

The Minnesota Universal Coverage Initiative

In January 2007, Minnesota Gov. Tim Pawlenty issued a health care reform proposal to expand coverage in the state. His plan requires employers that do not offer health insurance to create accounts enabling employees to contribute pre-tax dollars toward private health insurance premiums. The state would create the Minnesota Health Insurance Exchange to administer pre-tax accounts and private health plans sold in the individual market. The governor's proposal also expands MinnesotaCare, a program that provides health coverage to low-income, uninsured adults and children not eligible for the state's Medicaid program. Some Medicaid and State Children's Health Insurance Program (SCHIP) funds are used by the MinnesotaCare program for coverage of eligible pregnant women and families with children under age 21. The proposal does not include an individual mandate for the uninsured to purchase coverage if offered.

Proposal in Brief

Target population: All uninsured residents.

Sources of Coverage: Private insurance; MinnesotaCare expansions.

Coverage Incentives: Premium subsidies for lower-income individuals; pre-tax premium payments for individuals purchasing private insurance.

Financing: Federal and state Medicaid funding; state funding; individual premium payments.

Timing: Not yet known.

PROPOSAL SUMMARY

Employer Mandate: All employers with 11 or more employees would be required to establish Section 125 accounts for each employee to enable the deferment of pre-tax income to pay for private, individual health insurance plan premiums.¹ The state would not, however, require employers to offer health insurance or contribute to insurance premiums.

The Minnesota Health Insurance Exchange (MnHIE): The governor's proposal would create the MnHIE, a private, non-profit entity to serve as the administrator of all plans sold in the individual market. Health plans offering individual coverage would be sold exclusively through the MnHIE. MnHIE would also administer Section 125 accounts by collecting pre-tax contributions and disbursing them to designated private plans.

MinnesotaCare Expansions: The governor's proposal would expand MinnesotaCare eligibility to an additional 14,400 children and 1,200 parents by increasing eligibility for pregnant women, parents, guardians and children under 21 from 275 to 300 percent of the federal poverty level (FPL).²

MinnesotaCare currently provides state-subsidized insurance to low-income, uninsured individuals not eligible for Medicaid.³ The program currently covers low-income childless adults, pregnant women, parents, guardians, and children under 21. MinnesotaCare is primarily funded by the state, but a small portion of the funding comes from Medicaid and SCHIP.⁴ MinnesotaCare is managed by the state and administered through contracting managed care organizations. It has sliding scale premiums for all eligible individuals earning between 150 and 275 percent of FPL. The governor's proposal would reduce premiums by one third for children with family incomes between 150 and 275 percent of FPL.⁵ Children with family incomes at or below 150 percent of FPL would continue to pay a \$4 monthly premium.

The governor's proposal would create two subdivisions of MinnesotaCare: MinnesotaCare Classic and MinnesotaCare II. The following provides a brief description of the two proposed programs:

Minnesota Quick Facts

Population:

5.1M (US total: 292.9M)
21st largest state

No. and Percent Uninsured:

444,850; 9% (US: 46.6M; 16%)
Lowest uninsured rate

Median Household Income:

\$56,084 (US: \$46,037)
6th highest

Undocumented Immigrants:

75,000-100,000; less than 2%
(US: 9.3M; 3%)
18th highest number of
undocumented immigrants

Avg. Annual Cost of Employer

Sponsored Insurance (ESI)

(individual per year):

\$3,809 (US: \$3,705)
16th highest annual cost

Medicaid Enrollment:

729,900; 14%
(US: 55.0M; 19%)
26th largest pop. covered

Medicaid Coverage of Working

Parents:

275% FPL (US avg: 87% FPL)

Sources: Kaiser State Health Facts: Urban

MinnesotaCare Classic – This program mirrors the current MinnesotaCare program, which currently covers doctor visits, hospitalizations, prescriptions, eye exams, eye glasses, and dental care for uninsured childless adults, pregnant women, parents, guardians and children. All individuals currently eligible for MinnesotaCare could enroll in MinnesotaCare Classic. Enrollees would be offered the current MinnesotaCare plan, which is contracted through several managed care organizations in the state.

MinnesotaCare II – MinnesotaCare II is an alternative that would provide an array of subsidized, private health insurance options to children under age 21 with family incomes between 200 and 300 percent of FPL. MinnesotaCare II plans would be available through the MnHIE.

There are several distinctions between MinnesotaCare Classic and MinnesotaCare II plans. Unlike MinnesotaCare Classic, MinnesotaCare II plans would only be available to children under age 21 with family incomes between 200 percent of FPL and 300 percent of FPL. Additionally, MinnesotaCare II plans would likely have benefit packages with higher deductibles and/or higher cost-sharing requirements. The governor's proposal notes children enrolled in MinnesotaCare II plans would be charged a state subsidized premium that is 50 percent less than MinnesotaCare Classic premiums. If MinnesotaCare II enrollees want additional benefits, they must pay higher premiums for "enhanced" health plans, which would also be offered through the MnHIE.

OTHER KEY COMPONENTS

Wellness, Prevention, & Care Coordination: The governor's proposal would encourage MinnesotaCare enrollees to meet specific preventive care measures.

MinnesotaCare Classic – Families with children under age 21 enrolled in MinnesotaCare Classic would receive a \$4 premium reduction per child (up to three children) if specific guidelines for well-child visits and immunizations are met. Adults enrolled in MinnesotaCare Classic who meet goals related to diabetes and cardiac care would also have their premiums reduced by \$4 per month. This means that enrollees earning less than 150 percent of FPL would not have a \$0 premium and enrollees earning more than 150 percent of FPL would pay \$4 less per month if they meet specific guidelines.

MinnesotaCare II – Families with children under age 21 enrolled in MinnesotaCare II that meet guidelines for well-child visits and immunizations would receive \$50 per child in a bonus

account. Funds in the bonus account could be used for out-of-pocket health care expenditures. A family would be able to receive a maximum of \$150 per year.

Health Information Technology: The governor's proposal would move the state toward the adoption of interoperable electronic medical records and personal health record systems. Additionally, the governor would encourage administrative uniformity and simplification across health plans by streamlining Minnesota's billing and coding systems.

BUDGET ESTIMATES

The governor estimates that the proposal will cost the state \$88 million over the next two years. The initial setup of pre-tax Section 125 accounts will cost employers approximately \$300 per account. The state estimates that employers would realize some savings by not paying payroll taxes on the amounts that employees defer into these accounts.

The proposal did not address any modifications to MinnesotaCare funding. The current MinnesotaCare program is funded by enrollee premium payments, an existing provider tax, and federal and state Medicaid funding.

NEXT STEPS FOR IMPLEMENTATION

The Minnesota legislature has not yet approved the governor's proposal and it is not yet clear whether it will. The only portion of the plan that currently has unanimous support is the implementation of a uniform billing system for private plans.

SOURCES

<http://www.governor.state.mn.us/mediacenter/pressreleases/PROD007915.html>.

http://www.budget.state.mn.us/budget/operating/200809/gov_ci/health_ci.pdf.

¹ Internal Revenue Code Section 125 makes it possible for employers to offer their employees a choice between cash salary and a variety of nontaxable benefits (qualified benefits). A qualified benefit includes health care, vision and dental care, group-term life insurance, disability insurance, adoption assistance and certain other benefits (Internal Revenue Service, 2007). These plans also are called cafeteria plans.

² Minnesota's Medicaid program only covers children up to 19 years old and 275 percent FPL.

³ Individuals must be uninsured for at least four months and must not have access to subsidized employer-sponsored insurance within the last 18 months where the employer pays for at least half of the premium cost.

⁴ A Section 1115 Medicaid waiver permits the state to use some federal Medicaid and SCHIP funding for the MinnesotaCare program. Source - SAMSHA Fact Sheet, Mental Health and Substance Abuse Services in Medicaid and SCHIP in Minnesota, July 2003. Available at

http://mentalhealth.samhsa.gov/Publications/allpubs/State_Med/Minnesota.pdf.

⁵ Families enrolled in MinnesotaCare must contribute a fixed percentage of gross family income for coverage. The percentage ranges from 1.5 percent for the lowest income families to 8.8 percent for families at the upper end of the income scale. Children in families with income at or below 150 percent of FPL who have elected to participate in the MinnesotaCare program rather than Medicaid, however, pay a minimum premium of \$4 per month per child (NASHP, 1998).