



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #394

BadgerCare Premiums (Health and Family Services -- Health Care Financing -- Payments, Services, and Eligibility)

[LFB 2003-05 Budget Summary: Page 223, #20]

CURRENT LAW

BadgerCare provides health care services to individuals who are not eligible for medical assistance (MA) in low-income families with dependent children and who meet certain nonfinancial eligibility criteria. Individuals can meet the financial eligibility criteria if their countable family income does not exceed 185% of the federal poverty level (FPL) and can remain enrolled if their countable family income increases up to 200% of the FPL. In 2003, 185% of the FPL is equal to \$28,231 annually for a family of three.

Families with individuals enrolled in BadgerCare that have countable income that exceeds 150% of the FPL are required to pay a monthly premium as a condition of participation. The current premium schedule, which is promulgated by rule, requires families to pay premiums that equal no more than 3% of a family's monthly income, regardless of the number of individuals in the family that are enrolled in BadgerCare. The statutes specify a procedure under which the Joint Committee on Finance can increase the premiums to up to 3.5% of the family's income. In 2003, 150% of the FPL is equal to \$22,890 annually for a family of three.

As of the end of March, 2003, there were approximately 9,800 adults and 8,200 children enrolled in BadgerCare that were in families with income that exceeded 150% of the FPL and were therefore subject to premium requirements. The average premium paid per family is currently approximately \$60 per month.

BadgerCare benefits are paid with: (a) GPR; (b) federal funds, including federal MA matching funds and funds the state receives under the state children's health insurance program (SCHIP); (c) program revenue, which is revenue from premiums; and (d) segregated funding from the MA trust fund. PR from the premiums paid by BadgerCare enrollees are used to offset

both GPR and federal funding proportionately (29% GPR/71% FED). BadgerCare operates under waivers of both federal MA and SCHIP laws.

GOVERNOR

Reduce BadgerCare benefits funding by \$1,395,300 (-\$406,200 GPR and -\$989,100 FED) in 2003-04 and by \$2,764,400 (-\$804,700 GPR and -\$1,959,700 FED) in 2004-05 and increase funding by \$1,395,200 PR in 2003-04 and \$2,764,400 PR in 2004-05 to reflect the net effect of increasing BadgerCare premiums to 5% of the family's income, beginning January 1, 2004. The additional premium revenue would replace current state and federal funding budgeted for benefits.

Beginning January 1, 2004, prohibit DHFS from establishing a premium schedule that would require a family or child participating in BadgerCare with income above 150% of the FPL to contribute more than 5% of the child or family's income towards the cost of care under BadgerCare. Delete the current statutory provisions that authorizes DHFS to establish a premium schedule that would require families to contribute no more than 3% of the family's income towards the cost of care under BadgerCare, or 3.5% of the child's or family's income if approved by the Joint Committee on Finance under a 14-day passive approval process.

DISCUSSION POINTS

1. The current waivers under which BadgerCare operates permit the state to assess families enrolled in BadgerCare with income over 150% of the FPL premiums that equal up to 5% of the family's income. Consequently, DHFS would not need to renegotiate the terms of the waivers to implement the Governor's proposal. This provision would increase the average premium paid by families from \$60 per month to \$100 per month.

2. If the Governor's proposal were adopted, the premiums paid by BadgerCare enrollees would be more similar to the premiums other working families pay for private health insurance coverage. The Kaiser Family Foundation's Employer Health Benefits: 2002 Annual Survey indicates that, nationally, the average monthly worker contribution for family health care coverage increased from \$150 per month in 2001 to \$174 per month in 2002, a 16% increase.

3. Increasing employee cost-sharing for health care coverage is a national trend that employers are using to partially offset increasing health care costs. In October, 2001, Harris Interactive, a health care research firm, indicated that 75% of employers surveyed planned to increase the premiums they require their employees to pay as a way to support employers' increasing health care costs.

4. It is currently estimated that, if implemented, the Governor's proposal would reduce BadgerCare benefits costs by \$918,600 GPR and \$2,271,000 FED in 2003-04 and \$1,618,000 GPR and \$3,999,900 FED in 2004-05. Additionally, PR funding would increase by \$1,530,000 in 2003-

04 and \$2,764,400 in 2004-05. These estimates are based on the current projected costs of BadgerCare in the 2003-05 biennium, rather than projections which are reflected in SB 44. The primary difference between the current estimate and the SB 44 estimate is that the current estimate assumes higher enrollments.

5. In estimating the fiscal effect of the premium increase, the administration did not assume that the higher premiums would affect enrollment in the program. Senate Bill 44 assumes that families that currently participate in BadgerCare and are required to pay a premium have already demonstrated a willingness to pay for BadgerCare and, therefore, their participation would not be affected by an increase in the premium.

6. However, research suggests that there is a correlation between the amount of premiums families are required to pay and their participation in a health care program for low-income families. According to the Kaiser Commission on Medicaid and the Uninsured, based on a review of three states' health care programs for low-income families, the greater the required premium as a percent of a family's income, the less families are likely to participate in those states' programs. This review found that participation in these state's programs declined from 57% to 18% of eligible families as premiums rose from 1% of income to 5% of income.

7. Further, families enrolled in BadgerCare have less of an ability to pay for health care coverage than families that do not meet the BadgerCare income eligibility criterion. In 2002, an average of 853 individuals per month lost BadgerCare coverage due to the family's failure to pay the monthly premium. These individuals cannot reenroll in BadgerCare for at least six consecutive calendar months unless the reason for failure to pay the premium are due to circumstances outside of the family's control, such as a problem with an employer's wage withholding or a bank transfer, or the family experienced a significant change in household composition, such as a parent or parent's spouse no longer resides in the home. The Governor's proposal to increase premiums would likely increase the number of families that are disenrolled because they did not pay the required premium.

8. Based on these considerations, it may be reasonable to assume an enrollment effect on the Governor's proposal to increase premiums. For example, it could be assumed that the Governor's proposal would reduce the average number of individuals enrolled in BadgerCare by approximately 950 in 2003-04 and approximately 1,200 in 2004-05. This adjustment would increase the projected savings of the Governor's proposal to increase premiums.

9. The primary argument against the Governor's proposal is that, by shifting a greater share of the costs of the program to enrollees, the state's GPR savings represent only 29% of the additional costs that would be borne by families enrolled in the program because benefits costs for this group of BadgerCare enrollees is funded on a 29% GPR/71% basis. In other words, if a family's premiums increase \$40, from \$60 to \$100 per month, state costs would be reduced by \$11.60 ($\40×0.29) per month and federal costs would be reduced by \$28.40 ($\40×0.71) per month.

10. Alternatively, the Committee could increase premiums from 3% to 4% of family income, which would represent a 33% increase from the current schedule. It is estimated that the average premium would increase to \$80 per month under this alternative.

It is estimated that this alternative would decrease BadgerCare costs by \$53,100 GPR, \$146,300 FED, and \$630,200 PR in 2003-04 and \$4,300 GPR, \$40,300 FED, and \$1,058,400 PR in 2004-05 compared with the amounts in the bill. Under this alternative, it is estimated that projected BadgerCare enrollment would decrease by approximately 470 individuals in 2003-04 and approximately 610 individuals in 2004-05.

11. The following table shows the current premium schedule based on 3% of family income and the premium schedule based on 4% and 5% of family income.

**BadgerCare Monthly Premium Schedules
For Families with Income Above 150% of the FPL**

Minimum Monthly Family Income	3% of Income		4% of Income		5% of Income Governor	
	Current Monthly Premium		Monthly Premium	Increase	Monthly Premium	Increase
\$1,000	\$30		\$40	\$10	\$50	\$20
1,500	45		60	15	75	30
2,000	60		80	20	100	40
2,500	75		100	25	125	50
3,000	90		120	30	150	60
3,500	105		140	35	175	70
4,000	120		160	40	200	80
4,500	135		180	45	225	90
5,000	150		200	50	250	100

ALTERNATIVES

1. Approve the Governor's recommendations, as reestimated, by decreasing BadgerCare benefits funding by \$512,400 GPR and \$1,281,900 FED in 2003-04 and \$813,300 GPR and \$2,040,200 FED in 2004-05 and increasing PR by \$134,800 in 2003-04 and \$647,500 in 2004-05.

<u>Alternative 1</u>	<u>GPR</u>	<u>FED</u>	<u>PR</u>	<u>TOTAL</u>
2003-05 REVENUE (Change to Bill)	\$0	\$0	\$782,300	\$782,300
2003-05 FUNDING (Change to Bill)	-\$1,325,700	-\$3,322,100	\$782,300	-\$3,865,500

2. Modify the Governor's recommendations by requiring DHFS to base BadgerCare premiums on 4% of the family's income, effective January 1, 2004. Decrease BadgerCare benefits funding by \$53,100 GPR, \$146,300 FED, and \$630,200 PR in 2003-04 and \$4,300 GPR, \$40,300 FED, and \$1,058,400 PR in 2004-05.

<u>Alternative 2</u>	<u>GPR</u>	<u>FED</u>	<u>PR</u>	<u>TOTAL</u>
2003-05 REVENUE (Change to Bill)	\$0	\$0	-\$1,688,600	-\$1,688,600
2003-05 FUNDING (Change to Bill)	-\$57,400	-\$186,600	-\$1,688,600	-\$1,932,600

3. Delete provision.

<u>Alternative 3</u>	<u>GPR</u>	<u>FED</u>	<u>PR</u>	<u>TOTAL</u>
2003-05 REVENUE (Change to Bill)	\$0	\$0	-\$4,159,600	-\$4,159,600
2003-05 FUNDING (Change to Bill)	\$1,210,900	\$2,948,800	-\$4,159,600	\$100

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