

Perspectives

ON TEXAS PUBLIC POLICY

SELECT COMMITTEE ON STATE HEALTH CARE EXPENDITURES Public Hearing, March 24, 2004, Public Testimony on Interim Charge 2 Effects of “Crowd Out”

Testimony of
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Problem 1. *Texas Policymakers do not know the precise extent or cost of “crowd out” today. Consequently, policymakers have insufficient information to determine if the Children’s Health Insurance Program (CHIP) is meeting program objectives and policymakers are unable to ensure that government-subsidized health care is not competing with private sector health coverage.*

- Today, the state’s calculation of “crowd out” is an estimate that is based on information provided by families enrolling in CHIP. Unlike some states, Texas does not verify prior insurance information by contacting employers or private insurers.
- The Texas Health and Human Service Commission’s most recent report of one percent crowd falls well below the numbers reported by states that use more precise measures. If enrollment in Texas CHIP is similar to other states, “crowd out” likely ranges between three and thirteen percent (Missouri at three percent and Florida at 13.3 percent).¹

Problem II. *State regulations are not effectively discouraging CHIP “crowd out.” Consequently, funding for CHIP is diverted away from the most needy children and the scope of health benefits is circumscribed; the cost of state subsidized health care is rising and competing with public education and other key state functions; and private sector health care is undermined by government competition.*

- The number of individuals in Texas purchasing private health insurance through employers has decreased over the past three years while at the same time enrollment in state subsidized care has increased. Only 63 percent of Texans are covered by private health insurance.²
- About one percent of new monthly enrollments in CHIP (approximately 213 children monthly) represent “crowd out” – children whose families chose to substitute government for private employer/group insurance coverage, according to the Texas Health and Human Services Commission.
- State regulation to discourage “crowd out” is in effect cancelled by other state regulations that permit exemptions. The six month waiting period for applicants is waived if the family’s health insurance premium through the employer represents 10 percent or more of family income. Today, about half of one percent of new monthly enrollment (approximately 106 children enrolled monthly) qualify for this waiver. It should be noted that this provision bears no correspondence to the average percentage of income invested by the average working Texan in premiums for private or employer-

sponsored health insurance, a rate that appears to range from 15 to 20 percent.

Public Policy Solutions:

- The Texas Health and Human Services Commission should report to the Legislature – (a) ways that other states’ define, measure, and control “crowd out;” and (b) a comparison of factors that affect “crowd out” – scope of benefits and co-payments between state-subsidized health care and average private sector coverage,
- The prior insurance status of CHIP applicants should be verified by securing information from employers/insurance carriers and the amount of “crowd out” should be based on verification,
- Enrollment procedures should be tightened to discourage “crowd out” – by eliminating the waiting period exemption for families whose insurance premiums are equal to or exceeding 10 percent of income and by increasing the waiting period to nine or 12 months (such as currently used by Minnesota and New Jersey),³
- Additional funds, that are made available by decreasing “crowd out,” should be applied to ensuring the benefit coverage for CHIP is comparable to coverage secured by the average Texan in the private sector,
- Implement a premium support program to allow families to purchase CHIP through their employers (two states already have established employer-sponsored CHIP),⁴
- Purchasing cooperatives should be created to assist employers in purchasing insurance at more affordable rates (such as now operating in Oregon and Rhode Island),⁵ and
- Employers should be allowed to buy into state programs at reasonable cost (such as now provided in Washington where employers can buy insurance through the state health plan and are provided the benefit of the larger purchasing power and larger risk pool of the state).⁶ While the Foundation does not support expansion of government programs, in this case, citizens would benefit from an existing government program that would be expanded only to provide services that would be fully funded by consumers.

ENDNOTES

¹ Amy Westpfahl Lutzky and Ian Hill, *Has the Jury Reached a Verdict? States Early Experience with Crowd Out Unde SCIP*, Urban Institute, June 2001, <http://www.urban.org>.

² *Working Together for a Health Texas-Final Report*, Texas State Planning Grant, Texas Department of Insurance, State Planning Grant Division, Austin, TX, 2003.

³ *Has the Jury Reached a Verdict?*

⁴ *Ibid.*

⁵ Anna Fallieras et al, *Examining Substitution: State Strategies to limit “Crowd Out” in the Era of Children’s Health Insurance Expansions*,. for Office of Health Policy of the Office of the Assistant Secretary of Planning and Evaluation, U.S. Department of Health and Human Services, 1997.

⁶ *Has the Jury Reached a Verdict?*