Premium assistance is a strategy in which a state uses public funds (e.g., Medicaid dollars) to pay for a portion of the cost of private coverage (usually employer-sponsored insurance, but sometimes coverage purchased in the individual market). Current use of premium assistance by states is minimal; only about one-third operate such programs, and recent reports indicate that enrollment in these programs is modest in most of these states. Nonetheless, state interest in operating premium assistance programs remains high due to the potential benefits of such programs, among them:

1. Premium assistance programs may strengthen the private insurance market and prevent substitution of private coverage by public coverage by encouraging (or requiring) Medicaid beneficiaries to participate in the health insurance plan offered by their employer.

2. Premium assistance programs allow Medicaid agencies to capture employer contributions to the cost of delivering health care to Medicaid beneficiaries who qualify for employer coverage. This may lower the Medicaid agency's costs and allow the state to maintain or expand coverage.

3. Such programs may ease the transition from public to private coverage since the beneficiary enrolled in a premium assistance program accesses much of his or her care through private insurance.

4. Allowing children to enroll with their parents in a single health plan may increase the likelihood that children will be covered and will use preventive and other necessary medical services.

Because of the potential benefits of premium assistance programs, members of the Making Medicaid Work for the 21st Century workgroup were eager to examine the barriers that have limited state Medicaid agencies' use of this strategy. This issue brief describes the preliminary results of this examination and presents some options for addressing the barriers states currently face.

**Current Policies**

Sixteen states operate premium assistance programs using Medicaid matching funds.

- Twelve states (California, Georgia, Iowa, Massachusetts, Minnesota, Missouri, New Jersey, Pennsylvania, Rhode Island, Texas, Virginia, and Wisconsin) operate premium assistance programs using the authority provided under Section 1906 of the Social Security Act.

- Seven states (Illinois, Massachusetts, Michigan, New Jersey, Oregon, Utah, and Wisconsin) operate premium assistance programs under Section 1115 waivers.

Section 1906 allows Medicaid agencies to subsidize the cost of employer-sponsored insurance (ESI) when a Medicaid beneficiary has access to such coverage and the cost of that coverage is cost-effective for the Medicaid agency. It also allows states to require Medicaid beneficiaries who have access to qualified private coverage to join the private plan. States can establish and modify programs operated under §1906 authority simply by amending their Medicaid state plans. States, however, must ensure that beneficiaries who participate in the premium assistance program receive the same benefits as other Medicaid beneficiaries and pay no more for the services they receive than other Medicaid beneficiaries.
Section 1115 waiver authority offers more flexibility than §1906 authority. Under the conditions approved by the U.S. Department of Health and Human Services (HHS), states need not ensure that beneficiaries who receive premium assistance receive all Medicaid-covered services and pay no more than other Medicaid beneficiaries. In addition, HHS can waive the previously described cost-effectiveness requirement, although §1115 waivers must be budget neutral. Also, states must obtain approval of a waiver request before implementing the program and meet all terms and conditions specified by HHS, terms that are generally more extensive than those required under a state plan amendment. Finally, states must periodically seek a waiver renewal in order to continue operating the program. Section 1115 waivers usually require renewals every five years.

The Bush Administration’s 2001 Health Insurance Flexibility and Accountability (HIFA) demonstration initiative provides for expedited review of states’ Medicaid (and SCHIP) §1115 waiver requests that meet certain criteria. To qualify for the expedited review, the waiver must be needed for a program that increases the number of people who qualify for Medicaid (or SCHIP), operates in all areas of the state, and seeks to develop coordinated private and public health insurance coverage options. Premium assistance programs would generally meet these criteria.

**What Works Well and What Doesn’t**

Some state policymakers perceive premium assistance as providing important benefits. State use of this strategy is nonetheless quite limited, primarily due to two major factors.

Many Medicaid beneficiaries do not have access to private coverage that qualifies for premium assistance. The number of people who can participate in premium assistance is limited to those who have access to private coverage that qualifies for premium assistance (in terms of cost and covered benefits). Employer-sponsored coverage is more likely to qualify than a policy purchased in the individual market. One recent report indicates that only 41 percent of workers with incomes below the poverty level are eligible for employer-sponsored insurance while 62 percent of workers with family income between 100 and 199 percent of poverty are eligible for employer-sponsored insurance.

Some private plans in states with premium assistance programs have only allowed Medicaid beneficiaries who qualify for premium assistance to enroll in the private plan during the plan’s open enrollment period. This further limits the share of Medicaid enrollees who can participate in a premium assistance program.

**Premium assistance programs require substantial administrative resources.** States must expend significant administrative resources to implement and operate premium assistance programs. This is especially true when premium assistance is established under §1906 authority where states have very limited flexibility in program design. These costs arise from the following areas:

**Wrapping around benefits:** States operating premium assistance programs under Medicaid §1906 authority are required to ensure that those enrolled in the premium assistance program retain access to all Medicaid covered services. Because the Medicaid benefit package is typically richer than employer-sponsored coverage, states have provided additional, wrap-around, coverage to supplement the employer’s coverage. States that have done so report that providing such additional coverage adds a significant administrative burden and cost, especially given the variety of employer benefit packages. In addition, states must consider the cost of providing the supplemental benefits when establishing cost-effectiveness. HHS has granted some states operating premium assistance

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**Making Medicaid Work for the 21st Century**

In the four decades since its inception, the Medicaid program has grown and evolved in dramatic and often unexpected ways. As the program and its costs continue to grow, policymakers have been motivated to consider how Medicaid might be modernized to contain costs and enhance services. The National Academy for State Health Policy – with funding from the David and Lucile Packard Foundation, AARP, the Agency for Health Care Research and Quality, and the Robert Wood Johnson Foundation – has convened a group of experts with a broad range of experience in the Medicaid program to explore how to make Medicaid work better in the 21st century. The workgroup includes state health and budget directors, legislators, governor’s health policy advisors,
programs under §1115 (e.g., Illinois and Oregon) a waiver of this coverage requirement in certain circumstances. These circumstances could include allowing the beneficiary to choose between private and public coverage.

**Offsetting cost sharing:** Medicaid agencies may require certain beneficiaries to share a portion of the cost of providing certain Medicaid covered services in the form of copayments, coinsurance, or deductibles, although such cost sharing is typically much lower than prevailing norms in private coverage. Premium assistance programs established under §1906 must ensure that those enrolled in private coverage pay no more in cost sharing than other Medicaid beneficiaries. As a result states must track individuals’ health care spending and pay any difference in cost-sharing amounts. States find this requirement onerous; to meet it, they must create and operate complex tracking systems.

HHS has granted some states that operate under §1115 a waiver of this requirement in certain circumstances. However, when such a waiver is granted to a state, beneficiaries enrolled in premium assistance programs must pay the full, private cost-sharing amounts. Thus, the waiver offers some administrative and financial relief to states, but it also raises new concerns; research has shown that cost sharing disproportionately affects low-income people and reduces the use of beneficial, cost-effective services, preventive care, and prescription drugs.

**Additional sources of administrative costs:** States must assume a number of start-up costs to operate premium assistance programs, including redesigning eligibility and enrollment systems, developing outreach materials for consumers, and educating employers about the program. On-going administrative costs, in addition to those noted above, include determining cost-effectiveness, paying premium subsidies to enrollees, and auditing individuals to ensure they are enrolled in employer coverage.

**How the Current System Can Be Improved**

Although 16 states have developed premium assistance programs, many have faced significant challenges in developing and implementing their programs. To address these issues and concerns, the Making Medicaid Work for the 21st Century workgroup has considered the following options to facilitate and simplify the use of premium assistance programs.

*Make qualification for a premium assistance program a “qualifying event.”* States report that private plans often do not treat qualifying for Medicaid or for participation in a premium assistance program as a qualifying event in the same manner as marriage or the birth of a child. Some states (among them, Massachusetts, Maryland, and Rhode Island)
have amended insurance law to require insurance companies to consider these events as qualifying events. This enables the individual to enroll immediately in the employer plan and not have to wait until an open enrollment period. Because self-insured employers are not required to adhere to these state laws, due to provisions in the federal Employee Retirement Income Security Act of 1974 (ERISA), some members of the workgroup support modifications to the ERISA statute that would require employers to consider Medicaid determination a qualifying event.

Modify §1906 requirements. States currently can establish premium assistance programs for Medicaid beneficiaries through a state plan amendment (SPA) under §1906 authority, but as noted earlier, state program managers consider some of the programmatic requirements they must meet to qualify under this authority to be burdensome. A handful of states have been authorized under §1115 waivers to implement premium assistance programs with features that they feel simplify the program. Therefore, some workgroup members support modifications to §1906 authority that would allow states to implement programs using the SPA process with features that have been developed under the §1115 waivers. In doing so, members acknowledge the need to balance easing administrative requirements in order to facilitate the use of premium assistance programs with ensuring that Medicaid beneficiaries continue to receive affordable, comprehensive benefits.

One mechanism for achieving this balance is to maintain current Medicaid law for lower-income beneficiaries, while granting states greater flexibility in the design of premium assistance programs for some or all people who do not qualify for Medicaid under current eligibility rules. In other words, some workgroup members would support a design where:

- Medicaid beneficiaries with incomes below a federally-specified limit who are enrolled in premium assistance programs would continue to be guaranteed access to the same benefits, at the same cost, as other beneficiaries with similar incomes who are not enrolled in a premium assistance program.

- Medicaid beneficiaries with incomes above the specified limit who are enrolled in a premium assistance program might have a lesser (but still comprehensive) benefit package and higher (but still limited) cost-sharing arrangement than beneficiaries with similar incomes who are not enrolled in the premium assistance program.

Because beneficiaries with higher incomes who join a premium assistance program might have a lesser benefit package and greater cost sharing than their peers, some workgroup members would also propose that premium assistance programs be optional for Medicaid enrollees, always leaving them the option of returning to the regular Medicaid program.

For updates on this project and a list of advisory group participants and staff, visit the NASHP website at www.nashp.org.

This issue brief was prepared by Jennie Bonney, a consultant to the workgroup.

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2 In addition, Mississippi and New Mexico have Section 1115 waivers that include premium assistance programs, but they are not yet operational.

3 Cost-effective means that the cost to the Medicaid program of subsidizing the private coverage is less than the cost of providing direct public coverage.

4 Budget neutrality means that a Medicaid agency cannot spend more federal funds to provide coverage under a waiver then it would have spent to provide coverage without the waiver.


8 NASHP has produced, with funding from CMS and the Robert Wood Johnson Foundation’s State Coverage Initiatives (housed at AcademyHealth), a premium assistance toolbox for states that includes detailed information about the choices states must make under current policies, tools that states have developed to assist them in operating premium assistance programs, and the cost of operating such programs. The toolbox is available at www.patoolbox.org.