

Title: How states are financing health coverage initiatives

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Research Objective

Learn how states are financing health coverage initiatives, the advantages and disadvantages of different financing mechanisms, and the sustainability of financing. Use the information to inform policymakers about the tradeoffs and implementation challenges of various financing options for health insurance coverage initiatives.

Study Design

This study began with a literature review regarding how states have financed health insurance coverage expansions. Interviews were conducted with a select number of state officials to learn about the challenges of implementing financing mechanisms, as well as the perceived advantages and disadvantages of the approaches. A comparative table of financing approaches was developed. A specific analysis was done regarding New York's proposed financing for coverage expansions. This data served as the basis for a policy paper, which will be published in March 2009.

Population Studied

This paper focuses on the population of uninsured that are targeted by state health insurance coverage expansions. In some states, the target population is all of the uninsured; in other states it is a select group of individuals such as those that work for small businesses.

Principal Findings

State methods for financing health insurance coverage expansions vary, but fit in nine general categories:

1. Leveraging federal dollars
2. Sin taxes (e.g., on non-diet soft drinks, cigarettes, alcohol)
3. Enrollee cost sharing
4. Surcharges on providers or third party payers
5. Redirecting financing from other initiatives
6. Shared responsibility with insurers
7. Cost containment
8. One-time, non-recurring sources (e.g., tobacco settlement funds)
9. Health plan conversion funds

The methods that states use to finance coverage initiatives are similar, regardless of whether the initiative is large or incremental or if the state is populous or not. Some methods of financing are more widespread than others, and there are advantages and disadvantages for every type of financing mechanism. Leveraging of federal funds is the most common form of financing and generally more sustainable. Cost efficiency and repurposing of existing sources is more sustainable, but harder to implement.

Conclusions

The research concludes that some financing methods are easier to enact (e.g., leveraging federal financing), while others are easier to implement (e.g., one-time, non-recurring revenues). Some financing mechanisms receive more political support (e.g., tobacco tax) than others (e.g., enrollee cost sharing). The research makes recommendations about which financing mechanisms might be better depending on the scope and scale of a state's planned coverage initiative, and reaches conclusions about what types of financing might work better under which circumstances. It also specifically concludes what types of financing mechanism might work better in New York State.

Implications for Policy, Practice of Delivery

The research has implications for policymaking, and in particular, for budgeting for policy initiatives, because it is the first large scale study to examine financing for health coverage. Because financing is a necessary part of almost any coverage expansion, the research has wide-ranging implications for policies and policymakers that seek to expand insurance coverage.