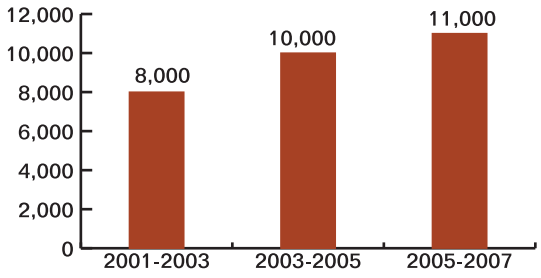
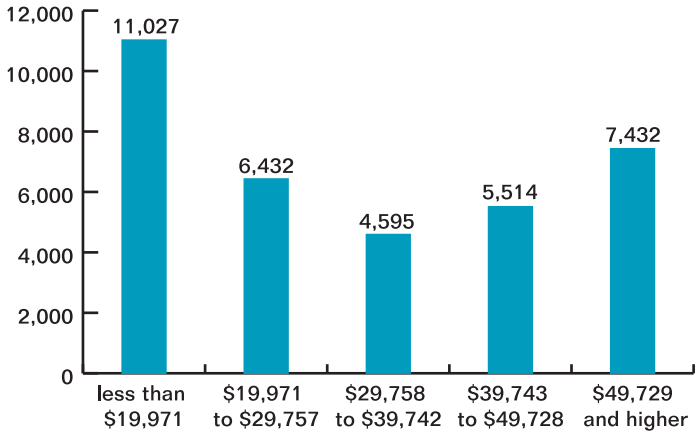
Figure 1
Number of Uninsured Montana Children Under 19 Years of Age Below the Poverty Level



Sources: U.S. Census Bureau and Annie E. Casey Foundation, www.aecf.org.

Figure 2
Number of Uninsured Montana Children Under 19 Years of Age by Annual Income Levels for a Family of Four, 2004-2006



Sources: U.S. Census Bureau; Annie E. Casey Foundation, www.aecf.org; and Congressional Research Service, www.loc.gov/crsinfo/

Economic Returns for Investing in Children's Health

by Steve Seninger

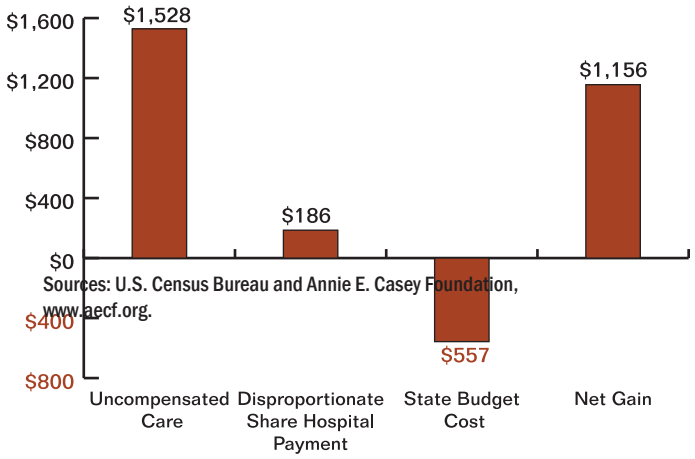
Montana's uninsured rate for children is one of the highest in the country, with 14 to 16 percent of the state's children lacking private or public health insurance. Despite a strong state economy, the rate of uninsured children has worsened in recent years. In addition, Montana is one of four states that does not provide Children's Health Insurance Program (CHIP) coverage to children above 175 percent of the federal poverty level and has the lowest income ceiling in the nation for covering kids under Medicaid. That translates to an unhealthy start for thousands of Montana children and hidden costs of $240 million for Montana providers, employers, and consumers.

Lack of health care access is particularly severe for low-income children below the federal poverty level– $21,200 for a family of four (Figure 1). But not all of the state's uninsured children come from low-income households. Almost 13,000 uninsured Montana children live in households with incomes above Montana's median income of $40,600 (Figure 2.)

Montana state government has initiated several responses to the state's high uninsured rate. Premium assistance and tax credits to small employers under the Insure Montana Program are designed to alleviate the health insurance premium cost squeeze confronting working parents. Montana's 2007 Legislature authorized increasing the poverty cutoff for CHIP from 150 percent to 175 percent of the federal poverty level and increased access to Medicaid for children. But these policy responses still leave 35,000 Montana children uninsured.

Children without regular health care are at a developmental, social, and educational disadvantage compared to those who see a doctor regularly or have a medical home. Healthy

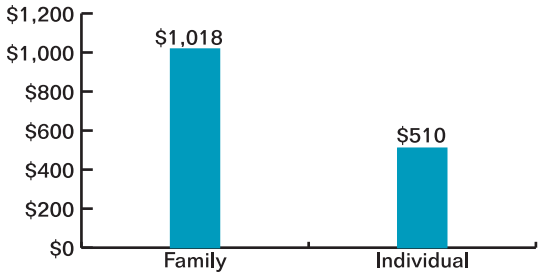
Figure 3
Projected Annual Savings and State Budget Cost s for Insuring More Montana Children, 2012



Sources: U.S. Census Bureau and Annie E. Casey Foundation, www.aecf.org.

Sources: Montana Kids Count, Bureau of Business and Economic Research, The University of Montana.

Figure 4
Projected Annual Cost Savings on Employer Health Insurance Premiums for Insuring More Montana Children, 2012



Sources: Montana Kids Count, Bureau of Business and Economic Research, The University of Montana.

children achieve better educational outcomes with a higher likelihood of becoming productive citizens prepared for work, public service, and overall life experiences.

A currently active proposal, the Healthy Montana Kids initiative, aims to provide health care coverage to many of Montana's uninsured children. The following economic analysis uses the initiative as a case study to determine the benefits and costs of insuring more of Montana's children.

Under Healthy Kids Montana, nearly 30,000 children would be added to public and private insurance programs. This approach would maintain a mix of government and employer-sponsored health insurance coverage, leaving 60 percent of insured kids covered by private insurance.

The Healthy Montana Kids initiative would increase the income eligibility level for CHIP to 250 percent of the federal poverty level, or $53,000 for a family of four. CHIP currently covers about 16,600 children now at an income-eligibility ceiling of 175 percent of the poverty level. Medicaid eligibility would also increase and help pay the costs of adding children to their parents' health insurance policy (if the family falls under the income ceiling). The CHIP and Medicaid expansions would cost the state about $20 million per year but would provide over $70 million per year in federal matching funds for health care because the federal government pays 80 percent of CHIP and 60 percent of Medicaid.

The initiative also calls for an active enrollment process that works with hospitals, schools, and others to enroll all eligible uninsured children.

Benefits and Cost Savings from Insuring More Children

Analysis of costs and benefits to Montana can be illustrated with the Healthy Montana Kids initiative. State budget costs along with federal match dollars coming into the Montana economy should be examined. It is also important to identify the difference between state budget spending for the initiative compared to the costs and additional spending that would occur if Montana children continue to be uninsured.

Every year, uncompensated health care costs the state's health care providers, employers, and consumers more than $240 million. Uncompensated care is medical care received but not fully paid for, either out-of-pocket by individuals or by a private or public insurance payer. A small percentage of this amount is covered by philanthropy and disproportionate share hospital payments (payments intended to offset losses hospitals incur when large shares of their patients are unable to pay their hospital bills). However, the bulk of this bill is paid by cost shifts onto consumers and employers through higher health insurance premiums (Hadley and Holahan).

Looking over the next several years to 2012, Montana's annual uncompensated care costs show a price tag of $1,528 for every one of the approximately 170,000 uninsured Montanans throughout the state. An additional $186 represents federal disproportionate share hospital payments to Montana providers based on the number of low-income patients the various institutions serve.

Cost savings from reducing uncompensated care by insuring more children can be related to Montana's CHIP cost per child. Cost and cost savings estimates are based on state fiscal year 2012 numbers in view of the initiative's timing, the potential actions by the Montana Legislature, and the anticipated changes in federal funding when a new national administration is in place after the November 2008 elections.

Projected costs from current baseline program numbers show a CHIP cost per child in 2012 of $2,535, with Montana's 20 percent share equal to $557 per child. These costs

Insuring more Montana children offers a positive economic payback of more than $2.50 to Montanans for every state $1 expended. ...

per child are compared to gains via net savings of $1,528 in uncompensated care costs per newly insured child and $186 savings on federal taxes for financing disproportionate share hospital payments to Montana, yielding a positive net gain per newly insured child of $1,156.

The net gains per newly insured child are significant, particularly when compared to the state budget costs of $557 per child. Such savings can be aggregated over the almost 30,000 newly insured children and compared to the state budget costs of covering these children.

These cost savings shown in Figure 3 also reduce the rate at which health insurance premiums rise through reductions in cost shifting of uncompensated care costs onto privately insured health care consumers. Through reducing the rate at which premiums increase, the cost savings' impact to employers and workers is shown in Figure 4. Allocating two-thirds of the savings to family plans and another one-third to employee-only coverage results in annual savings or premium reductions of $1,018 and $510, offering some cost relief to employers.

Insuring 30,000 more Montana children will reduce uncompensated care costs, leading to reductions in private health insurance premium growth of $510 per year for an individual policy and $1,018 per year for a family policy.

There are significant aggregate savings for all Montana shareholders when applying the newly- insured child savings in uncompensated care to the 30,000 kids who would now be covered. These annual savings include savings to employers of $25 million, $5 million in savings to households with private insurance and $12 million to state employee plans. Another $5 million in reduced federal taxes due to lower federal disproportionate share payments to Montana brings the total aggregate savings per year to $47 million.

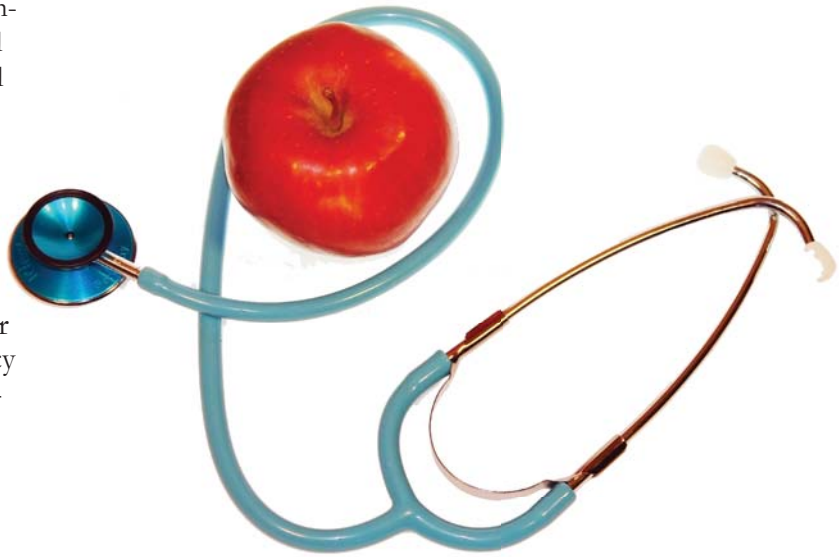
State Budget Costs

Two underlying factors that determine state budget costs are: 1) the number of uninsured children who would be enrolled and 2) the number of privately-insured children who are currently insured through their parents' employer-based or individually-purchased policy whose parents would drop them from their private coverage and transfer them to CHIP, Medicaid, or employer-based coverage at or below public coverage premium costs.

Transfer of coverage through substituting public for private insurance is often referred to as "crowd-out" when individuals move to a public program from private health insurance (employer-sponsored or private non-group insurance). State program data on transfer rates for CHIP are very different from some national statistical studies which vary widely based on the data used, the years examined, whether the focus is on children or adults, the modeling technique and the assumptions made (Blewett and Call).

Calculating the number of children who potentially might transfer from private health insurance to public coverage is of prime importance when analyzing the impact of any state health insurance reform on the state budget. Estimates of the transfer rate for Montana's CHIP program range from 7 percent to 25 percent. The higher-end estimate of 25 percent is based on survey data from recent enrollees in Montana's expansion of CHIP to the 175 percent federal poverty interval, while 7 percent is based on Montana fiscal year 2007 program data. An intermediate rate of 14 percent rate comes from U.S. Congressional Budget Office estimates for CHIP data for a number of states (Woodridge, et. al.)

The 14 percent transfer rate is a reasonable estimate, particularly in view of Montana's high percentage of self-employed workers and small-employer firms, both of which make affordable health insurance a major problem for Montana's uninsured children.



Using projected fiscal year 2012 CHIP costs per child ($2,535), a projected private insurance premium cost ($992) per child covered by the employer sponsored option (with one-half of the transfers going to this option) yields a total annual state budget cost of $20.3 million, with the experience-based transfer rate of 14 percent.

The annual state budget cost of $20.3 million brings in 30,000 uninsured kids and also allows for 8,000 currently insured children on employer-sponsored plans who are below the 250 percent federal poverty eligibility cutoff who may transfer from private coverage to the initiative program.

The annual $20.3 million state budget cost would be financed by an initiative-designated $20 million as a portion of Montana Insurance Licensing fees into a special revenue account.

Matching federal dollars of more than $70 million annually for the state money spent on newly insured kids in Medicaid and CHIP represent new outside spending into the state economy. This newly created outside spending has a multiplier effect on Montana labor income that, as a new element in the state's tax base, will generate another $5.5 million in state income tax revenues every year.

Summary

Insuring more Montana children offers a positive economic payback of more than $2.50 to Montanans for every state $1 expended, a rate of return that compliments other positive impacts of more health investment in the state's children. Other returns include better school performance with more than 20 percent gains on measures of attention and concentration in the classroom for CHIP- enrolled children compared to their performance before enrollment and on keeping up with school activities according to research by the Managed Risk Medical Insurance Board, 2002.❑

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