

HEALTH INSURANCE: THE HAWAII EXPERIENCE

SUMMARY

Introduction

Health care and health insurance reforms are currently high priority items on the nation's agenda. There is interest in the State of Hawaii's health insurance experience, because of that State's near-universal health insurance coverage through a variety of private and public programs. This background paper describes the health insurance situation in Hawaii.

History of Congressional Request

This background paper is part of a larger assessment being conducted by OTA entitled Technology, Insurance, and the Health Care System. The assessment was requested by the Senate Committee on Labor and Human Resources (Edward M. Kennedy, Chairman), the House Committee on Energy and Commerce (John D. Dingell, Chairman), the House Committee on Ways and Means Subcommittee on Health (Willis D. Gradison, then Ranking Minority Member), and Senator Charles E. Grassley (Committees on Budget, Finance, Special Committee on Aging). The overall assessment is described in Attachment D to this background paper.

Summary of Findings

The background paper demonstrates many of the complexities of providing health insurance and health care access to an entire population and evaluating the impacts of such efforts. Through mandatory employment-based insurance coverage, Medicare, Medicaid, and the State Health Insurance Program (SHIP) -- which was enacted to cover those not covered through employers, Medicare, Medicaid, and other public programs--perhaps less than 3 percent of Hawaii's population remains uninsured. Thus, while in some respects Hawaii's approach remains an imperfect and incomplete patchwork of insurers, insureds, payers, and providers,¹ unlike many other States, Hawaii's patchwork appears to have

1 Hawaii's migrant worker and other populations are still more likely than other people in Hawaii to lack coverage and/or access to services. Insurers and health maintenance organizations have been reluctant to bid on the SHIP program, and some providers are reluctant to participate because of low reimbursement rates under SHIP. Administrative costs--including the transaction costs of switching from one program to another as eligibility changes with economic circumstances--are high. As individuals switch from one plan to another, the scope and depth of their benefits can change rather markedly. Hawaii's SHIP was conceived against the background of the needs of the uninsured "gap group", and enacted as a primary care and preventive services bill put into operation initially as a limited benefits health insurance program, but evolved quickly into a funding mechanism that is attempting to meet the minimum health needs of the great variety of uninsured people in a variety of ways. For example, following the devastation of the island of Kauai by Hurricane Iniki in the fall of 1992, more than 4,000 residents of that island obtained SHIP coverage after losing their employment-based health insurance. In other instances of need, the State has allocated public SHIP money to direct services.

achieved an enviable rate of health insurance coverage. Nonetheless, the country, and other States, should be aware of the limits to what can be learned from Hawaii's experience.

Factors that May Limit Other States' Ability to Adopt Hawaii's Methods

Hawaii is a unique State in many respects: its climate, geography, generally low unemployment rate, recent tradition of budget surpluses, and history, including its tradition of comprehensive, employment-based health care. For example, Hawaii's tourist-oriented businesses subject to the State's mandatory employment-based coverage are likely to find it difficult to move to another State with more favorable health insurance laws.

- Hawaii received a special exemption from the Federal Employee Retirement Income Security Act (ERISA) of 1974, which passed a few months after Hawaii's 1974 act passed; thus, Hawaii's employment-based coverage act may only work for Hawaii.²
- The State of Hawaii lacks the kind of health services research that would permit researchers to analyze with confidence the impact of Hawaii's legislative efforts on patients, health care providers, and businesses, and help to separate the impact of Hawaii's insurance system from its other features. For example, whether Hawaii residents' relatively low health care utilization and insurance rates are caused by, or independent of, any changes in coverage, is unknown. Any *health impacts of differences in utilization resulting from differences among plans in covered services is as yet unknown.*
- There are boundaries within which Hawaii's publicly-funded Medicaid and SHIP programs operate, including:
 - Eligibility and relation to Medicaid: Hawaii's Medicaid program has fairly liberal eligibility criteria so that, combined with the mandated employment-based health insurance, the "gap" between public and private health insurance coverage is relatively small in Hawaii, compared to other States. *States in which Medicaid eligibility criteria are lower (i. e., many States³) and employers are not required to offer insurance coverage to their employees (i. e., all States other than Hawaii) might have a larger population to cover with a "gap" program like SHIP, depending on the eligibility criteria they set for the "gap" program.⁴*

2 For further discussion of the impact of ERISA on States' attempts at reform, see: U.S. General Accounting Office, Access to Health Care: States Respond to Growing Crisis GAO/HRD-92-70 (Washington, DC: U.S. GPO, June 1992); and U.S. General Accounting Office, Access to Health Care: State Efforts to Assist Small Businesses GAO/HRD-92-90 (Washington, DC: U.S. GPO, May 1992).

3 Within some broad Federal guidelines (e.g., applying to pregnant women, infants, and young children), income-related Medicaid eligibility criteria are set by the States and vary considerably (see U.S. Congress, House of Representatives, Committee on Ways and Means, *Overview of Entitlement Programs; 1992 Green Book: Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means*, Committee Print 102-44 (Washington, DC: U.S. Government Printing Office, 1992)).

4 In Hawaii, individuals are eligible for SHIP coverage if they are otherwise uninsured and have a gross family income not exceeding 300 percent of the Federal poverty level for Hawaii.

A global budget for SHIP: A legislatively-appropriated total budget for SHIP operations, amounting to \$10 million for the second (first full) year of operation, with a separate budget limit for hospital care, a State subsidy of \$500 per person per year, premium copayments on a sliding scale, and a core benefit package that was fairly comprehensive in the scope of outpatient services covered. Insurance carriers were obligated to provide supporting information on their actuarial assumptions. Within these constraints, insurance carriers could price their own services and set reimbursement rates for providers. *A policy issue for other States and national policymakers is the utility and potential impact of a cap on hospital expenditures and its translation into benefits for individual patients.*

Future Directions for Hawaii and National Policy Implications

Hawaii's current administration would like to develop a "seamless system of care," with standardized patient benefits and provider payments. As a first step, in April 1993 the State applied for a Medicaid waiver to combine Medicaid, General Assistance, and SHIP into one basic health insurance plan, to be marketed on a prepaid, managed care basis.

The questions now being faced by Hawaii resemble those being faced at the national level, and include:

- what (if any) should be the standard for breadth and depth of coverage?
- what is the likelihood that significant additional public funds would be provided to support people who are unemployed and their dependents? what (if any) cross-subsidies among the various private and public insurance programs are acceptable?
- what (if anything) should be done about those people who remain uninsured by choice?
- what are the limits to a program based solely on insurance coverage? what additional direct efforts may be needed to improve access and health?

Organization of the Background Paper

This background paper begins with a short history of health insurance provision in Hawaii. This brief history is followed by descriptions of: the employment-based health insurance system that was mandated by the State in 1974; the relatively brief experience Hawaii has had with the State Health Insurance Program (SHIP) that was enacted in 1989 to serve the people not being served by either Medicaid or employment-based insurance; and current thinking in Hawaii concerning the goal of a seamless system of health care delivery. The paper also addresses the difficulties in evaluating the impact of Hawaii's various attempts to provide coverage and access, and speaks to whether all or parts of Hawaii's experience can be transferred to other States or to the Nation as a whole.