

Chapter 1



Introduction

Overview

More than 1.3 million nonelderly people in North Carolina, or more than one-sixth of the state's population, were uninsured during 2004.^{a,1} Since 2000, the number of North Carolinians without health insurance coverage has increased by 300,000. Compared to most other states, North Carolina has experienced a larger increase in the percentage of nonelderly who are uninsured and a larger drop in employer-sponsored health insurance coverage. The percentage of North Carolinians without health insurance coverage increased 15% from 1999-2000 to 2003-2004 compared to a national increase of 10%.² The percentage of people with employer-sponsored insurance in North Carolina declined by 9% over the same time period, while nationally, the drop was 6%.

Expanding health insurance coverage to the uninsured will help improve access to needed healthcare services, so individuals can receive care in a timely, and hopefully, less costly setting.

A common misconception is that the majority of the uninsured do not work full-time. In fact, 77% of the uninsured are full-time workers or family^b of full-time workers.^a The two groups most likely to lack insurance coverage are those who work for small employers and low-income individuals with incomes below 200% of the federal poverty guidelines. Approximately one third of all people who work for small employers with less than 25 employees are uninsured (34%), compared to 22% of those who work for medium firms (25-99 employees), 15% of those who work for large firms (100-999 employees), or 10% of those who work for very large firms (1,000+ employees). In fact, 50% of the uninsured are workers or family of workers in small firms with 25 or fewer employees. Similarly, low-income individuals have a much greater likelihood of being uninsured than do those with higher incomes. Nearly 60% of the uninsured have incomes below 200% of the federal poverty guidelines.

People lack health insurance coverage for a variety of reasons, but the primary reason is cost. In a statewide survey in North Carolina, more than half of the uninsured (55%) said they could not afford insurance coverage.³ Nationally, the most common reason given by employers for not offering health insurance was the high premium cost.⁴

People who are uninsured are less likely to get preventive care, and more likely to be diagnosed with a serious health condition, such as late stage cancer.^c The uninsured

a Data provided in this report are based on two year weighted averages of Current Population Survey data. This approach increases the accuracy of the estimates. See the Appendix F for details.

b *Family*, as used in Current Population Survey analyses throughout this report, is broadly defined and includes more individuals than those typically eligible for dependent health insurance coverage. See Appendix F for more details.

c Throughout this report, comparisons between insured and uninsured individuals are made. However, the average uninsured individual may differ from the average insured individual in many other respects. Therefore, the entire difference in outcomes between the insured and uninsured is not wholly attributable to health insurance status. Additionally, it should not be interpreted that if the average uninsured individual obtained health insurance, measures of her health would be similar to the average insured individual. However, research literature concludes that lack of health insurance does adversely affect health, so it is reasonable to expect that obtaining access to health insurance would substantially improve health for uninsured individuals.



use fewer services and delay care, which makes them more likely to be hospitalized for conditions that could have been prevented if they received adequate primary care. Obtaining needed medical care can cause families great financial difficulty. More than two fifths of the uninsured in North Carolina (41%) reported that they delayed care and 27% went without needed medical care (compared to 15% and 4%, respectively for the insured). Not only does lack of insurance coverage affect health status, it also affects the productivity of our workers. People in poor health are less likely to work or may work fewer hours. Children who are sick have more difficulty learning in school. The uninsured who do obtain care are often faced with outstanding medical bills that can lead to personal bankruptcies or adversely affect their credit rating.⁵ And the growing number of uninsured is creating an economic strain on the healthcare institutions that care for all North Carolinians. Ultimately, part of the cost of providing healthcare to the uninsured is borne by all residents in the form of taxes and higher insurance premiums.

The NC Department of Health and Human Services (NC DHHS) received a one-year State Planning Grant from the Health Resources and Services Administration (HRSA) within the US Department of Health and Human Services (US DHHS) to study policy options to expand coverage to the uninsured. Four organizations helped lead this effort: the NC DHHS, the NC Department of Insurance (NC DOI), the Cecil G. Sheps Center for Health Services Research at the University of North Carolina at Chapel Hill (Sheps Center), and the NC Institute of Medicine (NC IOM). The NC DHHS, through the Office of the Secretary and the Office of Research, Demonstrations and Rural Health Development (ORDRHD), provided the overall leadership, direction, and coordination for the State Planning Grant. The State Center for Health Statistics within NC DHHS collected data to identify insurance coverage, access to employer-sponsored insurance, gaps in coverage, and access barriers of North Carolina residents. Staff at the Sheps Center analyzed existing data on the uninsured from national data sources and oversaw focus groups of small and large employers, insurance agents/brokers, and the uninsured. In addition, the Sheps Center contracted with Mercer Government Consulting Group to develop cost estimates of different policy options. The NC DOI assisted in identifying policy options to reduce health insurance costs and to expand coverage in the private market.

The NC IOM convened the Task Force on Covering the Uninsured to study and recommend options to expand health insurance coverage to the uninsured. The Task Force was chaired by the Honorable Carmen Hooker Odom, Secretary of the NC DHHS, and by Thomas Lambeth, Senior Fellow, Z. Smith Reynolds Foundation. It included 56 additional members, including state policy makers, legislators, county commissioners, healthcare providers, representatives of state healthcare trade associations, insurers, safety net organizations, small and large businesses, insurance agents, consumer advocates, and the faith community.

The Task Force met for approximately one year to study ways to expand health insurance to the uninsured. The Task Force examined the demographics of the uninsured, reasons for lack of coverage, and the health consequences of lacking insurance. In addition, the Task Force members heard information from focus groups of large and small employers, insurers, and the uninsured about the reasons that employers offer (or fail to offer) insurance and reasons the uninsured lack coverage, their willingness



to pay for coverage, and the trade-offs they would consider to make health insurance coverage more affordable.

Ultimately, the Task Force was charged with developing policy options to expand health insurance coverage to the uninsured. The Task Force was guided by the belief that everyone in the state stands to gain if more people have health insurance coverage. Not only will this help improve access to health services for the people who currently lack coverage, but it will also help reduce healthcare costs to those with insurance coverage and lead to a more productive workforce and healthier children. The Task Force focused its efforts on three populations most likely to lack coverage: those with low incomes (below 200% of the federal poverty guidelines), those who work for small employers, and those with significant pre-existing health problems who have difficulty affording coverage in the private, nongroup market.

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Guiding Task Force Principles

Expanding health insurance coverage to the uninsured is a complex, costly, and difficult task. Too often, past efforts to expand coverage have met with resistance from one or more organized constituency because of the costs, lack of coverage of specific services or populations, or philosophical differences about the underlying role of government and/or the private market.

The Task Force recognized the enormous role that many groups play in providing services or extending coverage to individuals who might otherwise lack health insurance coverage. Government, providers, employers, insurers, and individual families all contribute in various ways to ensure that the healthcare needs of the uninsured are met: government helps finance health insurance coverage for certain low-income individuals; providers often provide care to the uninsured on a reduced-cost basis, employers help subsidize the healthcare costs of employees who might otherwise be uninsured; and individual families help pay, and often make tremendous financial sacrifices, for needed health services. Yet, those who remain uninsured receive less care than they need, and as a result, their health suffers, and the lack of insurance has ripple effects on the economy and society as a whole. Productivity and learning decrease, and healthcare providers, who are burdened with increasing numbers of uninsured, are put in precarious financial situations that affect their ability to provide care to those with insurance coverage.

The Task Force realized early in its deliberations that no single approach to expanding health insurance coverage would sufficiently address the problem or gain the support of all the different healthcare constituencies. Therefore, the Task Force decided to take a multi-pronged approach that included market-based reform efforts, private-public partnerships, and public initiatives. The recommendations included in this report recognize that every group, including consumers, providers, employers, insurers, insurance agents, and government, has a role or responsibility to help expand health insurance coverage to the uninsured. The success of these recommendations and our ability to expand health insurance coverage to the uninsured rests on the shared support of many different groups.



Who Stands to Gain and How

- 1** *Individuals* have the most to gain by having health insurance coverage. As a consequence, they also have a responsibility to contribute, to the extent feasible, toward the cost of their healthcare and health insurance coverage through premiums, coinsurance, and copayments. In addition to a financial contribution, all insured individuals should be expected, and given the information and resources needed, to become active stewards of their own care. Many of the Task Force recommendations include proposals to enroll individuals with complex or chronic health conditions into disease and/or case management programs; reward individuals for healthy lifestyles; and encourage the use of preventive health services.
- 2** *Providers* stand to gain by having a source of coverage for some individuals for whom they were already providing coverage, but receiving minimal payments. Providers can help assist in efforts to extend health insurance coverage to the uninsured by accepting lower reimbursement rates for services (i.e., discounts off of their full charges). The costs of many of the proposed expansion options have been reduced by building in lower reimbursement rates to providers. While this would be less than they traditionally collect from commercial insurers, it will be more than they may receive from many of the low-income uninsured.
- 3** *Employers* stand to gain by having a healthier workforce. Most of the employers in the focus groups talked about their desire to provide health insurance coverage as a means of attracting and retaining good employees. The Task Force recognized that many employers are already providing coverage, and those who do not—particularly those with fewer than 25 employees—often lack the resources to pay for this benefit. Some of the proposals are targeted to small employers to help develop products that are more affordable, so these employers can provide coverage to their employees. Once these products are available, employers can help reduce the numbers of uninsured by offering coverage and helping to subsidize the premium costs.
- 4** *Insurers* will benefit by having more covered lives. There are multiple ways in which they can help expand health insurance coverage to the uninsured. First, insurers need to be partners in developing new and more affordable products. The Task Force proposed a tiered benefit product, starting with a very limited benefit design that can be offered at a lower-cost and be built up to a more comprehensive design with higher premiums. In addition, insurers can help finance losses to a high-risk pool. The Task Force has proposed that the high-risk pool be financed, in part, through assessments on covered lives for insurers, third-party administrators (TPAs), Administrative Services Organizations (ASOs), and Multiple Employer Welfare Arrangements (MEWAs).
- 5** *Insurance agents* will benefit from more affordable insurance options to sell, particularly to small employers. Insurance agents can assist in reducing the numbers of uninsured by marketing the new products and helping educate individuals and employers about private and public coverage options that are available.



6 *Government* also stands to benefit by producing a healthier, more competitive workforce, and healthier children more likely to succeed in school. Government at the federal, state, and local levels can assist by helping to underwrite the costs of healthcare for those who are unable to do so themselves. The public expansion options, subsidies for lower-income enrollees in the high-risk pool, and costs of the reinsurance for small employers are predicated upon some government financing. Action on the part of the NC General Assembly is needed to establish some of the products and to remove legal barriers that prevent the establishment of certain lower-cost insurance options.

Expanding health insurance coverage to the uninsured will help improve access to needed healthcare services, so individuals can receive care in a timely, and hopefully, less costly setting. Not only should this lead to improved health status of workers and children in the state, but it should help improve the financial health of many of our healthcare institutions. As more people gain insurance coverage, the need to shift the costs of providing services to the uninsured should be reduced. In the future, this should help moderate rising healthcare costs for those with insurance. Everyone stands to gain by expanding health insurance coverage to more North Carolinians.

Support for the North Carolina Healthcare Safety Net

Over the longer term, the goal for the state should be to ensure that all North Carolinians have health insurance coverage that meets their basic healthcare needs. The recommendations included in this report, if implemented, will help expand coverage to more of the uninsured, but will not ensure universal coverage. Until all North Carolinians have health insurance coverage, there will be a continuing need for healthcare safety net providers who serve the uninsured. These organizations, including Federally Qualified Health Centers (FQHCs), state-funded rural health clinics, free clinics, local health departments, hospital emergency departments and outpatient clinics, Area Health Education Centers program residency clinics, school-based or school-linked health centers, and Project Access models or other community collaborations, have a legal mandate or mission to provide services to the uninsured and often provide services at no charge or on a sliding-fee scale. Private physicians also provide care to the uninsured, albeit not always on a reduced-fee basis. Many of the pharmaceutical manufacturers provide free medications that help address the medication needs of some of the uninsured.

The NC IOM recently completed a study examining the adequacy and financial viability of these organizations in North Carolina.⁶ The study found that the safety net organizations are struggling to meet the healthcare needs of the growing uninsured population in the state. An increasing demand for services, coupled with increasing healthcare costs, is causing financial strain. Despite the many different safety net organizations in the state, the existing safety net is not sufficient to meet the healthcare needs of all the uninsured. The Task Force found that only about 25% of the uninsured received primary care services from these organizations in



2004, and that the capacity to meet the healthcare needs of the uninsured varied widely across counties. The lack of affordable healthcare services leads many of the uninsured to delay care, use emergency departments for nonemergency care, or fail to fill prescriptions, all of which can lead to higher cost care when they do seek health services. Until the uninsured have health insurance coverage, the Task Force recognizes the importance of supporting and expanding the existing network of safety net providers. Therefore, the Task Force recommends:

Recommendation 1.1: The NC General Assembly should help support and expand the existing healthcare safety net to serve more of the healthcare needs of the uninsured.

Report Overview

This report is divided into seven chapters. Chapter 2 describes characteristics of North Carolina's uninsured in more detail and the consequences of being uninsured. Chapter 3 provides information about different sources of private and public insurance coverage. Chapter 4 describes some of the underlying factors that contribute to rising healthcare costs. Chapter 5 focuses on policy options to help reduce the costs of health insurance coverage, particularly for small employers. Chapter 6 describes public options to expand health insurance coverage to the low-income uninsured, as well as mechanisms to create a state subsidized high-risk pool for people with pre-existing health problems. Chapter 7 is a summary of the Task Force recommendations. The Appendices include an explanation of the 2005 Federal Poverty Guidelines, data tables on the numbers of uninsured, North Carolina county-level numbers of the uninsured, a summary of focus group results, a summary of actuarial analyses, the methodology explaining data analyses, a description of the Healthy New York program, and a list of acronyms.

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