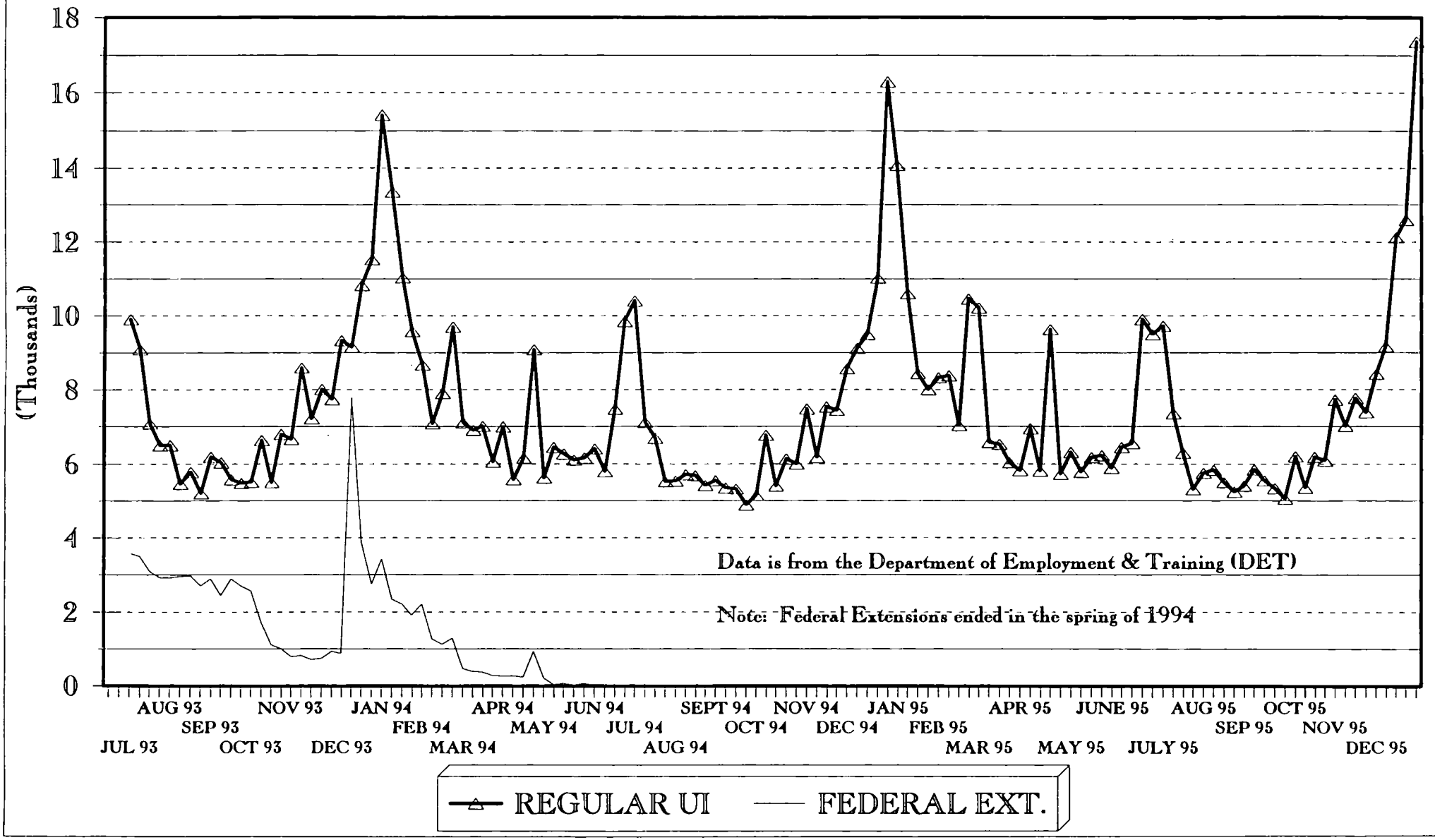
PROGRESS TO DATE:

The Medical Security Plan for the unemployed is the only program of its type in the nation and has been very effective in providing health coverage to individuals eligible for unemployment compensation and their families. Since the program was implemented in 1990 it has covered approximately 460,000 members and has provided over $173,000,000 in medical benefits. The program currently serves 14,100 members.

The long term objective of this program is to provide effective health coverage to unemployed residents of the Commonwealth and their families, while managing state resources and maintaining fiscal responsibility.

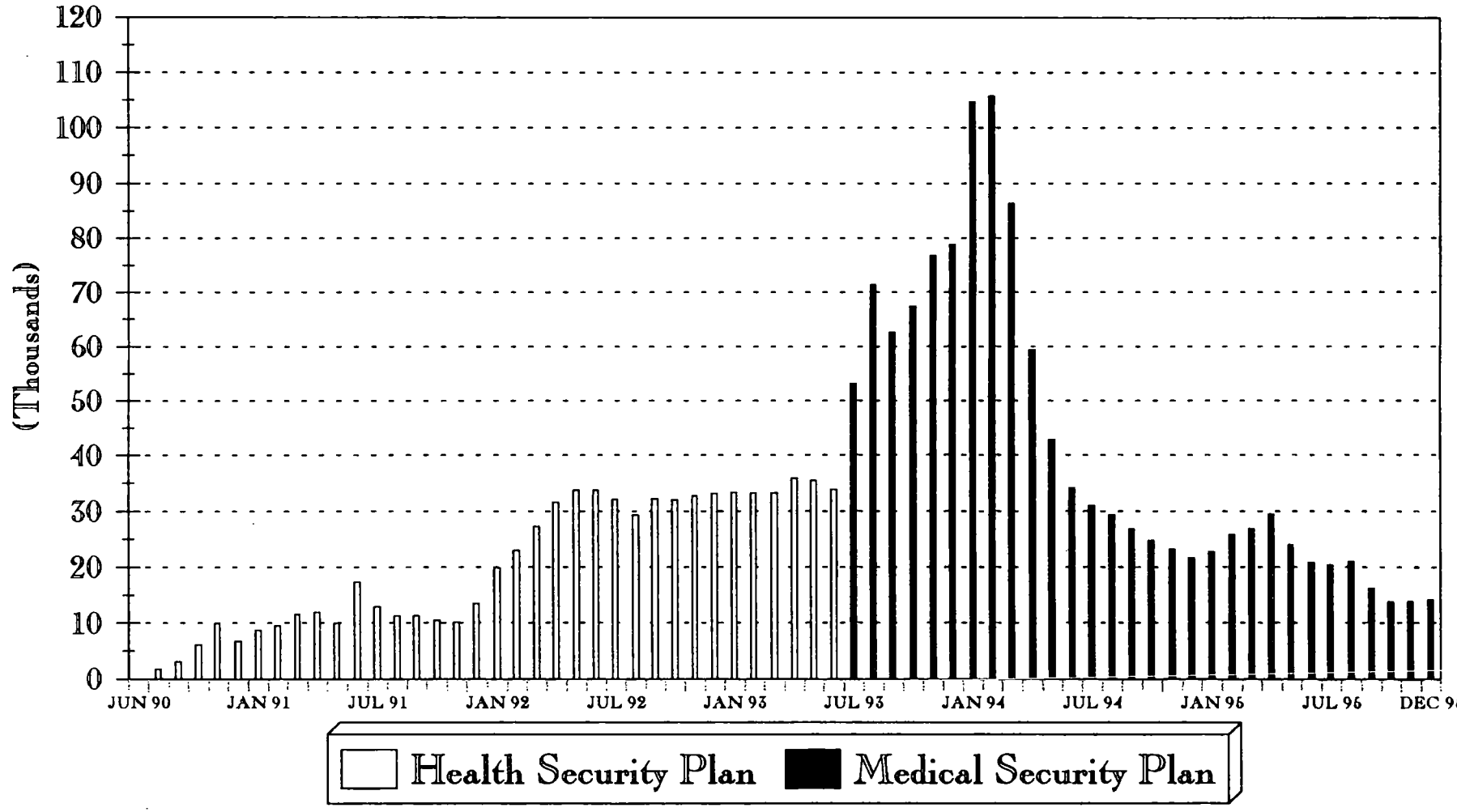
UNEMPLOYMENT COMPENSATION

New U/I Claims - Weekly



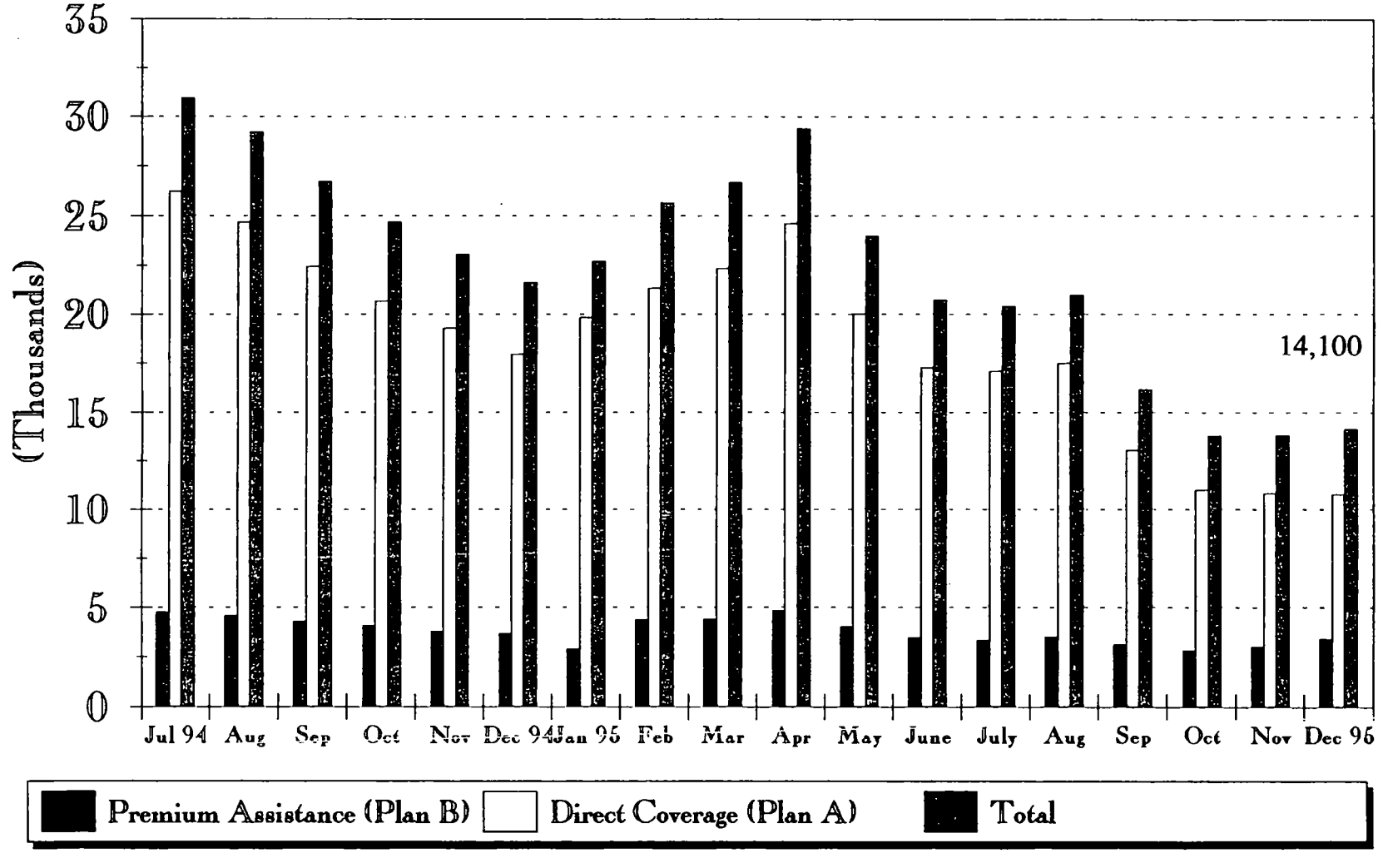
HSP/MSP ENROLLMENT

HISTORY: 1990 - Present



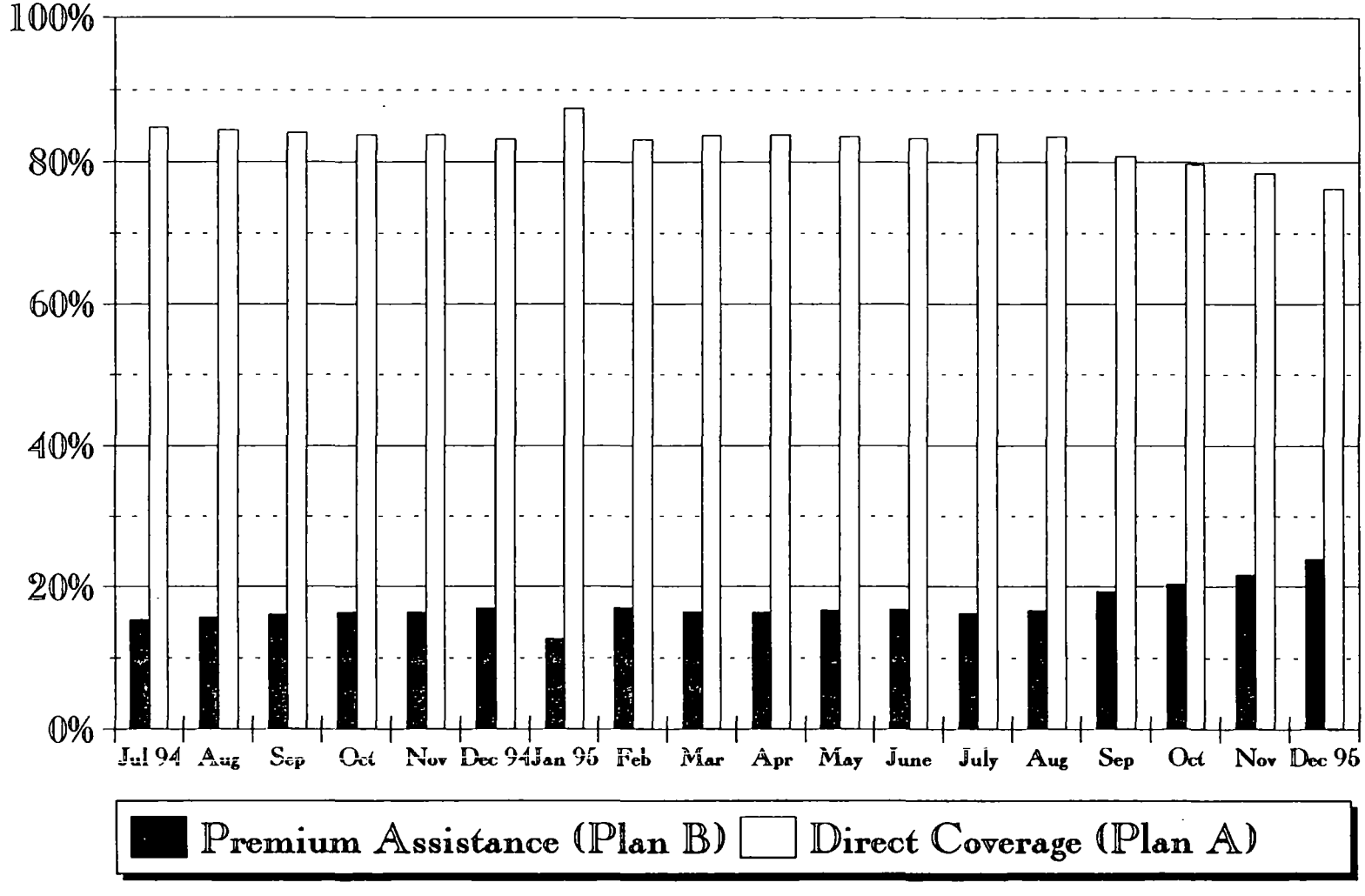
MSP ENROLLMENT

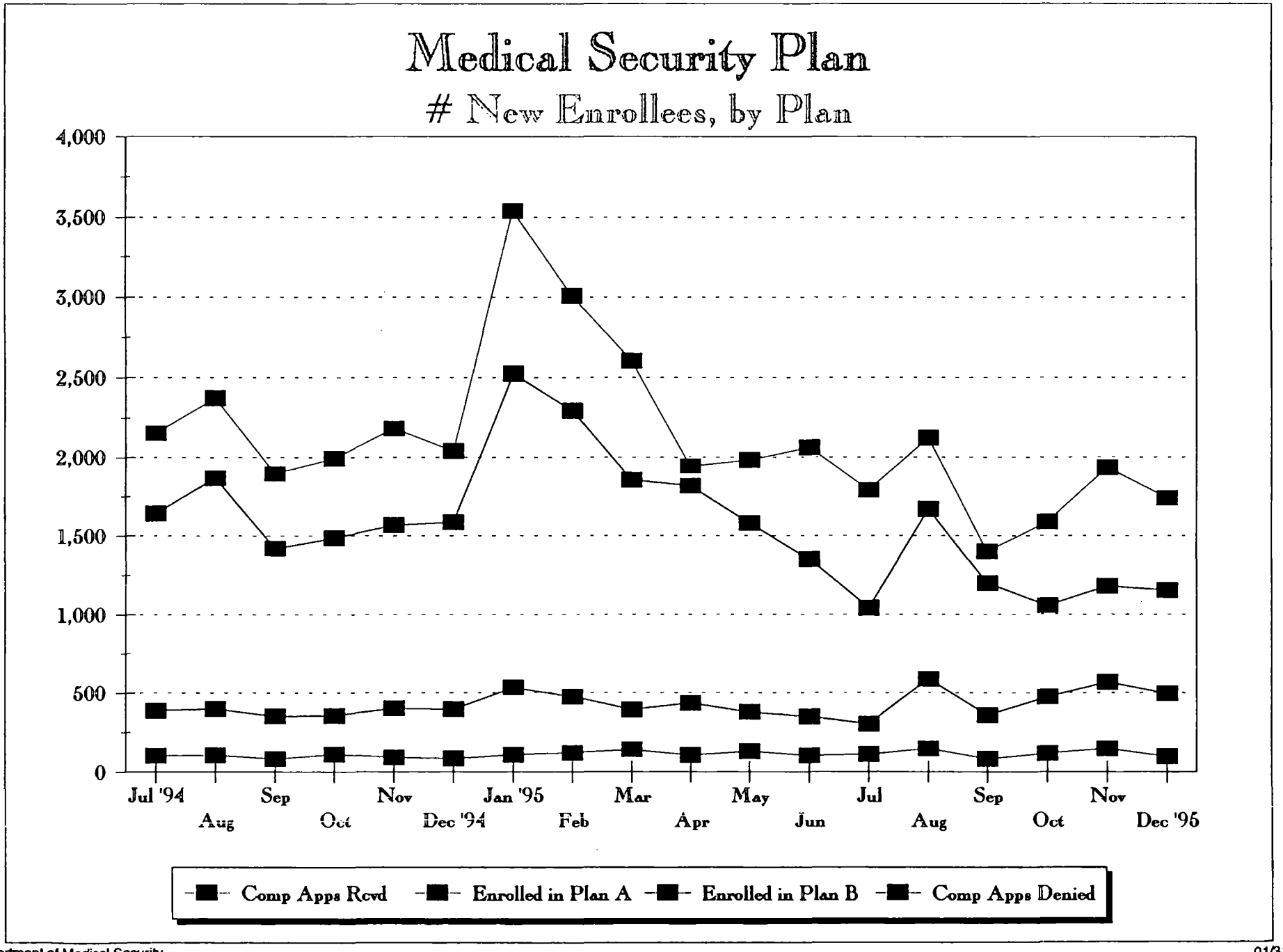
Fiscal Years 95/96



MSP ENROLLMENT

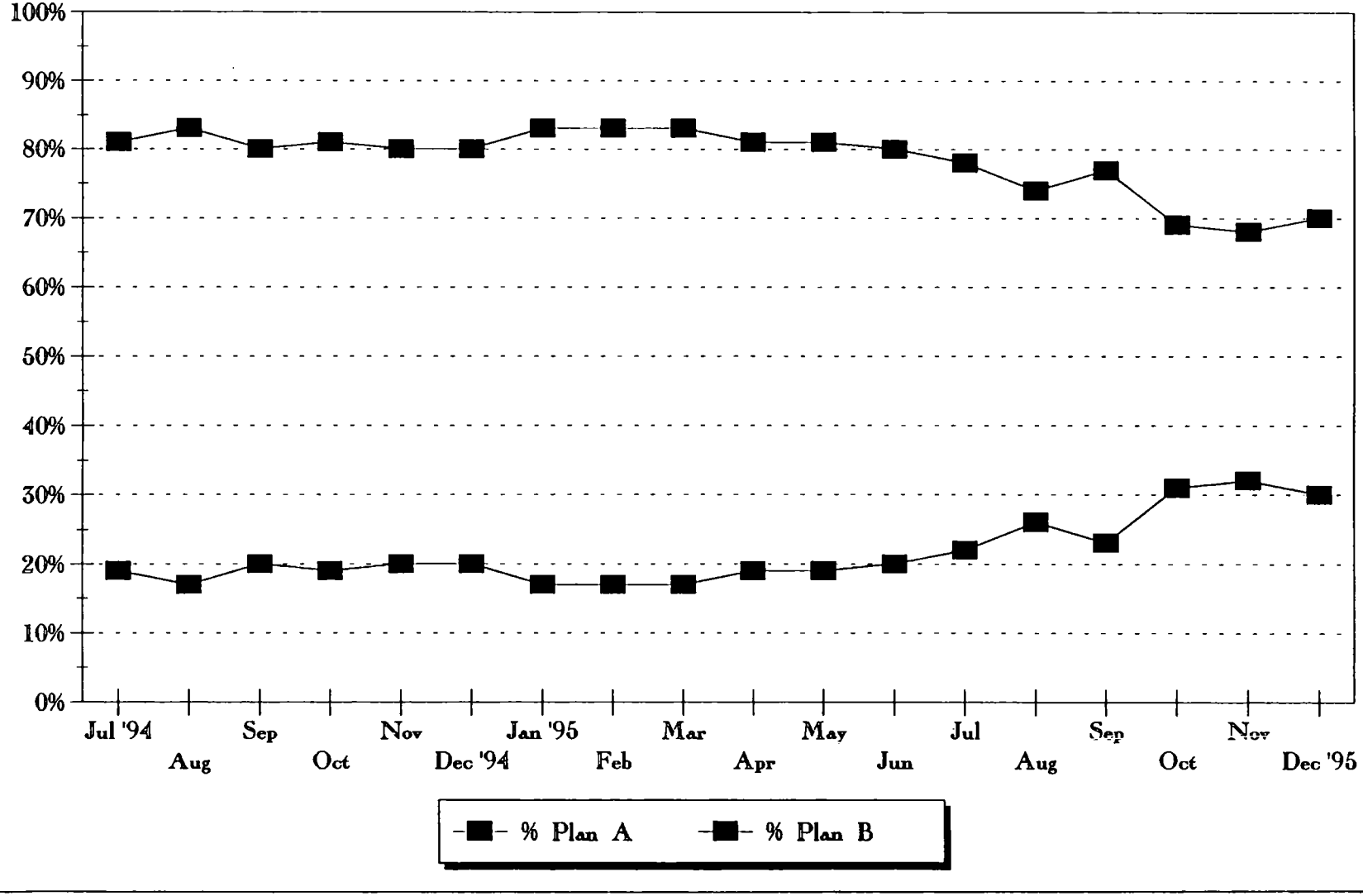
% A vs % B - FY 95/96




Medical Security Plan
New Enrollees, by Plan
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
Jul '94
Aug
Sep
Oct
Nov
Dec '94
Jan '95
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec '95
Comp Apps Rcvd
Enrolled in Plan A
Enrolled in Plan B
Comp Apps Denied

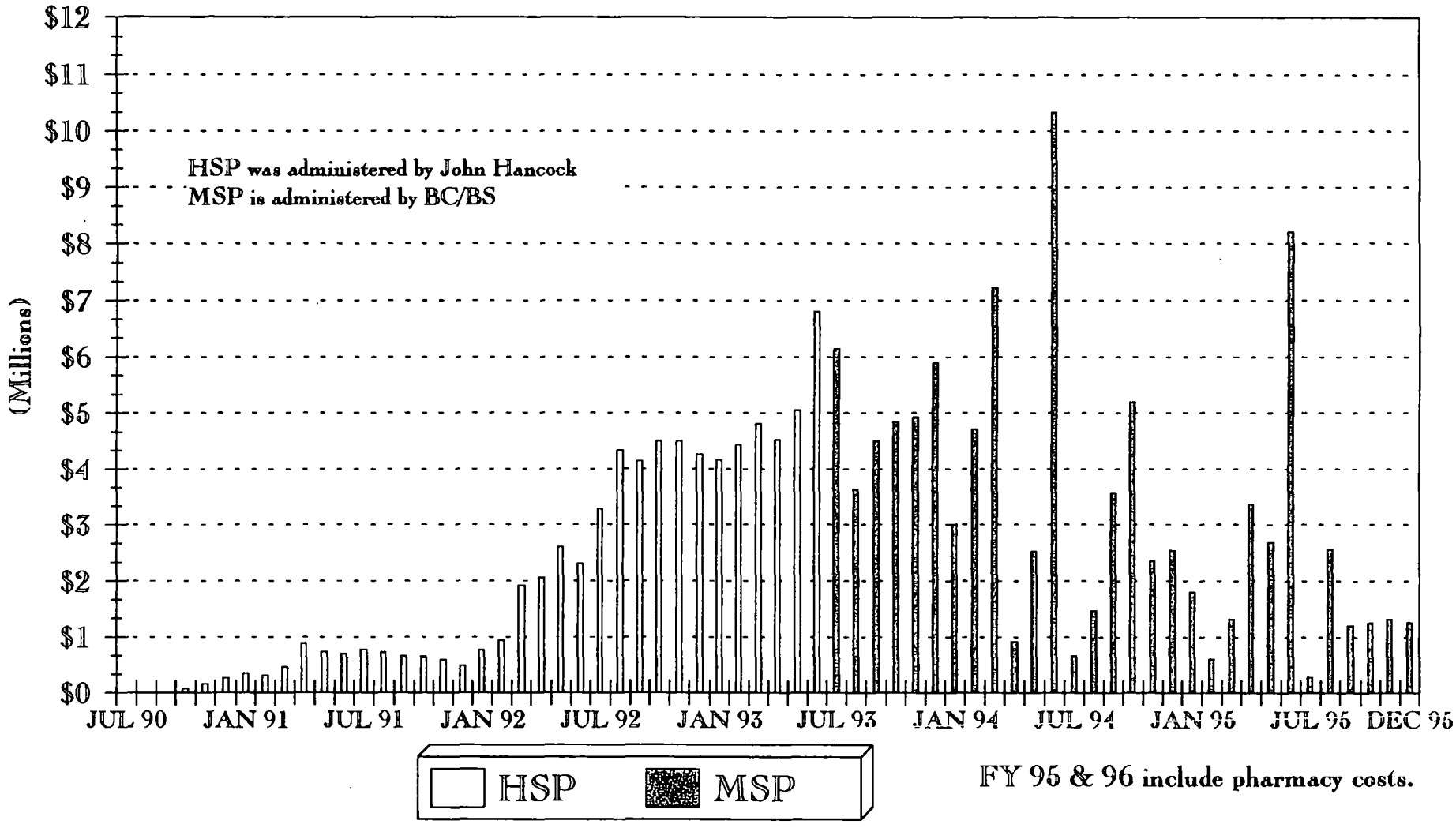
Medical Security Plan

New Enrollees, by Plan, as % of Total New Enrollees



HSP/MSP PAID CLAIMS

HISTORY: 1990 - PRESENT



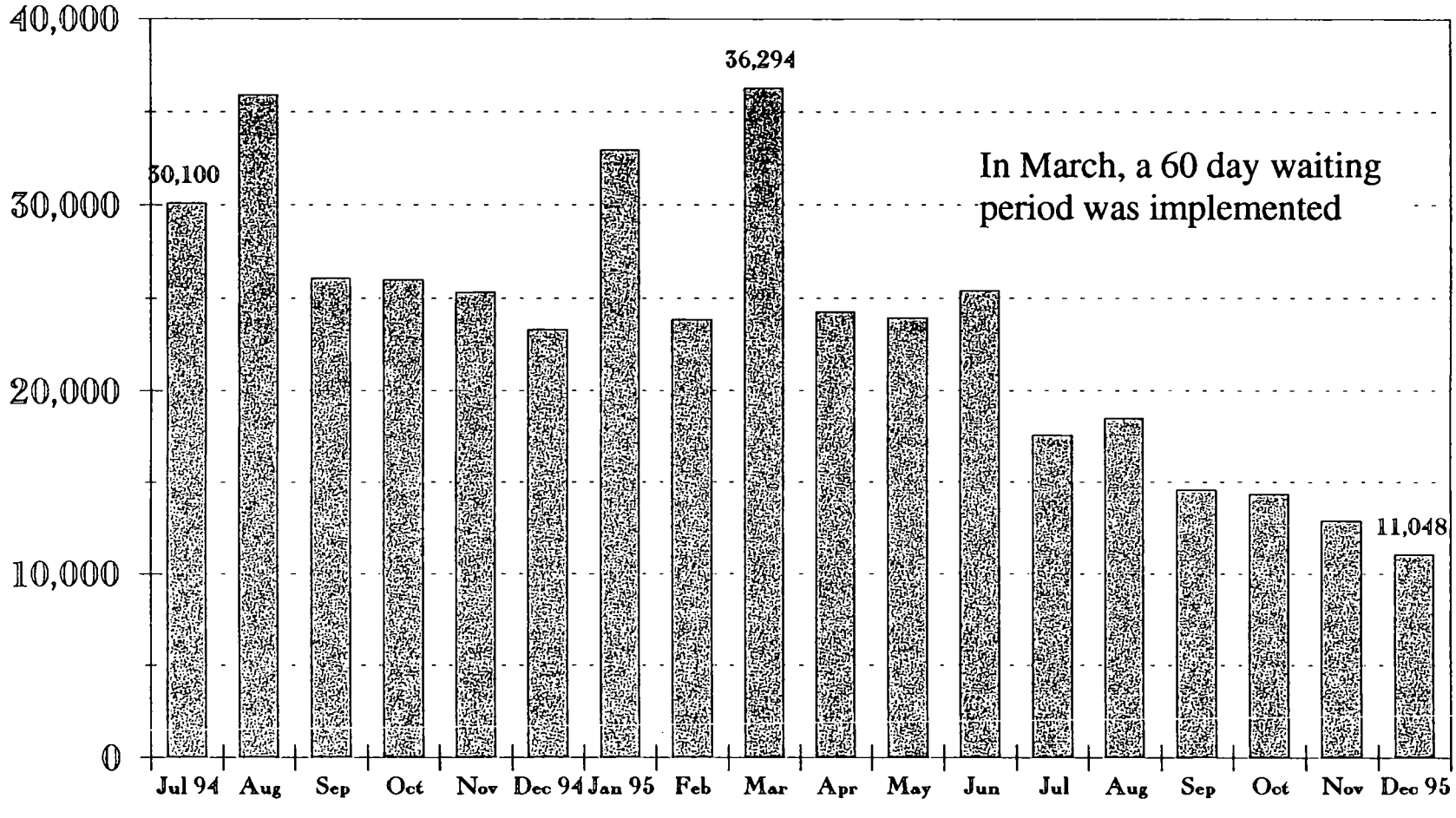
Medical Security Plan

Demographic Breakdown

	New Enrollees Since 7/1/95	# <200% of F.P.I.G.	% of Total	# 200 -400 % of F.P.I.G.	% of Total	# Enrollees Pre 7/1/95	Total # Enrollees	# Children 12 & Under
July 95	4,904	2,282	47%	2,622	53%	15,461	20,365	3,630
August	7,760	4,088	53%	3,672	47%	13,196	20,956	3,946
September	9,168	5,262	57%	3,906	43%	6,941	16,109	3,675
October	9,318	5715	61%	3,603	39%	4,432	13,750	2,809
November	10,076	6348	63%	3,728	37%	3,101	13,177	2,531
December	12,081	8120	67%	3,961	33%	2,019	14,100	2,584

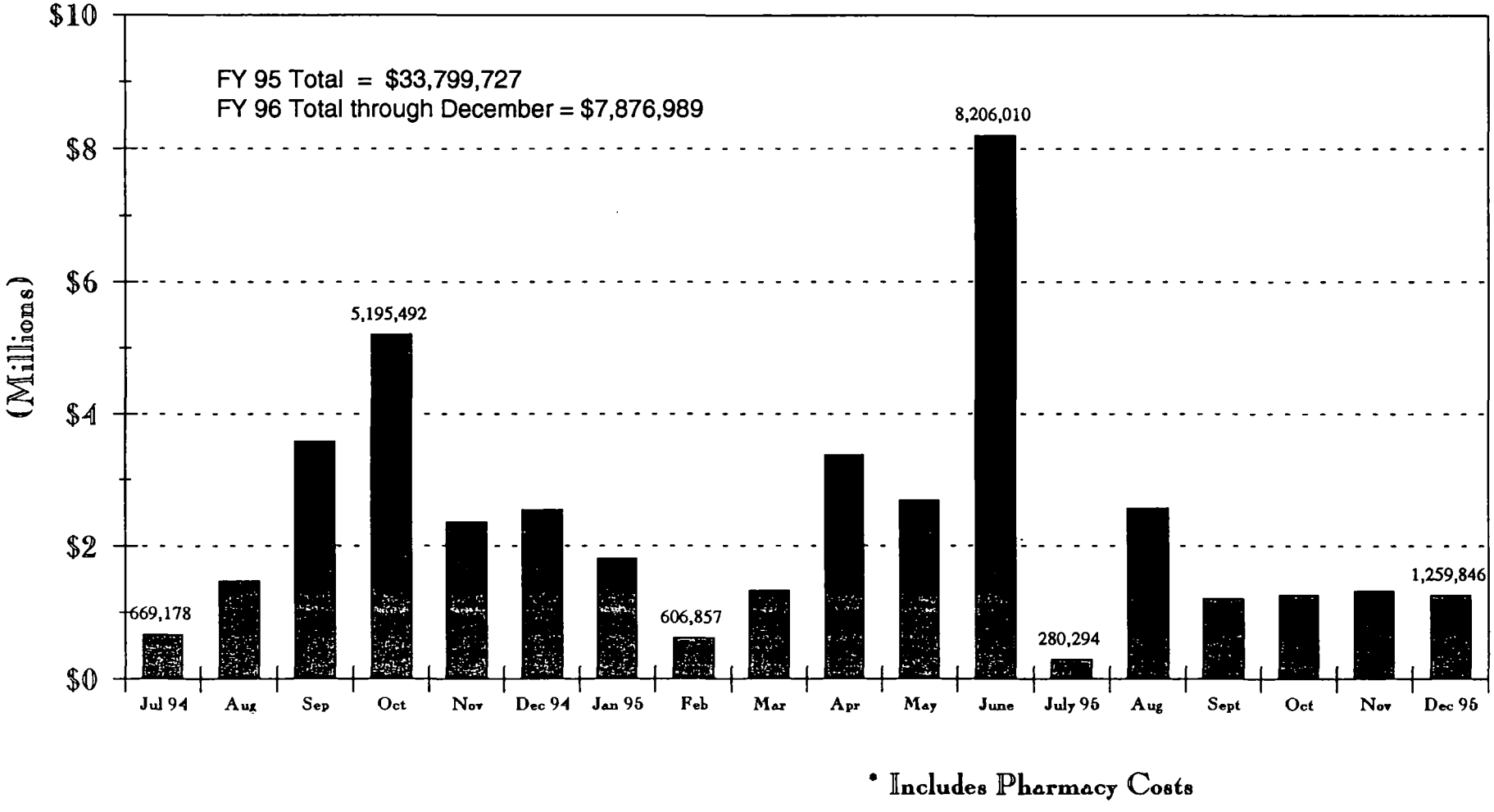
Note: Demographic data is not available for members enrolled prior to July 1995.

Medical Security Plan
Direct Coverage Claims Received



MEDICAL SECURITY PLAN

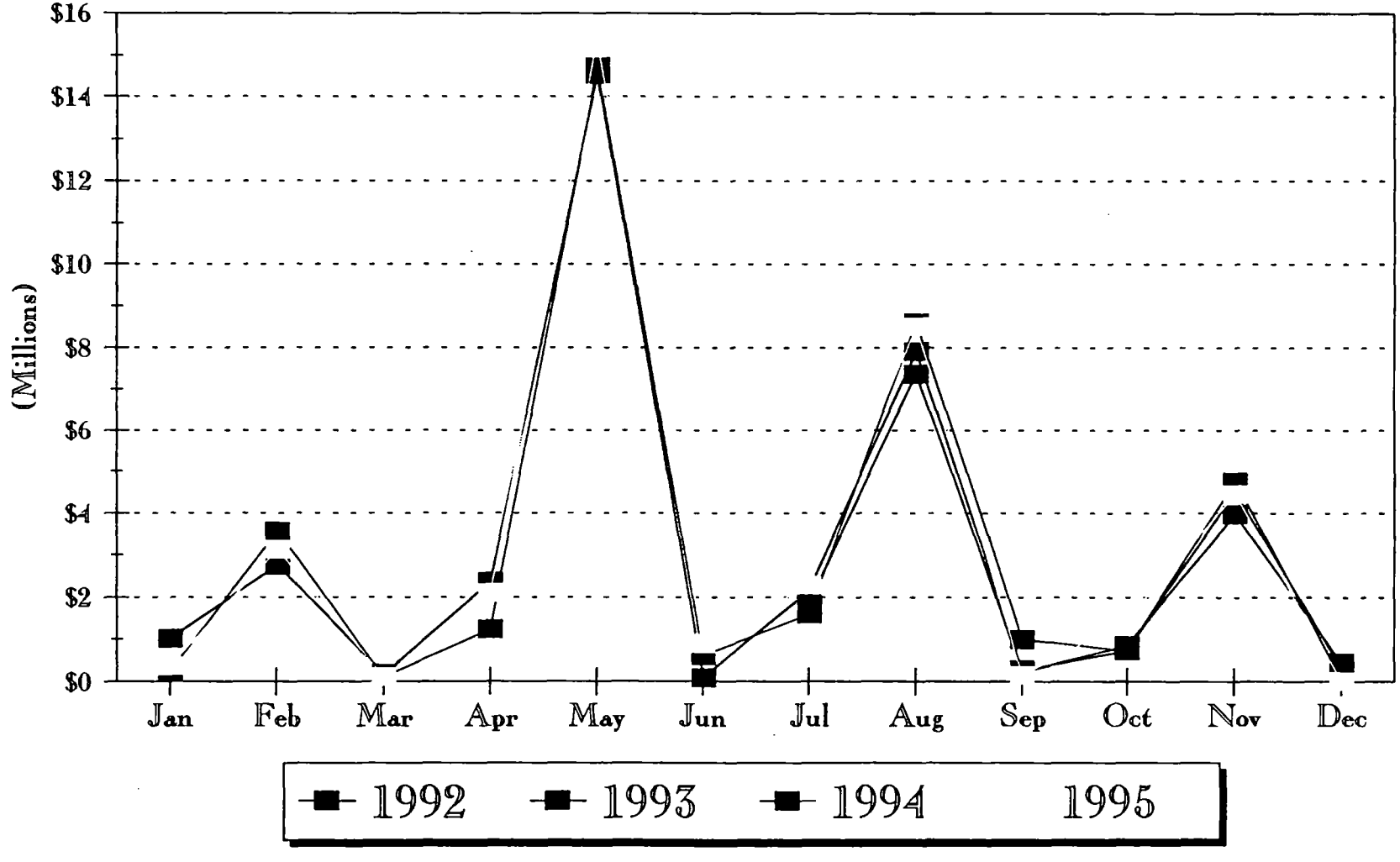
Claims Paid * - FY 95 & 96



* Includes Pharmacy Costs

Medical Security Plan

Calendar Year Revenue Cycle

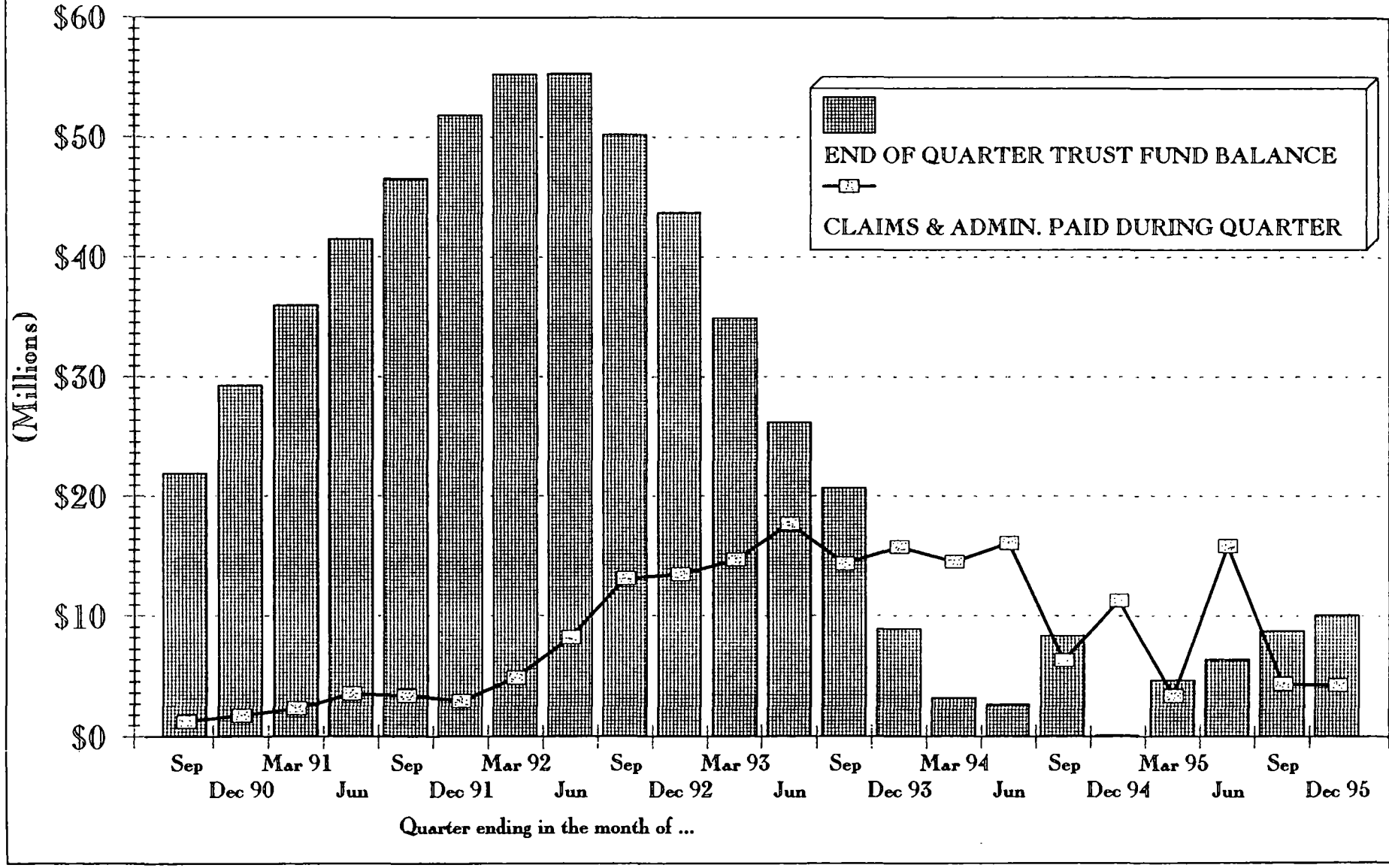


MSP Revenue History

Monthly Amounts

		Sweep	Employer Refunds	MSP Revenue	D.E.T. Fee	NET MSP REVENUE
	FY90	14,857,728	50,000	14,807,728	740,386	**14,067,342**
	FY91	38,563,746	310,000	38,253,746	1,912,687	**36,341,059**
	FY92	35,723,712	803,877	34,919,835	1,745,992	**33,173,843**
Jul 92	**FY93**	2,060,742	141,992	1,918,749	95,937	1,822,812
Aug		7,744,238	0	7,744,238	387,212	7,357,026
Sep		282,730	60,000	222,730	11,136	211,593
Oct		965,197	75,000	890,197	44,510	845,687
Nov		4,210,092	50,000	4,160,092	208,005	3,952,087
Dec 92		519,681	50,000	469,681	23,484	446,197
Jan 93		1,115,311	50,000	1,065,311	53,266	1,012,046
Feb		2,943,741	55,000	2,888,741	144,437	2,744,304
Mar		251,174	221,921	29,253	(141,037)	170,290
Apr		2,709,331	82,429	2,626,903	273,845	2,353,057
May		15,428,475	150,000	15,278,475	763,924	14,514,551
Jun 93		89,352	0	89,352	4,468	84,885
FY93 TOTALS		**38,320,063**	**936,342**	**37,383,721**	**1,869,186**	**35,514,535**
Jul 93	**FY94**	2,442,409	194,275	2,248,134	112,407	2,135,728
Aug		8,311,629	0	8,311,629	415,581	7,896,048
Sep		276,788	0	276,788	13,839	262,949
Oct		766,355	0	766,355	38,318	728,037
Nov		4,798,485	75,000	4,723,485	236,174	4,487,311
Dec 93		332,139	0	332,139	16,607	315,532
Jan 94		246,100	0	246,100	12,305	233,795
Feb		3,733,270	0	3,733,270	186,663	3,546,606
Mar		101,408	0	101,408	5,070	96,338
Apr		1,483,298	195,000	1,288,298	64,415	1,223,883
May		15,549,305	75,000	15,474,305	773,715	14,700,590
Jun		738,443	100,000	638,443	31,922	606,520
Jul 94		837,645	20,000	817,645	40,882	776,763
FY94 TOTALS		**39,617,273**	**659,275**	**38,957,998**	**1,947,900**	**37,010,098**
Jul 94	**FY95**	1,109,756	250,000	859,756	42,988	816,768
Aug		9,148,417	100,000	9,048,417	452,421	8,595,997
Sep		1,101,311	50,000	1,051,311	52,566	998,745
Oct		866,248	100,000	766,248	38,312	727,935
Nov		5,051,623	50,000	5,001,623	250,081	4,751,542
Dec 94		89,868	10,000	79,868	3,993	75,874
Jan 95		416,530	40,000	376,530	18,826	357,704
Feb		3,284,472	0	3,284,472	164,223	3,120,249
Mar		142,567	35,000	107,567	5,378	102,189
Apr		2,231,887	40,000	2,191,887	109,594	2,082,293
May		16,176,320	15,000	16,161,320	808,066	15,353,254
Jun		919,704	0	919,704	45,985	892,588
FY95 YTD TOTALS		**40,538,703**	**690,000**	**39,848,703**	**1,992,433**	**37,875,139**
Jul 95	**FY96**	2,608,931	230,000	2,378,931	118,946	2,259,985
Aug		8,987,745	50,000	8,937,745	446,887	8,490,858
Sep		143,093	0	143,093	7,155	135,938
Oct		1,617,836	75,000	1,542,836	77,141	1,465,695
Nov		4,741,478	60,000	4,681,478	234,073	4,447,405
Dec 95		89,278	89,278	0	0	0
Jan 96				0		
Feb				0		
Mar				0		
Apr				0		
May				0		
Jun				0		
FY96 YTD TOTALS		**18,188,361**	**504,278**	**17,684,083**	**884,202**	**16,799,881**
PROGRAM TOTALS FY90 - FY96 to date:		**225,809,587**	**3,953,771**	**221,855,815**	**11,092,787**	**210,781,897**

MEDICAL SECURITY PLAN



MEDICAL SECURITY PLAN

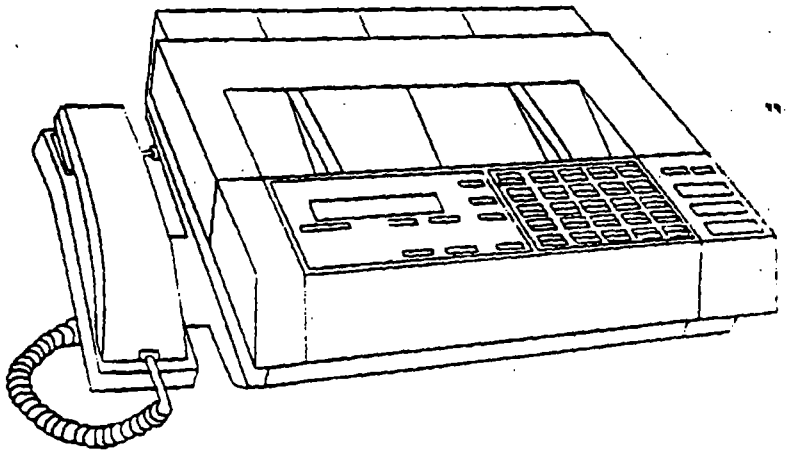
Per Member Per Month (PMPM) Costs of the MSP			
	AVG. MONTHLY ENROLLMENT	AVG. MONTHLY CLAIMS PAYMENTS	AVG. MONTHLY PMPM COST
FY91	11,148	$438,741	$39
FY92	20,087	$1,204,395	$60
FY93	32,706	$4,573,954	$140
FY94	66,695	$4,603,353	$69
FY95	25,411	$2,821,271	$111
FY96	16,592	$1,312,831	$79
TOTAL HISTORY	28,773	2,492,424	$87

FY 96 figures are as of December and do not represent the complete fiscal year.

U.S. Department of Labor

Office of the Assistant
Secretary for Policy
Washington D.C. 20210

FAX COVER SHEET



DATE: 11-22-96

TO: Pauline FAX NO: 456-2878

COMPANY: _____ PHONE NO: _____

FROM: Emi PHONE NO: 219-6197 x122

FAX NO: (202) 219-9216

NUMBER OF PAGES INCLUDING COVER: 3

MESSAGE: Hi! This piece was done by Steve Fineman of HHS; it does not mention that the Kennedy-Kerry version adopts a "COBRA-first" approach. Assistance for COBRA-eligible individuals must take the form of subsidizing the COBRA premium. The Administration has now more or less adopted this approach.

HEALTH INSURANCE FOR THE TEMPORARILY UNEMPLOYED

Administration and Kennedy-Kerry Bills

(Kennedy-Kerry differences in [**bold**])

I. Federal Funds for States

- Establishes a four year demonstration project. Provides annual grants to states which choose to participate. HHS would operate a program in a state that chooses not to participate. **[Program is permanent and operated jointly by HHS and Labor.]**

- The funding would be a capped entitlement to the state. **[Initial year funding would be $2 billion in FY '99.** The Administration bill in '99 would have a cap of $2.34 billion.]

- States would be allowed to accumulate a small surplus to cover years with shortfalls, and the federal government would also operate a loan program to assist States with shortfall. **[There is no loan program, and any surplus reverts to the federal government which may carry over the surplus and reallocate it in subsequent years.]**

- Funds would be allocated based on the proportion of unemployed persons in the State who collected unemployment income (UI) benefits relative to all persons in the nation who collected UI benefits. [**State allocation would also be adjusted to reflect the relative "per capita premium payment amount in each state." Unfortunately, no such measure exists.**]

II. Eligibility for Coverage

- Recipients must be in active unemployment insurance claims status.

- Coverage would not exceed 6 months.

- Individuals must have had health insurance coverage through their last employer for at least the six previous months (including plans where the employee paid the full cost).

- A full subsidy is provided up to 100% of the poverty level for family income and phased out at 240% of the poverty level.

- An employed spouse must not have health insurance coverage or, if covered, the employer contributes less than 50% of the premium.

- The individual or family must not be eligible for Medicaid or Medicare.

- Individuals will be eligible based on their place of residence.

- No reduction can be made in the duration or amount of unemployment benefits as the result

of an individual participating in the health care coverage program.

III. Benefits

- States would have the flexibility in how to use funds to assure access to an insurance product:

  --COBRA coverage from their prior employer;
  --An insurance product in the private market;
  --Alternative means of coverage (e.g., state high risk pools, Medicaid buy-in, special plan for the temporarily unemployed);

- State would have the option of extending eligibility periods or providing a more generous package using state funds.

- Any reduction in either the duration or extent of health coverage, benefits would have to be approved by the Secretary of HHS.

IV. Administration

- The state (or its contractor) must conduct all eligibility determinations.

- Unemployment claimants are informed of possible coverage eligibility at the time that an eligibility determination for UI benefits is made.

- Recipients must be informed that program funds are limited, which could result in reduction or elimination of benefits if funds become exhausted.

- Funds from the grant will take the form of letters of credit to the states.

- Program information and applications will be available in every local unemployment office/one-stop office.

1/22 Rob Restuccia

MA Transitional Health

MSP - 1990 began from 1988 law

$16.80 surcharge on employers / payroll

Benefits - COBRA extension - only option
basic benefit plan

400% ↑ poverty - forward + backward
important

strength

varies w/ economy dramatically
120,000 in 1 year at peak

Problems: ① # in + out
→ hard to impose a waiting period

② stretch w/ expensive COBRA

③ Doesn't require bad health ins. before so

④ mental health providers exploit
→ redesign program more utilization

Weld later it: ran against 1988
→ this to make it so narrow + return

Good Programs:

MEMORANDUM

TO: Carol Rasco, Laura Tyson, and Gene Sperling
FR: Chris Jennings
RE: Health Insurance for the Temporarily Unemployed
cc: Jen Klein, Nancy Ann Min

January 31, 1996

I am well aware that our FY '97 budget discussions are in the final stages, but I wanted to make certain that we had given full consideration to the possibility of retaining the one coverage expansion initiative that we carried throughout 1995 -- our temporarily unemployed provision. The possibility of enacting this provision is obviously remote (and that ironically might give further credence to sticking it back in our package), but I believe we should think long and hard about retreating from the concept of even incremental coverage expansions.

The policy/political arguments for continuing our advocacy for the temporarily unemployed provision are one in the same: It would provide coverage to an estimated 3-4 million people who are, by any political measure, the most attractive target population for incremental coverage protection -- the previously insured, working family who has been layed off. And, since virtually every American worker believes that they could find themselves in a such a situation in today's economy, it would likely be viewed as an insurance benefit for practically every working family. In addition, it would help us address the consistency theme raised in today's Post article and enable us to more effectively say we always advocated health savings in the context of broader reform. And finally, it gives us something for the upcoming election that differentiates us from the Republicans on the health coverage issue.

The relatively modest price tag of $1.5 - $2.5 billion a year for the temporarily unemployed benefit is certainly not prohibitively expensive. To offset the costs, at least for the FY '97 budget submission, I would recommend we consider slightly reducing the size of the tax cut. If we could not afford the 7- year, $14 billion price tag, we could further limit its costs by either sunsetting the protection after 3-4 years (using the argument we want to test the concept before making it permanent) or making it into a downsized demo program.

I was reminded of our temporarily unemployed provision when I talked with Senator Durenberger yesterday. He said that the policy concept first gained popularity in 1983. At that time, Senators' Quayle/Hatch and Senator Dole successfully passed out separate, but similar bills out of the Senator Labor and Senate Finance Committees. Dole paid for his -- through Medicare savings -- and provided for a two-year, $1.8 billion temporarily unemployed Federal block grant program to states. (States had matching dollar requirements that varied according to their uninsured problem, but were authorized to designate up to 8 percent of an individual's weekly unemployment compensation payment to offset the state's cost; the block grant approach was a requirement imposed by Reagan through Stockman.)

Although the bills were overwhelmingly passed out of the Democratically-controlled House Committees and the Republican-controlled Senate Committees, they lost steam when the unemployment rate started to decline. Conservatives threatened to filibuster over the concept of starting a new program as we were debating balancing the budget. Liberals lost their interest in it when they decided that they did not want Medicare savings to be used for such a program. (They wanted general revenues to be used instead). Some things never change.

At any rate, I do believe there may be some mileage in using the link to the history of the temporarily unemployed health coverage benefit. We are already seriously contemplating citing Senator Dole as the father of the Medicaid per capita cap (which he is by virtue of how he achieved his Medicaid savings in his 1994 health care bill.) It might be similarly attractive to consider labeling any new temporarily unemployed benefit as the Dole/Quayle/Hatch "memorial" health coverage expansion bill. More importantly, I believe our Democratic base would be favorably disposed to using a few of our significant Medicare/Medicaid cuts to offset the cost of a modest, temporarily unemployed health insurance benefit -- particularly if the alternative was using the dollars instead to increase the tax cut.

The call on whether to include this or not may best hinge on how seriously we (and the Congress and the media) are taking our FY '97 budget. If this budget is viewed to be more of a political document than anything else, I do think we should give significant consideration to reinstating the temporarily unemployed benefit. It gives us something to point back to as a sign of our continuing commitment even in the face of an unreceptive environment in the 104th Congress. Moreover, it better positions the President as someone who continues his commitment (now and into the future) to looking for step-by-step ways to improve the current health care coverage situation.

I am certain there are policy, geopolitical or pragmatic budget/tax cut strategy issues I am missing, but I wanted to make certain that this easy-to-forget issue isn't accidentally lost without some discussion about the potential benefits/risks of having/ or not having the temporarily unemployed provision. Thanks for your consideration.