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Publication Date

2003-10-14

PREMIUM ASSISTANCE PROGRAMS FOR RECENT WELFARE RECIPIENTS

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Prepared for the California HealthCare Foundation
August 12, 2003

In recent years, several states have experimented with premium assistance programs as a means of increasing employment-based insurance (EBI) coverage among low-income, working families. Premium assistance programs provide subsidies to assist workers with the costs of EBI and create a structure for combining private funds from employers with public dollars to cover the costs of providing health insurance. For this reason, premium assistance programs are an attractive policy option to state governments, but should be approached cautiously as most current implementations have met with limited success.

Welfare recipient's transitioning into the labor market typically join the ranks of low-income workers, with many continuing to live below the poverty line despite their employment efforts. (Fleming, 2003) Because they are a predominantly low-income group that is now required to work, welfare recipients may be a good group to target for premium assistance. This issue brief discusses the possibility of a premium assistance program in California that targets recent welfare recipients by addressing three main policy questions.

1. Are welfare recipients a good target population for a premium assistance program?

In order for welfare recipients to benefit from a premium assistance program, they must have access to EBI coverage. Overall, about half of recent welfare recipients who participated in this study were eligible for EBI coverage at

their current or most recent job, but only one quarter chose to participate or 'take-up' the offer of coverage. The most common reason for not participating was related to the costs of coverage. The vast majority of those not enrolled in EBI do have insurance coverage through Medi-Cal, but nearly 15% were uninsured. Eligibility and participation, however, vary considerably based on income levels leaving room for increasing EBI coverage rates.

As shown in Figure 1, there is a sizable jump in eligibility and participation for those above 100% of the federal poverty level (FPL) and another large increase for those above 200% FPL. Premium assistance programs should try to avoid restricting eligibility to narrow income bands in favor of a less fragmented and more equitable approach. Even though recipients with incomes under 100% FPL are less likely to be eligible for EBI, they should not be disqualified from benefiting from a premium assistance program. To maximize the increase in EBI coverage under a premium assistance program for welfare recipients, the program could target those with incomes below 200% FPL. By our estimates, about 80 percent of recent welfare recipients fall into this income category and eligibility in EBI for this group is 47 percent. Only about 20 percent of recipients under 200% FPL choose to participate in EBI so a premium assistance program could try to capture the remaining 80 percent. As with most policy options, there are valid arguments for and against premium assistance programs targeting welfare recipients, some of which are summarized in Table 1 below.

Acknowledgements: The author would like to thank Paul Ong, Ruth Matthias, Nalini Pande, and Jordan Rickles for their assistance and comments. The author alone is responsible for any errors.

Figure 1: Eligibility and Participation Rates in EBI, Medi-Cal Coverage Rates, and Uninsurance Rates by Poverty Level, Recent Welfare Recipients, 2003

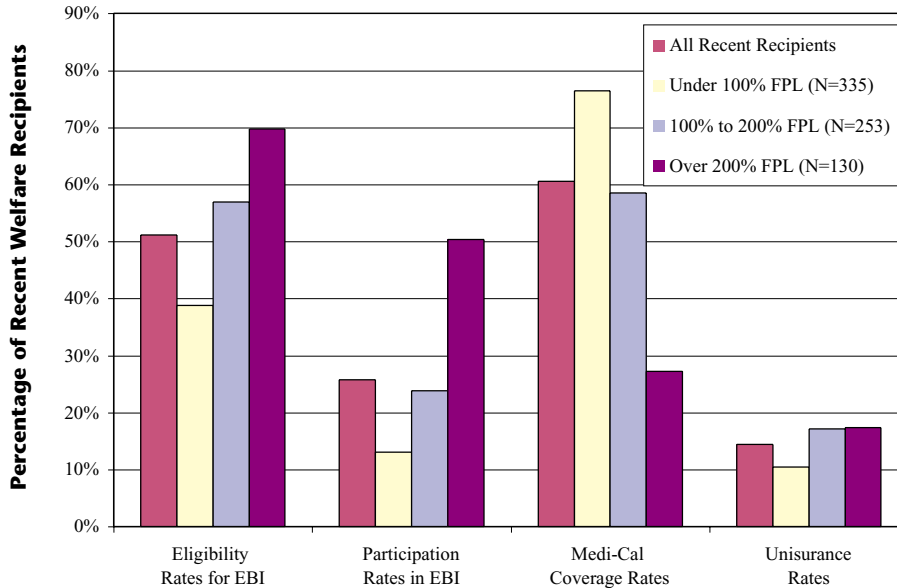


Table 1: Arguments For and Against Targeting Welfare Recipients for Premium Assistance

FOR	AGAINST
<ul style="list-style-type: none"> • Large gap between eligibility and participation in EBI • Supports the goal of welfare recipients establishing self-sufficiency • Encourages labor force attachment through increased job tenures and full-time work • Defined population that can be identified through existing administrative systems 	<ul style="list-style-type: none"> • Many remain at below poverty incomes qualifying them for no-cost Medi-Cal • Often have sporadic work patterns, which would make it difficult to maintain EBI • Compose relatively small portion of uninsured population so would not achieve large reductions in the uninsured population.

2. Who would be eligible for premium assistance and where do they work?

To get a better idea of who might benefit from premium assistance, profiles of recipients by their eligibility for EBI are presented in Table 2. Recent welfare recipients who are eligible for EBI have greater labor force attachment than those not eligible for EBI — they earn higher wages, have longer job tenures, work full-time, and are more likely to be off welfare. Personal characteristics such as race, education level, marital status, family composition, and length of time on welfare do not significantly affect eligibility in EBI, which indicates that a premium assistance program

would not disproportionately exclude any specific sub-groups of the welfare population.

For comparative purposes, earnings levels and welfare status are also included for a larger random sample of recent welfare recipients. Earning levels among those eligible for EBI are nearly three times greater than those not eligible and twice as great as the sample universe of recent recipients. In general, it appears that recipients who would be most likely to benefit from premium assistance are making the transition to full-time, full-year employment suggesting that they may not exhibit the sporadic work patterns of the overall welfare population.

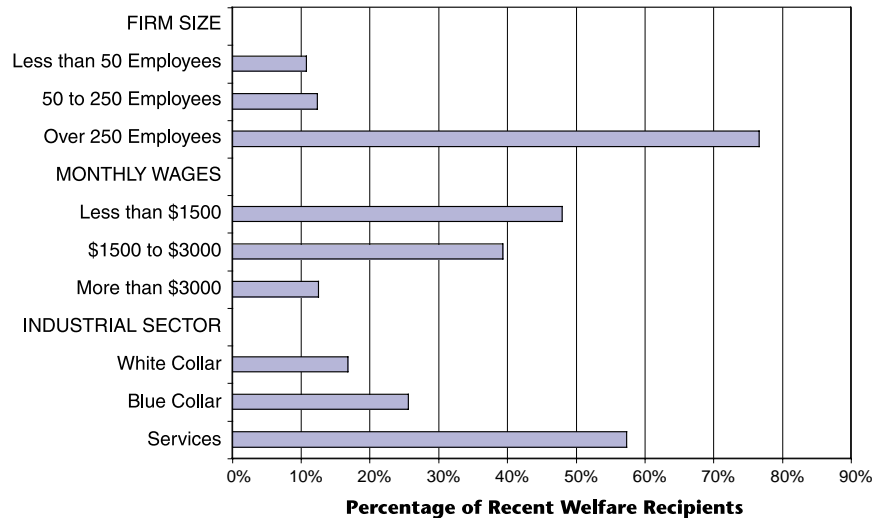
Table 2: Profiles of Recent Welfare Recipients by Eligibility in EBI, 2003

	Eligible for EBI	Not Eligible for EBI	Total Sample	Sample Universe
Welfare Status				
Off CalWORKs, Dec. 2001	66%	53%	60%	68%
Previous Work History (Median/Mean)				
Total Earnings1998	\$2285/\$4575	\$1410/\$3536	\$1940/\$4070	\$1798/\$4371
Total Earnings1999	\$5738/\$6954	\$2278/\$4274	\$3416/\$5651	\$3794/\$6022
Total Earnings2000	\$10122/10787	\$3414/\$5546	\$6461/\$8238	\$6167/\$8347
Total Earnings2001	\$12870/\$13161	\$2896/\$5456	\$6806/\$9415	\$6898/\$9373
Hourly Wage, Current/Most Recent Job				
\$7.00 or less	14%	41%	27%	NA
\$7.01 - \$10.00	40%	41%	41%	NA
Over \$10.00	46%	18%	33%	NA
Usual Weekly Hours, Current/Most Recent Job				
0-20 hours	5%	26%	15%	NA
21-39 hours	30%	37%	33%	NA
40 or more hours	65%	37%	52%	NA
Job Tenure, Current/Most Recent Job				
One year or more	71%	49%	60%	NA
Less than one year	29%	51%	40%	NA
	N	380	372	760
			760	10,569

Understanding which recipients might benefit from premium assistance is informative, but the other essential component to a successful program is employer involvement. To identify potential premium assistance participants, certain specifics of an employer's health plan must be known, such as benefit levels and employer contributions. Table 2 provides the distribution of recipient employment in 2001 at firms that offer EBI to their entry-level employees and require premium

contributions by firm-level characteristics. Large firms, service-sector firms, and low-wage firms appear to provide the majority of job opportunities for recent welfare recipients who could benefit from a premium assistance program. Among recent welfare recipients who found employment at firms offering EBI with employee premium requirements, more than three-quarters worked at large firms with over 250 employees and nearly half worked at low-wage or service sector firms.

Figure 2: Distribution of Recipient Employment in Firms Offering EBI Coverage and Requiring Employee Premium Contributions, 2001 (N=11,368)



3. What are the challenges of premium assistance programs in California?

• Administrative Complexity

Perhaps the largest drawback of premium assistance programs involves the administrative complexity and associated costs of identifying potential participants and determining whether they qualify for the program. Premium assistance programs currently in operation use federal funds from either Medicaid or the State Children's Health Insurance Program (SCHIP) and as a result must adhere to certain federal requirements. The two primary federal regulations that must be addressed in premium assistance program design are cost effectiveness and minimum benefit or 'benchmark' requirements.

• Meeting Federal Regulations – Cost Effectiveness

Cost-effectiveness requires that states compare the costs of premium subsidization with the costs of direct public coverage. Most often this is done on a case-by-case basis, although there may be some latitude for calculating cost-effectiveness in a more aggregate manner. Because most CalWORKs and 1931(b) Medi-Cal recipients are required to enroll in managed care plans it may be difficult to meet the cost-effectiveness requirement due to lower than average Medi-Cal capitation rates. (Hunt, Peters, and Saari, 1999) Cost effectiveness will be particularly difficult for programs under SCHIP because only the costs of covering eligible children will be used in the cost-effectiveness calculations.

• Meeting Federal Regulations – Minimum Benefit Levels

Another possible drawback of creating a PA program under SCHIP involves the minimum benefit or benchmark requirements for coverage. Medi-Cal and Healthy Families provide relatively generous coverage, which would likely impact whether EBI coverage could meet the qualification for SCHIP premium assistance. Massachusetts, which boasts one of the more successful premium assistance programs, found that very few applicants had access to an SCHIP-qualified benefits package

through their employers. One option to address this issue is to have the premium assistance program cover what EBI does not in terms of benefits and cost-sharing requirements. This is referred to as 'supplementation,' but administratively would likely be very burdensome.

• Outreach to Employers

In order for both cost-effectiveness and benchmark requirements to be assessed, the details of EBI coverage must be submitted to the appropriate agency. As a result, premium assistance programs must rely, to a certain extent, on employers providing the necessary information about their health plans and costs. Based on the experiences of states such as Oregon, Iowa, and Rhode Island, successful premium assistance programs need to minimize the administrative burden placed on employers. States could provide information on premium assistance programs to employers for distribution among low-wage employees who might qualify. However, the burden of submitting the plan details and receiving the subsidy payments would fall to the participating employee.

Conclusions

Although challenging, premium assistance programs for welfare recipients in California may very well be a worthwhile endeavor. Currently, there is a large gap between eligibility and participation in EBI among recent welfare recipients suggesting that a fairly sizable group could be transitioned from public insurance programs to the private, employment-based system. A premium assistance program would support those recipients who are transitioning to full-time employment and would further strengthen their ties to the labor force. To overcome some of the obstacles, California could utilize the lessons learned in other states with premium assistance programs and take advantage of new federal legislation that provides increased flexibility in program design. For a comprehensive overview and discussion of premium assistance design options and the experiences of other States, see the Institute of Health Policy Studies recent report "Premium Assistance: What Works? What Doesn't?"

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¹Illinois, Iowa, Maryland, Massachusetts, New Jersey, Oregon, Rhode Island, Texas, Virginia, and Wisconsin currently have operating Premium Assistance Programs.

²Recent welfare recipients are single parents who received CalWORKs cash assistance at least one month between 1998 and 2000 and were also employed during that time period in Los Angeles County. For more information about this study, please refer to the primary report "Access to Employment-based Insurance Among Recent Welfare Recipients: Offering, Eligibility, and Participation."

³In 2002 the federal poverty level for a family of four was \$18,100.

⁴Profiles of recent welfare recipients are based on a 2002/2003 survey of recent welfare recipients merged with employment and welfare records.

⁵Firm-level results are based on a 2000 employer benefits survey merged with the employment records of recent welfare recipients who were employed sometime in 2001 at the firms completing the benefits survey.