



The Impact of Insuring 500,000 Georgians Previously Uninsured

By
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A. Introduction

On May 7, 2008, Governor Perdue signed into law HB 977 and SB 383 passed by the 2008 Georgia General Assembly. HB 977 and SB 383 embodied most of the recommendations contained in a report developed by the Georgia Uninsured Work Group (WG). The WG recommendations and the subsequent legislation have the potential to insure as many as 500,000 of Georgia’s 1.7 million uninsureds.

In Georgia, over 500,000 uninsured have a family income of greater than \$50,000. There are an estimated 782,000 families with incomes over two times the Federal Poverty Level (FPL).

Ga. Household Income	% of Uninsured	Est. # of Georgians
Over \$100,000	9%	153,000
\$75k - \$100,000	7%	119,000
\$50k - \$75,000	14%	238,000
\$25k – \$49,999	31%	527,000
Below \$25,000	39%	663,000

**510,000 with
Income
over \$50,000**

The WG recommendations target the segments of the uninsured population who need and can afford insurance but choose not to purchase coverage. The WG believes that a substantial portion of those electing to be uninsured do not find the current products responsive to their needs. HB 977 allows more affordable HSA eligible policies by permitting flexible rewards and/or incentives for healthy behaviors, eliminating unnecessary state and local premium taxes, and allowing more flexibility in plan designs that establish health savings accounts.

Uninsured Georgians By Segment		
	Percent	Estimated Number
1. Uninsured Not Needing Financial Assistance	30%	510,000
2. Uninsureds Needing Financial Assistance	35%	595,000
3. Uninsureds Eligible for Gov’t Programs	20%	340,000
4. The Uninsurables	15%	255,000

	100%	1,700,000
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B. Impact of HB 977 by Targeted Market Segment

The desire of the WG is to address all uninsureds. The WG determined that segments #1 and #2 above were the largest targets with over 1.1 million lives. The segments represented areas where consensus solutions could potentially reach more than 500,000 uninsured Georgians, or about one-third (1/3) of the state's uninsureds. Segment #1 can afford insurance, but many find the products available unresponsive to their needs. Developing better products for segment #1 with alternative methods of affordability will reach many in segment #2.

The WG felt that initial consensus of free-market solutions for these segments would establish a strong basis for addressing all uninsureds. The WG plans to stay intact beyond the 2008 General Assembly to continue the development of free-market solutions that assure access to quality care and affordable insurance for all Georgians.

Most of the original WG recommendations were embodied in H.B. 977 which targets changes in three major market segments to reach the insurance needs of the working poor:

1. **Employers with Group Plans:** Less than 35% of employers with fewer than 10 employees even offer group insurance to their employees. HB 977 provides the following improvements to reach working uninsureds whose employers are willing to establish an HSA eligible plan:
 - a. Flexible HSA eligible plan designs
 - b. HSA rewards and incentives
 - c. Elimination of state and local premium taxes on HSA eligible plans
 - d. \$250 per enrollee "Small Group Tax Credit" (plans with 50 or fewer ees)

2. **Employers without Group Plans:** Many small employers do want the hassle and expense of establishing a formal group insurance plan, but are willing to contribute towards employee purchases of healthcare services and/or an individual health insurance policies. The WG supports an approach allowed under Georgia law of using tax advantaged Health Reimbursement Arrangements (HRAs) to create a Defined Contribution (DC) model for the employer contributions towards insurance. The benefits of HB 977 when combined with an HSA eligible plan include:
 - a. Employer contributions through an HRA only DC model are tax deductible business expenses for employers when the HA allocation is used to pay for the purchase of medical care services and/or used to purchase health insurance.
 - b. HRA allocations are tax free dollars to the employee for paying medical care costs and/or purchasing health insurance.
 - c. Flexible HSA eligible plan designs
 - d. HSA rewards and incentives
 - d. Elimination of state and local premium taxes on HSA eligible plans.
 - e. Georgia income tax deduction for the purchase of individual HSA eligible plans (any HDHP premiums not funded by tax advantaged HRAs).

3. **Individual Health Plans** - Fewer than five percent (5%) of policies sold in Georgia are sold on an individual policy basis. Individually purchased health insurance is independent of the employer and not subject to loss of coverage with a change in employers. Twenty percent (20 %) of uninsured are between jobs and can not afford the extension of employer coverage with expensive COBRA rates, but could purchase an affordable individual HSA eligible plan as allowed under HB 977 with the following advantages:

- a. Flexible HSA Designs,
- b. HSA rewards and incentives,
- c. Elimination of state and local premium taxes on HSA eligible plans.
- d. Georgia income tax deduction for the purchase of individual HSA eligible plans

C. Saving Lives of Fellow Georgians

According to the Institute of Medicine (IOM) 18,000 people die every year because they are uninsured. With more than 1.7 million uninsureds, Georgia’s share of those unnecessary deaths totals more than 450 people every year. The Institute of Medicine estimates that uninsured adults have a 25% greater rate of dying than adults with insurance. Uninsured trauma victims are less likely to be admitted to the hospital or receive the full range of needed services. They are 37% more likely to die of their injuries.

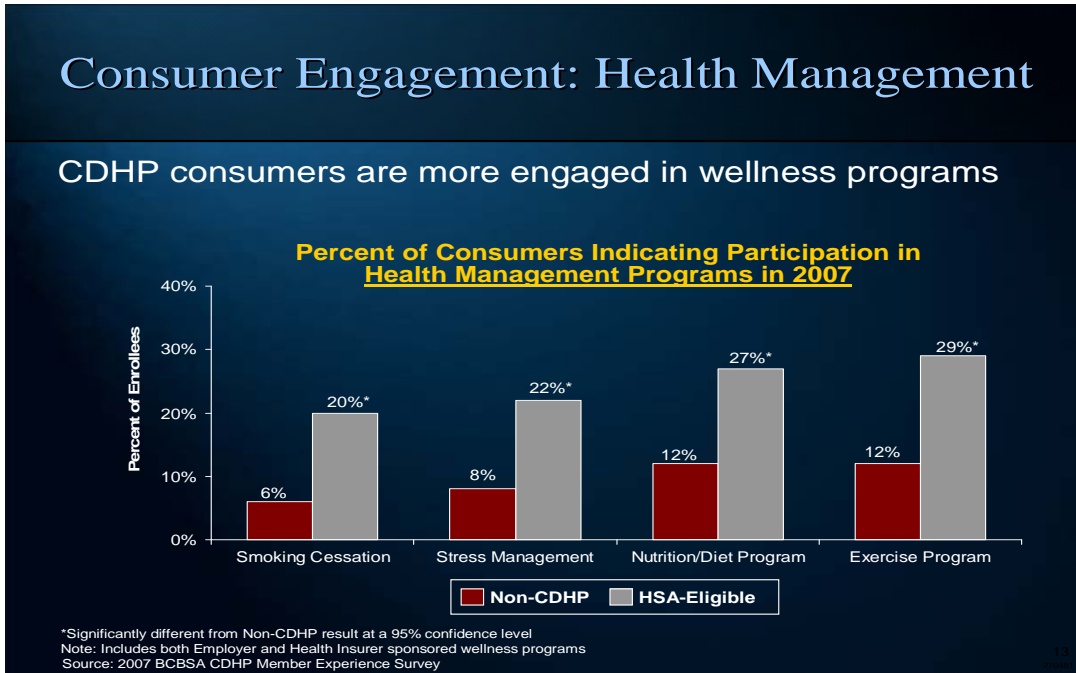
Insuring Georgian’s who would otherwise be without coverage saves lives. The cumulative effect of insuring an additional 500,000 Georgians over the next five years will save the life of 396 Georgia citizens.

Previously Uninsured - Private Market Insurance Payments to Hospitals			
Year	Payments from New Covered Lives	Total Annual Payments to Hospitals	Cumulative Payments to Hospitals
1	21	21	21
2	21	39	60
3	32	63	123
4	54	104	227
5	86	169	396

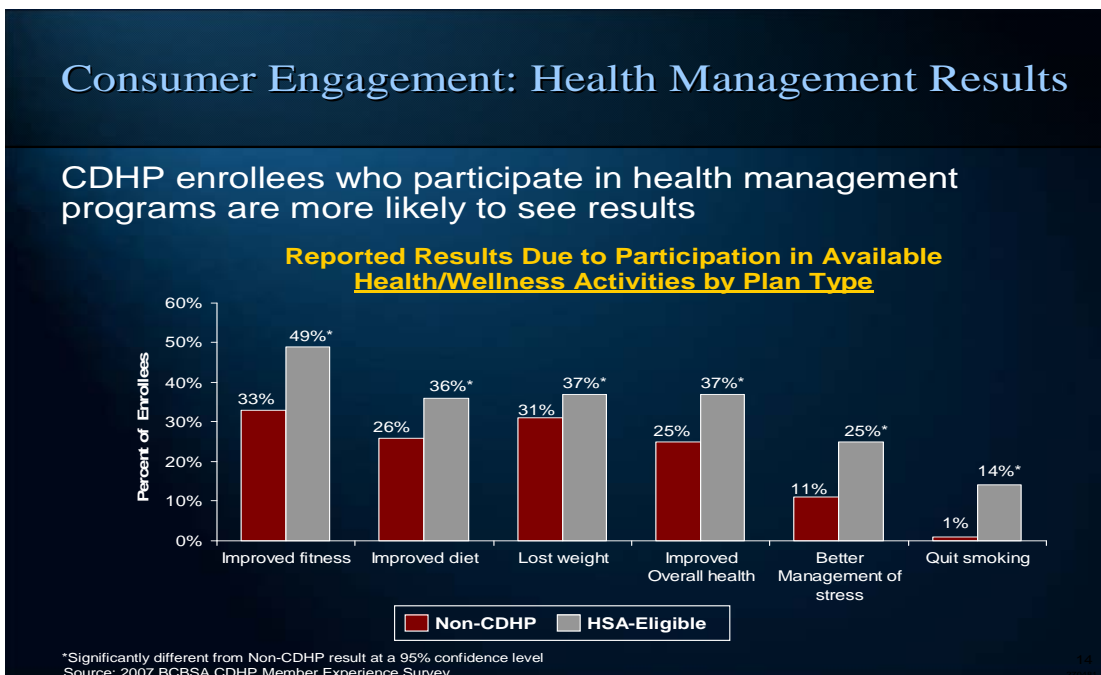
D. Improving the Health of Georgians

The Institute of Medicine studies prove the value of insurance. Insurance means access to coverage, access to coverage means access to treatments, and access to treatments means better health. The IOM reports that uninsured children are 70% more likely to go without care for common childhood conditions such as asthma, ear infections, and sore throats. The uninsured are 33% less likely to get a routine physical examination and 25% less likely to visit a doctor for an illness. Uninsured women are 36% less likely to get a pap smear and 60% less likely to get a mammogram. Uninsured men are 40% less likely to get a prostate examination.

HSA eligible plans have an even better record than traditional insurance in helping individuals to better health and healthier lifestyles. According to the BlueCross BlueShield Association, consumers with HSA eligible plans are more engaged in wellness programs.



The BlueCross BlueShield Association studies also show consumers engaged in health management programs achieve better results with HSA eligible plans. Improvement in results are shown below in areas such as improved fitness, improved diet, lost weight, better stress management, and smoking cessation. Overall health improvement increased nearly 50%, from 25% of the population under traditional insurance to 37% under HSA eligible plans.



E. The Economics of Adding 500,000 Insured Lives

The following basic assumptions underlie the analysis of HB 977. The WG recognizes that it may take up to five years to fully and optimally implement the potential of HB 977. Each year it is assumed that 20% of the renewal population lapses coverage previously purchased and enrolls in government programs (Medicare, Medicaid, SCHIP), no longer needs insurance (dies), or decides to become uninsured.

New Lives Insured from HB 977 and HSA Eligible Plans					
Year	Annual Sales	Cumulative Sales		Assumed Lapses	Net Cumulative Lives Insured
1	50,000	50,000		20%	50,000
2	50,000	100,000		20%	90,000
3	75,000	175,000		20%	147,000
4	125,000	300,000		20%	242,600
5	200,000	500,000		20%	394,000

The following analysis uses the below profile of HSA eligible plan premiums and sales:

Premium Estimates and Allocation of Sales by Market Segment						
	Indiv & <=10 Ees		11-25 Ees		26+ Ees	
	Single	Family	Single	Family	Single	Family
HDHP Mo. Premium	\$231	\$605	\$209	\$550	\$201	\$525
Split Single vs Fam	75%	25%	75%	25%	75%	25%
New Sales by Segment	47%		31%		22%	

Other assumptions include a medical trend of 6% applied each year to HSA eligible premiums. Projections are made only over the first 5 years of implementing HB 977. No additional changes to legislation are assumed, and no hindering legislation is presumed to halt or slow the process of implementing the initial WH recommendations.

1. Increased Economic Benefit to the State of Georgia

Helping 500,000 Georgia's afford health insurance has multiple economic benefits to the State of Georgia. Over a five year period, the cumulative economic gain to Georgia is in excess of \$3.5 billion.

The ripple effects of being uninsured and having poor health are felt throughout society. Uninsured children have impaired development and poor school performance. Uninsured adults have more absences from work, more unscheduled sick days, and greater rates of disability. The 2004 Kaiser Family Foundation study found the societal costs of the uninsured to be \$125 billion. Regardless of how one views the issue, the cost to society is high. Without insurance - the health, lives, and financial security of families are at extreme risk.

The economic impact of 500,000 new insured lives will return to the state added corporate tax revenue from increased profits, individual tax revenue from higher salaries generated by more productive employees, and lower state subsidized healthcare costs.

Previously Uninsured – Economic Value to the State of Georgia			
Year	Economic Benefit from New Covered Lives	Total Annual Economic Benefit to Georgia	Cumulative Economic Benefit to Georgia
1	\$193,250,000	\$193,250,000	\$193,250,000
2	\$193,250,000	\$347,850,000	\$541,100,000
3	\$289,875,000	\$568,155,000	\$1,109,255,000
4	\$483,125,000	\$937,649,000	\$2,046,904,000
5	\$773,000,000	\$1,523,119,200	\$3,570,023,200

Without insurance the cost of care for the uninsured is paid through state indigent care funds, uncompensated care funds, subsidized by other paying customers (government and private plans), provided pro bono (no charges by hospital and physicians), given by the Georgia Free Clinics (volunteer free care), serviced by public agencies (e.g. county health departments), or paid out of pocket by the uninsured. In many cases, the uninsured go without care or wait until costly emergency room services are needed.

2. Business Revenue Impact

Health and healthcare are some of the largest business enterprises in the state. Healthcare expenditures represent \$2.1 trillion dollars in national GDP. About one-half of these dollars are paid with government funds. HB 977 shifts funding of the 500,000 uninsured from inadequate government subsidies for “free” care to comprehensive private market policies. With the WG recommendations to reach 500,000 uninsured with private health insurance, \$3.8 billion private insurance dollars are brought into Georgia’s healthcare economic system. This helps reduce the costs from government programs such as, the indigent care trust fund, the uncompensated care fund, and other publicly tax funded agency services.

Insurance premiums paid to cover the previously uninsured represent new private market revenues to insurers. Insurers act as distribution centers to pay others for medical services provided to the insured.

Previously Uninsured – Total Private Market Insurance Revenues			
Year	Premiums from New Covered Lives	Total Annual Premiums	Cumulative Insurance Premiums
1	\$183,490,072	\$183,481,200	\$183,481,200
2	\$194,481,200	\$341,275,032	\$524,756,232
3	\$309,239,214	\$582,259,240	\$1,107,015,472
4	\$546,322,612	\$1,012,130,004	\$2,119,145,476
5	\$926,563,150	\$1,736,267,154	\$3,855,412,630

3. The Distribution of Insurance Premiums for Medical Services

Private insurance premiums are used to pay for medical services provided by hospitals, physicians, and other healthcare providers. Insurance premiums also cover the cost of prescription drugs, equipment needs, home healthcare, hospice, and other covered expenses. In addition, insurance premiums cover the costs of administering the plan (e.g. paying claims), providing medical information (e.g. physician directories, cost and quality reporting), and assistance through health and condition management programs (e.g. nurse lines, disease management coaches).

Privately purchased insurance pays commissions to insurance agents, who assist policyholders with understanding their plan options, costs, claim procedures, appeals processes, and provide other insurance support services. The assumed distribution of funds or the allocation of private insurance premiums to others is as follows:

Estimated Use of Private Market Insurance Premiums	
Segment	Percentage
Hospitals	26%
Physicians (Primary Care & Specialties)	18%
Other Provider Services (e.g. PT, Chiro, MH)	9%
Skilled Nursing & Home Health	1%
Prescription Drugs	16%
Administration	25%
Other (Medical Products & Services)	5%
Total	100%

The economic impact of covering 500,000 new lives over the course of 5 years is contained in the following tables.

4. Increased Private Market Payments for Hospitalizations

HSA eligible plans cover medical costs and hospital costs up to the policy maximums (usually \$2-5 million). Under HSA eligible plans an individual's maximum out-of-pocket limit in 2008 is \$5,600 (including any deductible). Without the expanded coverage recommended by the WG, hospitals suffering from high uncompensated care costs must otherwise shift those costs to insured employer plans. 500,000 new insureds over five years will help local hospitals with over \$1B in new insurance payments.

Previously Uninsured - Private Market Insurance Payments to Hospitals			
Year	Payments from New Covered Lives	Total Annual Payments to Hospitals	Cumulative Payments to Hospitals
1	\$47,705,112	\$47,705,112	\$47,705,112
2	\$50,567,419	\$88,731,508	\$136,436,620
3	\$80,402,196	\$151,387,402	\$287,824,023
4	\$142,043,879	\$263,153,801	\$550,977,824
5	\$240,906,419	\$451,429,460	\$1,002,407,284

5. Increased Private Market Payments for Physician Services

HSA eligible plans generally provide coverage for all physician office visits and services. 84% of HSA eligible plans provide prevention and screening coverage at 100%. HB 977 will allow added first dollar HSA amounts for use in paying any deductible and coinsurance. By covering 500,000 otherwise uninsureds over five years, physicians will receive about \$700 million in new private market reimbursements.

Previously Uninsured - Private Market Insurance Payments to Physicians			
Year	Payments from New Covered Lives	Total Annual Payments to Physicians	Cumulative Payments to Physicians
1	\$33,036,616	\$33,026,616	\$33,026,616
2	\$35,008,213	\$61,429,506	\$94,456,122
3	\$55,663,059	\$104,806,663	\$199,262,785
4	\$98,338,070	\$182,183,401	\$381,446,186
5	\$166,781,367	\$312,528,088	\$693,974,273

6. Increased Private Market Payments for Other Providers

Other providers include ambulatory surgery, emergency rooms, physical therapists, chiropractors, podiatrists, DOs, psychologists, and other medical and clinical service providers.

Previously Uninsured - Private Market Insurance Payments to Other Providers			
Year	Payments from New Covered Lives	Total Annual Payments to Other Providers	Cumulative Payments to Other Providers
1	\$16,513,308	\$16,513,308	\$16,513,308
2	\$17,504,106	\$30,714,753	\$47,228,061
3	\$27,831,529	\$52,403,332	\$99,631,392
4	\$49,169,035	\$91,091,700	\$190,723,093
5	\$83,390,684	\$156,264,044	\$346,987,137

7. Increased Private Market Payments for Skilled Nursing and Home Health Providers

This category of payments includes skilled nursing facilities, home health providers, hospice care services, and other miscellaneous payments.

Previously Uninsured - Private Market Insurance Payments to SNH & HH Providers			
Year	Payments from New Covered Lives	Total Annual Payments to SNH & HH Providers	Cumulative Payments to SNH & HH Providers
1	\$1,834,812	\$1,834,812	\$1,834,812
2	\$1,944,901	\$3,412,750	\$5,247,562
3	\$3,092,292	\$5,822,592	\$11,070,155
4	\$5,463,226	\$10,121,300	\$21,191,455
5	\$9,265,632	\$17,362,672	\$38,554,126

8. Increased Private Market Payments for Prescription Medicines

HSA eligible plans cover the use of prescription medicines. Plans allowed by HB 977 will provide HSA account additions for wellness and illness treatment compliance. These additional HSA contributions will allow chronic condition patients needing medications to better afford covered prescription drugs. Without the reward and compliance additions to HSAs allowed under HB 977, the cost of prescription drugs for HSA eligible plans would more likely be paid during the deductible gap with out-of-pocket payment responsibility by the patient. HB 977 can dramatically improve the prescription drug payment coverage.

Previously Uninsured - Private Market Insurance Payments for Prescription Medicines			
Year	Payments from New Covered Lives	Total Annual Payments for Prescription Medicines	Cumulative Payments For Prescription Medicines
1	\$29,356,992	\$29,356,992	\$29,356,992
2	\$31,118,412	\$54,604,005	\$83,960,997
3	\$49,478,274	\$93,161,478	\$177,122,476
4	\$87,411,618	\$161,940,801	\$339,063,276
5	\$148,250,104	\$277,802,745	\$616,866,021

9. Increased Private Market Payments for Other Medical Products & Services

Other medical products and services include durable medical equipment, prosthetics, crutches, and medical supplies.

Previously Uninsured - Private Market Insurance Payments for Other Medical Products & Services			
Year	Payments from New Covered Lives	Total Annual Payments for Other Medical Products	Cumulative Payments For Other Medical Products
1	\$9,174,060	\$9,174,060	\$9,174,060
2	\$9,724,504	\$17,063,752	\$26,237,812
3	\$15,461,961	\$29,112,962	\$55,350,774
4	\$27,316,131	\$50,606,500	\$105,957,274
5	\$46,328,158	\$86,813,358	\$192,770,632

10. Increased Private Market Payments for Insurance Services
(Excludes Agent Commissions & Insurance Profits)

Insurance operating expenses include employee salaries, benefit costs, office expenses, processing expenses, billing costs, marketing support, advertising, etc.

Previously Uninsured - Private Market Insurance Payments for Insurance Services (Excl Agent Commissions & Profits)			
Year	Payments from New Covered Lives	Total Annual Payments for Insurance Services	Cumulative Payments For Insurance Services
1	\$27,522,180	\$27,522,180	\$27,522,180
2	\$29,173,511	\$51,191,255	\$78,713,435
3	\$46,385,882	\$87,338,886	\$166,052,321
4	\$81,948,392	\$151,819,501	\$317,871,821
5	\$138,984,473	\$260,440,073	\$578,311,895

11. Increased Private Market Payments for Insurance Agent Services

Agents provide the valuable link between consumer and an insurance sale. Agents provide information on costs, plan options, financial advice of plan designs, types of covered benefits, and assistance with claims, appeals, and other insurance product support. Commissions are estimated as a level five percent of the premium for all years. In some cases, first commissions are higher than renewal commissions. Agent commissions are paid only on the insurance portion of an HSA eligible plan.

Previously Uninsured - Private Market Insurance Payments for Insurance Agent Services			
Year	Payments from New Covered Lives	Total Annual Payments for Insurance Agent Services	Cumulative Payments For Insurance Agent Services
1	\$9,194,060	\$9,174,060	\$9,174,060
2	\$9,724,504	\$17,063,752	\$26,237,812
3	\$15,461,961	\$29,112,962	\$55,350,774
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12. Increased Private Market Payments for Insurance Risk Profits

When selling insured products a carrier takes a business risk that the premiums charged are adequate for the coverage sold and the insured will retain the contract for a period of years. The insurer is at risk for increased medical reimbursement costs, higher charges from improved treatment technologies, new medications, and disease epidemics. Insurers must invest in new processing equipment, greater service support capabilities, and expanded marketing efforts. The assumption below is that carriers will charge an average five percent (5%) of insurance premiums to cover the insurance risk they assume.

Previously Uninsured - Private Market Insurance Payments for Insurance Risk Profits			
Year	Payments from New Covered Lives	Total Annual Payments for Insurance Risk Profits	Cumulative Payments For Insurance Risk Profits
1	\$9,194,060	\$9,174,060	\$9,174,060
2	\$9,724,504	\$17,063,752	\$26,237,812
3	\$15,461,961	\$29,112,962	\$55,350,774
4	\$27,316,131	\$50,606,500	\$105,957,274
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F. Conclusion

The economic and social benefits of removing 500,000 Georgians from the ranks of uninsured will have tremendous benefits across the board. The Center for Health Transformation believes in “Saving Lives and Savings Money.” Saving lives and improving the health Georgians is the critical value demanding the implementation of the WG’s recommendations.

The economic gains to the state are outlined above, but do not count in traditional legislative fiscal notes. Increased corporate profits and taxable salary gains from a healthier and more productive work force do not enter into fiscal economic calculations. The potential importance of HB 977 is dramatic when considering the social and business impacts above.

The WG will continue to meet with dedicated effort, a spirit of collaboration and an expanded circle of interested parties to find additional solutions to assure market-based insurance for all Georgians. HB 977 is the first step in addressing Georgia uninsured population. The WG members are prepared to aggressively work to design, market, and collaborate on introducing products and services using the flexibilities provided by HB 977. The WG will develop equally creative and impactful ideas for future legislative recommendations and market development ideas.

Ronald E. Bachman FSA, MAAA is a Senior Fellow at the Center for Health Transformation, an organization founded by former U.S. House Speaker Newt Gingrich. Nothing written here is to be construed as necessarily reflecting the views of the Center for Health Transformation or as an attempt to aid or hinder the passage of any bill before any state legislature or the U.S. Congress.