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**EXPANDING INSURANCE COVERAGE AND STABILIZING RATES  
WITHIN THE SOUTH CAROLINA SMALL GROUP MARKET**

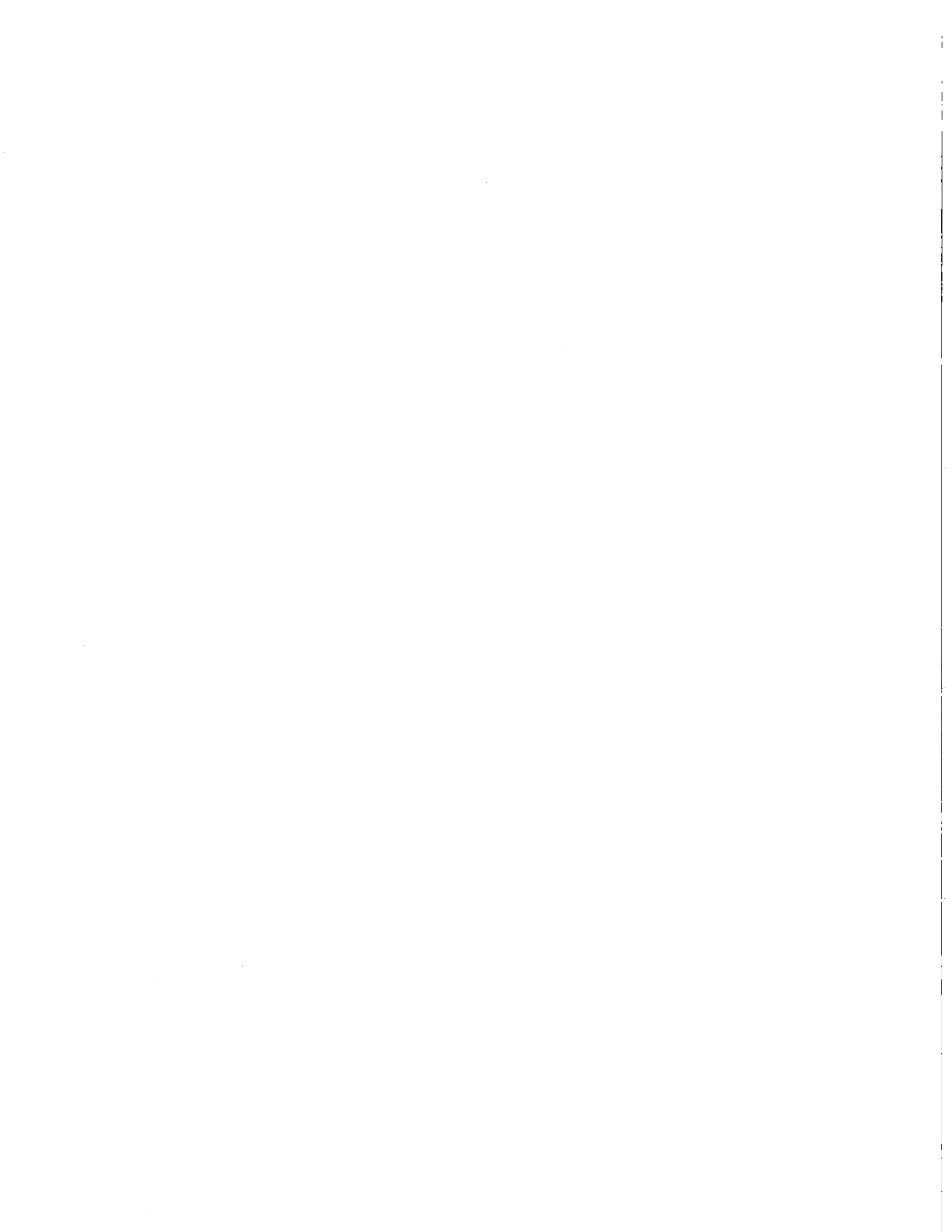
**HRSA PLANNING GRANT Number: 1P09OA00041**

**FINAL REPORT TO THE SECRETARY  
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN  
SERVICES**

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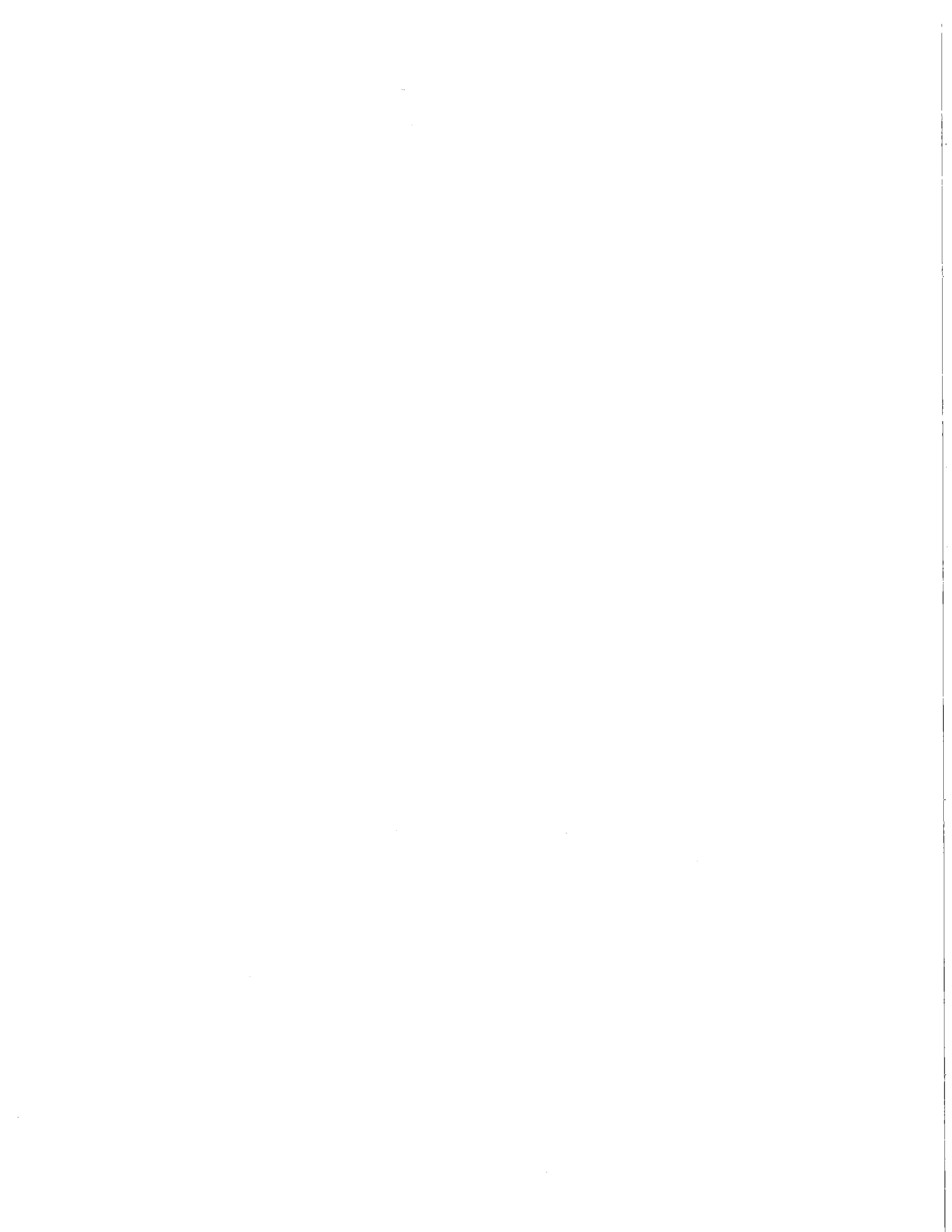
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## EXECUTIVE SUMMARY

In 2001, the South Carolina Department of Insurance (Department) completed a review of the South Carolina small group health insurance market. The purpose of the review was to address issues related to the availability and affordability of health insurance. It was also to determine why insurers were exiting the small group health insurance market. Our review determined that insurers were exiting the small group market nationally due to high loss ratios on small group health insurance products. The Department believed that the decline in the number of insurers writing in this market contributed to issues of health insurance affordability and increased the number of uninsured in this state. Although anecdotal, the review determined that most of the uninsured were 19-64 years old and the employees of small businesses. Further study was recommended because no state-specific data was available on the uninsured in South Carolina. The national statistics on the uninsured were sometimes inconsistent with the data maintained by some state agencies. It was also the opinion of many that the rate of uninsurance in South Carolina was higher than national statistics indicated.

Following a review of the status of insurance within the small group market between 1999-2001, the Department applied for and received a State Planning Grant (SPG) from the U.S. Department of Health and Human Services Health Resources Administration (HRSA) in 2002. The primary focus of the planning grant was to identify and obtain more detailed information on the uninsured population, so state policy initiatives could be formulated to reduce the number of uninsured by expanding health insurance coverage. The Department was also interested in ways to stabilize the market so that those who were currently insured did not lose their insurance coverage.

Consequently, this project focused on expanding health insurance coverage and stabilizing insurance rates within the small group market. Our grant research considered issues of affordability, increased cost sharing for employees, reduced benefit plans, decreased competition, lack of knowledge of available public programs, lack of awareness of small group insurance laws and inappropriate use of the healthcare system (i.e., using the emergency room for non-emergency healthcare). All these issues play a role in the escalating cost of health insurance.

This twenty-four month project included the formation of a Health Insurance Policy Advisory Committee (HIPAC). This Committee consisted of consumer and insurance industry representatives and health policy and insurance experts who worked with the Department's SPG team on data analysis and policy formulation. The HIPAC and SPG staff also examined existing data and collected state-specific health insurance status data through key informant interviews, focus groups and surveys.

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### ***Data Collection Activities***

South Carolina's primary data collection activities are summarized in the following paragraphs. Additional detail on each of these activities may be found in Section 1. The Office of Research and Statistics, a division of the South Carolina Budget and Control Board, coordinated all data collection and analysis activities.

***South Carolina Household Survey.*** Under contract with the Department, the University of South Carolina's Institute for Public Affairs administered a random digit dial telephone survey to uninsured South Carolinians in the Upstate, Pee Dee, Low Country and Midlands regions of the state. The Household Survey was designed to provide a demographic profile of the uninsured including: why they are uninsured; duration of uninsurance; how much they are willing to pay for insurance; race; gender; and if eligible, why they were not enrolled in public or employer-sponsored programs.

***South Carolina Small Employer Survey.*** Two thousand four hundred and ninety-nine (2,499)<sup>1</sup> surveys were sent by mail to small employers in South Carolina to collect information on their ideas and perceptions about providing insurance. The Office of Research and Statistics developed this instrument in collaboration with members of the HIPAC. There was a 38.5% response rate.

***Uninsured Utilization Survey.*** To supplement the household survey, a utilization survey was sent to a sample of 7,500 indigent and self-pay patients who use emergency room facilities. The survey was designed to obtain additional demographic data on the uninsured.

***Key Informant Interviews and Focus Groups.*** Focus groups and key informant interviews were used to gather qualitative data. The Office of Research and Statistics, in conjunction with the College of Business and Behavioral Sciences from Clemson University, completed a compilation and synthesis of findings. The seven focus groups were conducted across the state in the same regions listed above. Additionally, SPG staff conducted 12 interviews with key informants.

Additional qualitative data was gathered through Business Forums, health benefits fairs and the National Health Insurance Symposium co-sponsored by the South Carolina Department of Insurance and the National Association of Insurance Commissioners.

### ***Summary of Significant Findings***

According to the data collected from these research activities, 21% of South Carolinians under age 65 are uninsured, and more than 8% of the population has been uninsured for a year or more. Fifty-eight percent (58%) of South Carolinians have employer-sponsored or individual private coverage; 27% have some type of public

coverage such as Medicaid or Medicare; and 11.55% are without insurance coverage at any point in time. Most uninsured individuals in South Carolina work or are the dependent of someone who works. Construction, professional, retail, service and hospitality industries have the highest percentage of employers not offering insurance.<sup>ii</sup> There are also more uninsured people and fewer small businesses offering health coverage to their employees in the Pee Dee and Low Country regions of the state.

South Carolina has lost a significant number of manufacturing jobs that generally offered health insurance benefits.<sup>iii</sup> Trends indicate that these jobs are being replaced by jobs in the service and hospitality industries where health insurance benefits are generally not provided. The qualitative data gathered through the focus groups and key informant interviews confirmed that small employers have a difficult time offering health insurance to their employees. Fifty-three percent (53%) of small employers with 1-10 employees do not offer group-sponsored health insurance. Thirty-nine percent (39%) of small employers with 11-20 employees do not offer group-sponsored health insurance. Affordability is cited as the primary reason employers do not offer health insurance coverage. Interestingly, affordability is also the reason cited by 72% of uninsured individuals as to why they have not purchased health insurance. Furthermore, 53% of eligible individuals do not enroll in public programs because they either are unwilling to accept government support or do not think the government should provide health insurance coverage.

Insurance premiums have increased significantly in the past few years. An overall increase in the cost of healthcare is one of the principal drivers; it is not the only one. The rate of uninsurance also contributes to the cost of health insurance. The cost of providing health care services to the indigent and uninsured is recovered. Uncompensated care is recovered by hospitals and providers by increasing costs. These costs are passed on to the insured in the form of higher insurance premiums. However, as the cost of insurance increases, employers drop coverage, reduce benefits, or shift more of the costs to the employee which, in turn, results in the employee's non-participation in the employer's health insurance plan thereby increasing the number of uninsured. The problem is cyclical. The increase in healthcare costs is not only affecting health insurance premiums, but it is also causing employment-based health insurance coverage to diminish.<sup>iv</sup>

Following the research and analysis phases of the SPG project, the SPG staff, in collaboration with the HIPAC, formulated three policy recommendations to expand health insurance coverage and stabilize rates within the South Carolina small group market. The following recommendations are proposals and therefore subject to modification:

- **Implement a Medicaid expansion program for working adults of small businesses.** This option is designed to expand health insurance coverage to employees of small employers. It will provide a statewide employment-based

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insurance-like option that will cover all employees in a group plan, and provide a premium subsidy for individuals/families who fall at or below 150% of the federal poverty level.

- **Develop legislation to allow existing and new non-profit community-based healthcare programs to raise funds through prepayment fees.** These fees will be used to expand programs, increase participation, and/or increase provider reimbursement. Because each program is community based, the plan design, fees and networks will be determined based upon the community's needs.
- **Develop educational programs.** Develop and implement educational programs focusing on preventive care and other matters to help South Carolinians become healthier and better-informed healthcare consumers. This option was formulated to address issues related to cost and inappropriate utilization of emergency facilities. In addition, the website was developed to provide individuals with information about all of the community healthcare programs available in our state.

The next step is to develop specific models within the framework of the above-referenced policy options. Pilot projects will likely be developed focusing on small employers. With the creation of the Commission on Healthcare Access during the last legislative session, a mechanism is now in place to oversee implementation of these and other policy initiatives to expand health insurance coverage in South Carolina.

### **Recommendations for Federal Action**

The HIPAC recommended several actions for consideration. These suggestions included: continued funding for State Planning Grants allowing the grant funds to be used for planning and certain developmental and implementation projects; providing increased funding to states for Medicaid and Medicaid expansion programs; simplifying the application process for waivers; clarification of the positions of the federal government on the One-third Share Plans; and, using employer/employee contributions as state matches for Section 1115 waivers. Additional recommendations are set forth in Section 7 of this Report.

