

Health Reform in the US

Summaries of State Legislation

Hawaii's Prepaid Health Care Act¹

What is it?

- A mandate requiring nearly all employers to provide health insurance to employees who work at least 20 hours a week for four consecutive weeks.
- Sets a minimum standard for benefits provided by employer sponsored insurance.
- Sets a maximum for employee contributions to health care premiums, based on income.
- Hawaii was given a special exception to the federal Employer Retirement Income Security Act (ERISA).

What it's not:

- Is not a publicly-managed or publicly-financed health insurance system, but operates through private insurers.
- Does not offer subsidies for insurance coverage.
- Does not cover part-timers, dependents, or the unemployed.

Year of enactment: 1974

California comparison:

- California enacted SB2 (Burton) which would have required large and medium employers to pay for coverage for all employees with more than 100 hours per month.
- SB2/Prop 72 was narrowly defeated in November 2004.

Details:

Employer Mandate: All businesses—except government services, seasonal employers, sole proprietors, and insurance and real estate employers who

HAWAII HEALTH CARE FACTS*

TOTAL POPULATION:	1,239,660
NUMBER OF UNINSURED:	116,460
PERCENT OF POPULATION THAT IS UNINSURED:	9%
PERCENT OF ADULT, NON-ELDERLY POPULATION WITH EMPLOYER-SPONSORED INSURANCE:	72%
AVERAGE EMPLOYER CONTRIBUTION TO FAMILY PREMIUM COST:	\$6,212
AVERAGE EMPLOYEE CONTRIBUTION TO FAMILY PREMIUM FOR EMPLOYER-BASED INSURANCE:	\$2,368
AVERAGE PERCENT OF PREMIUM COST PAID BY EMPLOYEE FOR FAMILY COVERAGE:	28%
FAMILY INCOME ELIGIBILITY FOR CHILDREN IN MEDICAID/SCHIP, AS PERCENTAGE OF FEDERAL POVERTY LEVEL:	200%
MEDICAID INCOME ELIGIBILITY FOR NON-ELDERLY, NON-DISABLED ADULTS, AS % OF FPL:	100%

*2004, Kaiser Family Foundation

pay solely on commission—are required to provide employer sponsored health insurance to all employees who work 20 or more hours a week for at least four consecutive weeks. Employers who do not insure their workers are charged \$1 per worker per day that they are uninsured in addition to any medical costs the workers incur.

Benefits: Employer sponsored health insurance benefits must be equal to those provided by the plan with the largest number of subscribers in Hawaii.

Cost to employees: Employee monthly contributions toward health insurance premiums cannot exceed 1.5% of the employee's monthly wages.

Cost to employers: Employers may cover the full cost of insurance premiums or may share the cost with their employees. Employers are required to contribute at least 50% of the premium cost for single coverage. If the remaining cost of the premium is more than 1.5% of the employee’s monthly wages, the employer must pay the difference. Employers who are covered by the act and have fewer than eight employees are entitled to subsidies from the Supplemental Fund to defray their costs.

Financing: There is no state subsidy involved in this plan and therefore no cost accruing to the state.

Hawaii’s State Health Insurance Program (SHIP): Offers bare-bones coverage for individuals whose incomes are too high to qualify them for Medicaid but who make less than 300% of the Federal Poverty Level (FPL).

ANALYSIS

Good Points:

- This was the first act of its kind in the country requiring employers to offer health insurance to their employees.
- Initially led to large decline in Hawaii’s uninsured population—at one point Hawaii led the nation in having the fewest uninsured residents.
Creates a large risk pool including many young, low-risk participants, thus keeping the overall cost of insurance low for everyone.
- Keeps insurance affordable for workers by capping their premium contribution according to their income.
- Levels the playing field for union employers by requiring all employers to offer health insurance. Because of this, the act appears to have had a positive impact on unionization in the state.

Critiques:

Monopoly of insurance providers:

Due to the nature of the law, the Hawaii Medical Services Association (HMSA) and Kaiser have been able to monopolize the insurance market in the state. According to the act, HMSA—as the

plan with the most policyholders in the state—sets the standard for the benefits package all insurers must offer. Critics argue that HMSA has utilized its power in the market to offer low-cost plans to large, low-risk business while charging higher prices to small business. Others have argued that the monopoly of Hawaii’s insurance market has led to lower health insurance costs in the state, as it has limited the number of competing hospitals and health care facilities, thus keeping down overhead costs for insurance providers.

- The *Health Insurance Rate Regulation Act* was passed in 2003 to address the health care cost issue. It requires insurers to be approved by the state based on the benefits they offer as well as their prices. For approval, insurers must prove that their prices are not excessive, unfair or discriminatory.

Impact on work hours:

Hawaii has a disproportionate share of workers who work fewer than 20 hours a week. This could be due to the act’s requirement that employers cover only employees who work more than 20 hours a week for four consecutive weeks. It is not clear whether employers have shifted to part-time work to avoid the obligation of offering health insurance, or whether employment was always disproportionately part-time.

Weak enforcement:

After implementation of the act, the number of uninsured workers in Hawaii fell drastically. However, the number of uninsured in Hawaii has recently increased. Many of the uninsured should be covered by the act, but weak enforcement has allowed businesses to fail to comply without being penalized.

¹Information on Hawaii’s Prepaid Health Care Act obtained from:

- The Hawaii Uninsured Project, www.HealthCoverageHawaii.org
- Adamson, Deborah. “Many Uninsured Meet Rules for Coverage,” *The Honolulu Advertiser*. October 14, 2004. <http://the.honoluluadvertiser.com/article/2004/Oct/14/bz/bz04p.html>
- Jouxson-Meyers, Arlene. “Fix Health Care by Regulating Premiums and Ending Predatory Pricing,” *Starbulletin.com*. September 9, 2002. <http://starbulletin.com/2002/09/08/editorial/special2.html>