



## POLICY BRIEF: Avoiding Crowd Out: Policy Implications for Expanding Children's Coverage

### Q: What is “crowd-out” and how can it occur when expanding children’s health insurance?

A: *Crowd-out* is when public coverage is chosen over private coverage (usually employer-sponsored insurance) because a new public product is available **and**<sup>1</sup>:

- People drop private insurance to enroll in the public product, or
- A person who has public insurance refuses a new offer for private coverage they otherwise would have accepted, or
- An employer reduces coverage options because the public product is available.

### Q: What are general state strategies to prevent crowd-out in state SCHIP expansion programs?

A: There are three general strategies to preventing crowd-out:

- **Waiting periods** or uninsurance requirements in children’s programs work as a disincentive for parents who might drop private insurance to apply for public insurance because they are exposing their child’s health and family finances to the risks associated with being uninsured for a period of time.
- **Cost-sharing** is another strategy to avoiding the crowd-out that occurs when people drop credible private coverage for public programs. Meaningful cost sharing discourages families who have affordable coverage from dropping their private coverage for “free” coverage.
- **Premium subsidy** programs address crowd-out by helping families afford the insurance that is currently available to them through their employer. Oregon has a popular premium subsidy program in place, the Family Insurance Assistance Program (FHIAP).

### Q: Do states have exceptions for crowd-out measures?

A: Yes, although most state SCHIP programs require a waiting period, they also recognize that there may be reasons for losing private coverage that are beyond the family’s control. Examples include: loss or change of employment, employer contribution less than 50% of premium, divorce or domestic violence, and certain medical conditions, among others.

**Establishing waiting periods or “uninsurance requirements” is the most common approach to avoiding crowd-out.**

Waiting periods require that an individual be uninsured from private insurance for a set period before enrolling in public coverage.

**15 states have no waiting periods:** DC, Hawaii, Illinois, Iowa, Kansas, Louisiana, Mississippi, Nebraska, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, and Tennessee.

**17 states have a waiting period of 3 months or less:** Alabama, Arizona, California, Colorado, Connecticut, Indiana, Maine, Montana, New Jersey, South Dakota, Texas, Utah, Vermont, Wisconsin, and Wyoming.

**18 states have a waiting period between 4 months and 6 months:** Arkansas, Delaware, Florida, Georgia, Idaho, Kentucky, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Hampshire, New Mexico, North Dakota, **Oregon**, and West Virginia.

**1 state has a waiting period of 12 months:** Alaska .

*Source:* Ross, D.C. & Marks, C Kaiser Commission on Medicaid and the Uninsured, January 2009.

Crowd-Out Measure Concern: Attempts to limit crowd-out can add administrative costs while possibly reducing program participation by families including the uninsured.<sup>1</sup>

**Q: How can Oregon encourage employers to maintain dependent coverage when the state offers an attractive insurance program for children?**

A: Oregon could allow certain employers to buy into a private insurance pool to help make dependent Employer-Sponsored Insurance (ESI) affordable. This approach can be particularly helpful to small or fledging businesses who want to be good corporate citizens but currently lack the resources to offer health coverage independently. States also use premium subsidy programs to enable more workers to accept ESI so that employers can meet the employee participation requirements imposed by insurers.

**Q: What is other states' experience with crowd-out?**

A: Every state participating in SCHIP is required to measure crowd-out, and the application process must include questions about private insurance coverage. This data is used to assess if there is intent by families to drop credible private coverage for public coverage. Idaho measures how many people subsequently apply for SCHIP after the waiting (uninsurance) period is completed and estimates crowd-out at less than 1% of the applications<sup>2</sup>.

Other states that have measured intent to crowd-out have estimated rates between 1% to 5% of applications (California, Colorado, Missouri, and Texas<sup>3</sup>). The State of New York has had no waiting (uninsurance) requirement for many years, electing not to impose one unless crowd-out exceeds a threshold of eight percent over any nine-month period. They have been averaging 4%-5% crowd-out. Out of the 16 state SCHIP administrators who recently responded to an inquiry about crowd-out, none felt that crowd-out was a problem for their state program.<sup>3</sup>

**Q. What are Oregon's expansion of children's coverage crowd-out assumptions ?**

The Department of Human Services forecast assumes 3% crowd-out, in keeping with the 2001 Urban Institute multi-state study on crowd-out entitled, "Has the Jury Reached a Verdict?"<sup>4</sup>.

In monitoring crowd-out, it will be important for Oregon to reflect the erosion of ESI already present before implementation of a coverage expansion. The recent MEPS (Medical Expenditure Panel Survey) showed a decline of private sector businesses offering ESI from 61.5% in 1996 to 56.4% in 2006 in Oregon. In addition to this, premiums for both single and family coverage have increased almost 40% since 2003.

<sup>1</sup>Davidson G, Blewett L, Theide K, "Public program crowd-out of private coverage: What are the issues?", The Synthesis Project, New Insights from Research Results. Policy Brief, No. 5, June 2004.

<sup>2</sup> Email correspondence on chipchat@nashp.org, sent on December 21st, 2006.

<sup>3</sup> Ibid.

<sup>4</sup> Lutzky A, Hill I, "Has the Jury Reached a Verdict? States Early Experiences with Crowd-Out Under SCHIP", Urban Institute, 2001.

<sup>5</sup> Medical Expenditure Panel Survey, MEPSnet-IC, 2006.