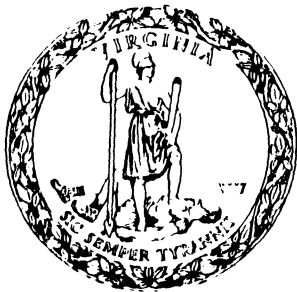


REPORT OF THE
STATE CORPORATION COMMISSION TO

Study Health Insurance for Unemployed Persons in the Commonwealth

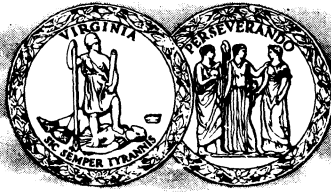
TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA



House Document No. 25

COMMONWEALTH OF VIRGINIA
RICHMOND
1988

COMMONWEALTH OF VIRGINIA



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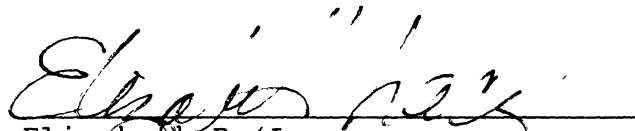
January 20, 1988

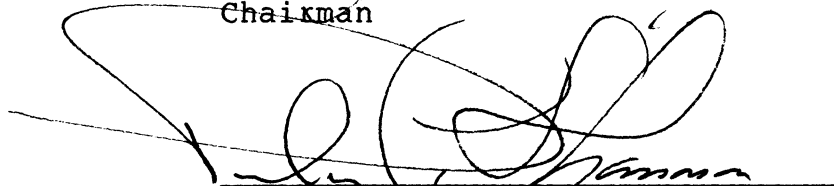
TO: The Honorable Gerald L. Baliles
Governor of Virginia
and
The General Assembly of Virginia

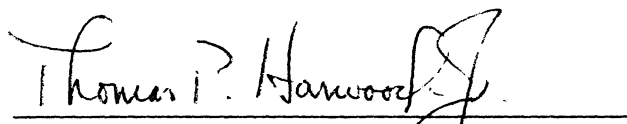
The report contained herein is pursuant to House Joint Resolution No. 235 of the 1987 Session of the General Assembly of Virginia.

This report represents the response of the State Corporation Commission to the legislative directive to study health insurance for unemployed persons in the Commonwealth.

Respectfully submitted,


Elizabeth B. Lacy
Chairman


Preston C. Shannon
Commissioner


Thomas P. Harwood, Jr.
Commissioner

**REPORT OF THE STATE CORPORATION COMMISSION'S
BUREAU OF INSURANCE**

ON

**THE FEASIBILITY OF PROVIDING HEALTH
INSURANCE FOR THE UNEMPLOYED**

TO

THE GENERAL ASSEMBLY OF VIRGINIA

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EXECUTIVE SUMMARY

The State Corporation Commission's Bureau of Insurance was requested by the General Assembly to study the need for health insurance coverage by those in Virginia who are unemployed. The request was made in House Joint Resolution No. 235. The Bureau of Insurance was also requested to review alternative methods for offering insurance and the feasibility of implementing a program using the methods reviewed.

Information from the Commission's 1986 study of the degree of health coverage of the Virginia population was used in this study. The Virginia Employment Commission supplied statistical information about unemployed Virginians. National research in this subject area was also reviewed.

Independent research has confirmed the relationship between being employed and having health coverage. Even though the lack of health coverage for the unemployed is acknowledged, there are only a few programs in existence in the United States that are specifically designed to provide health coverage to the unemployed. Information about these programs is included in this report.

The State Corporation Commission's Bureau of Insurance concludes that there are a substantial number of people that would benefit from a state program offering health care services or health care insurance to the unemployed. The State Corporation Commission believes that a number of viable alternatives exist for providing this service to the unemployed, but that these alternatives would involve considerable expense. Health insurance is not always available to those who are employed, and the creation of this type of program could influence some individuals to become or remain unemployed. A deterrent to this type of action should be included in any program that is designed, if at all possible.

A specific recommendation by the State Corporation Commission was not requested by the General Assembly. The areas affected by this type of program go far beyond the areas under the jurisdiction of the State Corporation Commission. The decisions that are to be made are public policy matters that do not necessarily involve insurers or their actions.

The State Corporation Commission suggests that if a decision is made to implement a program for the unemployed, a pilot program should be developed and tested before a state-wide program is initiated. The pilot could be tested in the area or areas of the state where the unemployment rate is the highest. The pilot could also be designed to allow dual testing of the two alternatives that are considered most feasible. After the results of the pilots are studied and compared, the General Assembly could determine whether the program should be expanded, eliminated, or otherwise revised.

GENERAL ASSEMBLY OF VIRGINIA -- 1987 SESSION

HOUSE JOINT RESOLUTION NO. 235

Requesting the Bureau of Insurance to study the feasibility of group insurance for the unemployed.

Agreed to by the House of Delegates, February 8, 1987

Agreed to by the Senate, February 26, 1987

WHEREAS, thousands of persons a year are unemployed in the Commonwealth; and

WHEREAS, in most instances when a person loses his employment, he also loses his health care insurance benefits; and

WHEREAS, when an unemployed person becomes sick, he has no means to obtain the proper medical attention; and

WHEREAS, it is in the interest of the Commonwealth to ensure that the unemployed are able to secure proper medical attention; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Bureau of Insurance is requested to study the need for unemployed persons in the Commonwealth to have health care insurance, to review the alternative methods by which a program may be implemented offering such insurance to the unemployed and to determine the feasibility of implementing one or more programs utilizing such methods.

The Bureau should complete its work in time to submit its findings to the 1988 Session of the General Assembly.

INTRODUCTION

In 1987, the State Corporation Commission's Bureau of Insurance was requested to review the need for health insurance for the unemployed by House Joint Resolution No. 235 passed by the General Assembly. Additionally, the State Corporation Commission was requested to review alternative methods to offer health insurance to those without jobs and to determine the feasibility of implementing one or more programs to provide health coverage.

The General Assembly requested the study because of the strong correlation between being employed and having health insurance coverage and because it is in the interest of the Commonwealth to ensure that those who are unemployed can obtain medical attention. Some individuals delay obtaining necessary medical care when they have no insurance. Lack of medical attention can result in a more serious and costly illness that may eventually be absorbed by the state. The lack of health insurance can also cause severe financial problems for those who need medical attention for major reasons, such as emergency surgical needs or pregnancy. The cost of a hospital stay and treatment can be devastating to a family that must pay the full cost of care during a period when income is reduced. Often families need several years to recover from a period of unemployment if they have the additional economic burden of paying a sizeable bill for hospital or physician services.

The State Corporation Commission (SCC) study of the degree of health insurance of Virginia's population analyzed the extent of the uninsured problem in Virginia. Approximately ten percent of Virginia's population is completely uninsured for health care, and an additional eight percent have some coverage but do not have comprehensive coverage. The unemployed uninsured is only one segment of the uninsured population. Other segments of the uninsured population include those considered uninsurable, the working poor and others who cannot afford health insurance, and those who consider health coverage unnecessary.

Virginia currently has programs in place to provide health care services for many of those in need. The Medical Assistance Program (Medicaid) is the primary provider of care to the poor. The state teaching hospitals are another source of health care for the medically indigent. Additionally, funds for care of the indigent are available through the Department of Social Services under the State-Local Hospitalization Program and the General Relief Program. There are other local programs that differ in the services they provide and the criteria for eligibility. However, none of these services are specifically designated for use by the unemployed.

NEED FOR HEALTH INSURANCE BY THE UNEMPLOYED

A 1979 U.S. Labor Department survey showed that nationally 73% of full-time workers in the private sector and 83% of the workers in the public sector are covered by group health insurance obtained through employment. In most instances the premiums are paid entirely by the employer, or a small contribution is made by the employee. The Congressional Budget Office estimated in 1983 that 44% of the

unemployed lose health coverage in connection with the loss of employment. The projections of the number of unemployed uninsured individuals in the country vary. The Robert Wood Johnson Foundation estimated that in 1983 there were from 5.5 to 7 million unemployed uninsured persons in the United States.

Federal legislation was enacted in 1986 as one attempt to address this problem. A section of the "Consolidated Omnibus Budget Reconciliation Act of 1986" (COBRA) requires that most group health plans with 20 or more employees provide a continuation of group health insurance to terminated employees for 18 additional months. The coverage must be provided for no more than 102% of the cost of each employee's group health coverage. Coverage is also required for 36 months for widowed, divorced, or separated spouses and their dependents. However, COBRA does not apply to everyone, and when it is applicable the unemployed individual is responsible for paying the premium. There is no funding to provide for the premiums. It is generally believed that COBRA alone will not solve the problem of the unemployed uninsured because of the lack of funding.

The State Corporation Commission's Bureau of Insurance conducted a study of the degree of health coverage of the Virginia population in 1986. The results of the study included information about the effect of unemployment on health insurance coverage. Eighty-three percent of the families surveyed with private health coverage in Virginia reported that the coverage was obtained through an employer. For the individuals who are provided health coverage through employment, 34 percent indicated in the Virginia study that they are not required to pay any part of the cost for that coverage themselves. Seventy-four percent of the companies responding to the Employer Survey indicated that they provide health insurance to their employees. When asked if they had lost health coverage in the past two years, five percent of the respondents answered affirmatively. That five percent represents 289,000 Virginians. Of those who lost health coverage, 25 percent or 69,360 individuals reported they had lost coverage because of losing their jobs. Two-thirds of the individuals who had group coverage did not convert to an individual policy. The majority of those not converting said that they could not afford to do so. These statistics allow us to see the impact of unemployment on health coverage in Virginia and the tremendous effect that high levels of unemployment can have on our state.

When unemployment strikes, it is often centered in a particular industry such as automobile manufacturing, fishing, or shipbuilding. When the industry or industries affected are centered in a particular region of the state or country, as is often the case, the effects of the unemployment apply to more than just individuals and their families. The unemployment and increased probability of a lack of insurance affect the entire community. If no health services are provided specifically for the unemployed, the public services that are available are used by more individuals than anticipated. If no services are available that can absorb the unemployed, they are forced to either go without care or create an obligation that must be repaid. Where there are a number of individuals employed by a large employer, the impact of a plant shutdown or lay off is even more pronounced. The physicians and hospitals that are the usual providers of care for those individuals face a much higher level of non-paid or slowly repaid accounts. The providers might confront economic difficulties of their own as a result of high unemployment. The Virginia Hospital Association studied

uncompensated care in Virginia in 1985 and found that 30.5% of the patients whose care is uncompensated are unemployed.

In the Commonwealth, health care services may be available to unemployed individuals through the General Relief Program administered by the Department of Social Services, the State and Local Hospitalization (SLH) Program, or the state teaching hospitals. The General Relief Program offers services to those determined to be in need of public assistance and who are not eligible for federally funded programs. State guidelines are established for the components and categories of assistance offered, but the localities decide which components will be provided and the levels of assistance offered. The SLH is primarily a local option program that receives partial funding and general supervision from the Department of Social Services. The decisions on the eligibility and services standards are left to the locality; and, therefore, SLH eligibility requirements differ across the Commonwealth. The program is designed to serve those who are unable to pay for required hospitalization or whose spouse, parent, or guardian is unable to pay. The state teaching hospitals use income and asset guidelines in accordance with the federal poverty income guidelines to determine eligibility. The income ranges are adjusted each year. Some of the unemployed may be eligible for one of these programs; however, they are not specifically designed to serve the unemployed.

The Medicaid Program is a joint federal and state health care financing program that provides for comprehensive health services to poor Virginians. Two groups of citizens are eligible for the program, the categorically needy and the medically needy. There are also stringent financial eligibility requirements for income and resources that apply to the categorically needy. In most instances the unemployed would have exhausted the majority of their assets before becoming eligible for Medicaid.

RESPONSES TO THE PROBLEM OF UNEMPLOYED AND UNINSURED RESIDENTS

A number of states have initiated or considered programs to provide assistance to the unemployed uninsured. Information about the programs that have been operated recently or that are currently being operated is discussed below.

New Jersey

The New Jersey Department of Labor recently completed a study of the problem of the unemployed and uninsured. The Department of Labor will be recommending that New Jersey use part of a \$1.2 billion surplus in its Unemployment Trust Fund to provide coverage to its unemployed residents who are receiving compensation. The health coverage will be provided for up to six months.

New Jersey also strongly considered the use of the Unemployment Trust Fund surplus to subsidize payments for coverage if the insured elected to continue coverage offered by the employer pursuant to COBRA.

New York

New York passed legislation in 1987 that provides assistance to workers who have lost their jobs as the result of big layoffs. The legislation requires the state to administer a temporary program through the State Insurance Fund. The program will be in effect from August 31, 1987 until January 31, 1988. The bill only covers workers who lose their jobs in layoffs involving fifty or more people who are eligible for coverage under COBRA. It will pay premiums for up to four months or to a maximum total cost of \$500, whichever comes first, while the worker seeks another job.

The plan in effect at this time is temporary and has received \$3 million in funding. The Governor will be submitting a plan to the New York legislature for a permanent mechanism. The final decision on the type of mechanism to be used had not been determined as of October, 1987. However, the recommendation may call for a joint contributory system similar to unemployment compensation where employers and employees contribute to the cost of the program. The New York program was developed as the result of a project called COMPACT jointly agreed to by business, labor, and the state government. The main goal of COMPACT was to alleviate the impact of shut downs and major layoffs.

Pennsylvania

Approximately five years ago Pennsylvania was faced with a significant unemployment problem, particularly with respect to the impact of unemployment on health coverage. In response to the problem, the Blue Cross and Blue Shield plans began to offer a program of minimum coverage with high deductibles for hospital stay. The insureds were responsible for paying the total premium, but the hospitals assisted the insureds by absorbing the deductibles. The physicians accepted the payments received from Blue Cross/Blue Shield as payment in full. This type of arrangement is only available in one area of the state at the present time.

Connecticut

Connecticut requires employers to extend free health insurance coverage to its employees for 120 days if the employer moves out of state or if the employer goes out of business. Connecticut laws as of November 1, 1987, had not been challenged in court although apparently it is in conflict with ERISA (the Employee Retirement Income Security Act).

Connecticut has also established a health insurance pooling mechanism for people who do not have health insurance. The pool is primarily intended to provide coverage to those who are unable to obtain coverage because of their health condition, but it allows any resident of the state ineligible for Medicare to participate. The premium for coverage in the pool is relatively high, and it is not expected to be heavily used by the unemployed, because there is no subsidy.

Minnesota

Minnesota provided health care services for some of its unemployed from 1983 to 1986. The funding was provided through funding from the Federal Jobs Bill. Minnesota allocated approximately \$700,000 to provide health coverage to the unemployed. The Minnesota program provided primary and preventative health services to individuals in 32 counties. Services were available through a voucher system. The vouchers were distributed to the unemployed through their local unemployment offices. Services offered through this program were provided to 2,702 individuals in 1984 and 5,942 in 1985.

Arizona

In Arizona, two-parent families with an unemployed principal earner are eligible for the Medicaid Program, provided that the parents have not refused to accept available employment or vocational training. The family's health care needs are then served by the program.

Wisconsin

Wisconsin operates a program (WisconCare) that is similar to the Minnesota program mentioned above. WisconCare was initially funded by monies received from the Federal Jobs Bill. It has been funded for the last two years by state funds that are generated through assessments of hospitals in the state. Seventeen counties in the state were selected to receive the funds. Primary health care services are provided to individuals. Maternity care was added after the program began. Initially, providers volunteered to participate and donated their services without charge. The providers are now reimbursed at the same rates that Medicaid provides. The program is funded at \$1.5 million a year for the next two years. Currently 2,000 people are covered, and as many as 4,800 have been covered at any one time in the past two years. All of the administrative and claims services are handled by agencies outside of the state government for a fee.

A recommendation has also been made under Wisconsin's proposed state health insurance program for consideration of a loan program. The state would guarantee a loan to purchase health insurance. It is believed that this plan would be used by workers who have been laid off or terminated from their jobs. This would apply to individuals who have the right to pay for continuation of their insurance but do not have the funds to do so. In the budget, a 25% default rate was assumed and an \$1,040 subsidy per person was projected. \$35,000 was estimated to be the cost of monitoring the loan program.

Massachusetts

Massachusetts passed legislation in 1984 that requires employers to continue coverage for 90 days to individuals who are unemployed because of plant closings or partial closings. The employer continues to pay the same part of the premium it paid

originally, and the employees continue to pay their share of the premium. If the employer has filed for bankruptcy, the state will pay the employer's part of the premium. This legislation has not yet been challenged on the basis of conflicting with ERISA.

FACTORS TO BE CONSIDERED PRIOR TO EVALUATING ALTERNATIVES

A number of key decisions must be made to develop a state program to provide health protection for the unemployed:

1. Who would be eligible for the program? Would the program be available to those who are chronically unemployed, those who have given up finding a job and have stopped looking, those with temporary jobs, or only those eligible for unemployment benefits? Would it apply to heads of households only or to their dependents as well?

2. Would health care services be offered, or would actual health insurance coverage be provided?

3. What types of health care coverage would be offered and for how long? Would the coverage be for preventative care alone, acute care alone, or a combination of the two?

4. Would individual coverage be offered or group coverage?

5. How would the cost of the coverage be paid? Would state funds be contributed, or would the participant be required to pay for the coverage and reimburse the state when employed?

6. What type of delivery system would be used? Would an existing insurer or health care provider be used, or would a separate organization be created to administer the program?

Eligibility.

Unemployment insurance provides protection against the loss of wages for individuals who become unemployed through no fault of their own. The money for the benefits is collected through taxes on employers covered under the Unemployment Compensation Act. If the individual is totally unemployed, the weekly benefits range from a minimum of \$58 per week to a maximum of \$167 per week. Benefits can be paid for up to 26 weeks. As of July 1, 1987 the average weekly benefit received was \$125.59.

According to statistics compiled by the Virginia Employment Commission as of July 1, 1987, there were approximately 129,709 unemployed Virginians. Of that number approximately 20% (25,900) qualify for unemployment benefits. Addressing

the uninsured and unemployed problem completely would require the extension of coverage beyond those qualifying for unemployment compensation. However, if protection is desired for a particular group of the unemployed such as the chronically unemployed or those who are unemployed because of large layoffs, the number of individuals would be significantly lower.

Health Insurance or Health Care Services.

The study resolution requests that the feasibility of providing insurance to the unemployed be considered. But providing health care directly is an alternative to providing insurance coverage.

Group Versus Individual Coverage.

Group insurance generally is less expensive than individual coverage because of savings in administrative costs and because a group has varied experience that may result in lower claim payments per person. Group insurance for the unemployed is, therefore, a more attractive economic alternative than individual coverage.

The development of a group program specifically for the unemployed would require the services of an insurer. A competitive bidding process could be used to obtain those services, or provisions could be made to allow the program participants to continue any group coverage that is available to them.

Types of Health Care Provided or Insured.

Options exist for providing a range of health care services. A program could be developed to offer basic hospital/medical/surgical benefits alone, or preventative care alone, or catastrophic or major medical care alone, or any combination of these types of care. Obviously, including more benefits would increase the cost of the coverage.

Method of Payment.

Options for payment fall basically into three categories:

- Payment by previous employer;
- Payment by the unemployed;
- Payment from state funds.

Payments by the previous employer is not a feasible alternative. Many employers do not provide health care benefits to their active employees because of the cost of the benefits. Additionally, Federal legislation under the ERISA Act pre-empts states from requiring employers to offer benefits.

Payment by the unemployed themselves is an attractive alternative but not a feasible one. The unemployed have limited resources, and the allocation of those resources are logically applied first to meeting basic needs of food, lodging, and clothing. As demonstrated by the 1986 State Corporation Commission study of the uninsured, the majority of individuals offered the opportunity to continue their health coverage by paying the cost themselves declined to do so.

The remaining alternative requires an allocation of state funds to provide payment. There is, of course, the option of paying for the coverage and requiring repayment at a later time by the unemployed individuals.

Type of Delivery System.

The type of delivery system chosen depends in part upon the decisions made in the previously discussed areas. Existing alternatives include:

- Using an insurer selected by the state to provide coverage to participants;
- Using a Health Maintenance Organization to provide services to those covered;
- Creating or designating a separate organization within the state government to provide services to the unemployed;
- Allowing the program participant to select their carrier.

ALTERNATIVES AVAILABLE FOR PROVIDING HEALTH COVERAGE TO THE UNEMPLOYED

The alternatives discussed in this section are listed in descending order of feasibility. It must be recognized that many employed individuals do not have health insurance. Some of the alternatives in this section would be available only to those individuals that had coverage available to them through employment, while other alternatives could be offered to all of the unemployed. One disadvantage of any program of this type is that it can lead to a reliance on the program that fosters dependency.

Increase Public Awareness of Options Presently Available.

Options currently available to some of the unemployed are often not exercised. Education of the existence and the value of these options could be helpful. This alternative requires funding only for the education of the public and not for the cost of coverage.

Options Available:

- A. Virginia insurance law requires group health policies to offer one of two options as elected by the group policyholder: (1) that a non-group policy be issued to the

insured group member without evidence of insurability in the event the group members eligibility for coverage ends; or (2) that the coverage under the prior policy be continued for 90 days after termination. Although the insured member is responsible for paying the premium under either option, one of these alternatives is available to individuals who wish to continue their health care coverage.

- B. Enrolling as a dependent under a spouse's group insurance plan is another means by which the unemployed can obtain coverage. Legislation could also be introduced to require enrollment to be offered year round to spouses terminated by their employer even though many plans already make this option available. The disadvantage of this alternative is its limited applicability. Many spouses are either unemployed or are employed by an organization that provides no insurance coverage as an employee benefit.
- C. Unemployed individuals could also be informed of the opportunity to obtain coverage from the Blue Cross/Blue Shield plans during the open enrollment periods. Open enrollment periods are periods during which the Blue Cross/Blue Shield plans will, with a few exceptions, accept all applicants regardless of their age, sex, medical history, or occupation. The premium would have to be paid by the insured as is the case with conversion or continuation of a group policy, but this is one means of obtaining coverage. This option is available to all unemployed individuals unlike conversion or continuation.

Increased public awareness requires some expenditures, but the mechanism used to increase awareness affects the program cost. Use of the mass media, such as television or radio, would cost more than a program that required only printed messages. An example of a limited education effort is the inclusion of a pamphlet with unemployment compensation checks that emphasizes the possibility of retaining health coverage through conversion or continuation of coverage. The cost of this type of project is minimal when compared to the cost of the other alternatives to be discussed.

Develop a Loan Program.

A program for the unemployed that offers to provide funds for the payment of health insurance premiums with a requirement for repayment from the individual receiving the funds is another option.

The requirement of repayment will be a deterrent to reliance on this program in an attempt to avoid being responsible for health coverage. A loan program would also have limited negative effects on employers, and it could be designed to cover all of the Commonwealth's unemployed residents. A loan program requires the development of a mechanism to review loan requests, award funds to those deemed eligible, and collect the repayment. Allowances have to be made in cost estimates for the debts not collected within the required repayment period.

Another variation of this program is a loan guarantee program similar to the one proposed for Wisconsin. The State of Wisconsin estimated the cost of this type of

program to be \$260,000 with only 1,000 enrollees. The loan and the insurance are obtained by the individual in the Wisconsin proposal. The state determines the eligibility of the applicant for guarantee of the loan. If this type of program were made available here and there were 10,000 enrollees, the cost to the state would be approximately \$2,635,000 per year using the Wisconsin assumptions. Wisconsin assumed a 25% default rate with a subsidy of \$1,040 per participant and \$35,000 to monitor the program.

Subsidize Payment of COBRA Premium.

The state could offer to pay in full or in part the premiums required for the extension of coverage by virtue of COBRA requirements. This option applies only to those unemployed who worked for an employer of at least 20 or more individuals. Spouses and dependents or divorced spouses are also eligible to retain coverage under COBRA requirements. It would not be necessary to subsidize premium payments to cover the 18 months that COBRA extends coverage. The payment subsidy could be limited to a shorter period of time and could be made applicable to the unemployed alone.

The advantage of this option is that it assists those who cannot afford to pay 102% of the premium costs that the individual was likely to have paid only a portion of prior to unemployment. The subsidization of the COBRA premium payment would not apply to as many of the unemployed as the previously mentioned alternatives.

The 1986 State Corporation Commission study of the degree of health insurance of Virginians included a random sample of employers. The results indicate that employers of 50 or more employees are more likely than other employers to provide or contribute to health coverage as an employee benefit. The Virginia Employment Commission indicated that the percentage or number of those unemployed that have been terminated by employers of 20 or more individuals is not readily available but can be determined using existing data. The subsidization of COBRA payments of up to \$500 per person would total \$5,000,000 per year for 10,000 individuals.

Reduce State Income Tax for the Unemployed Uninsured.

A reduction in state income tax for the amount of premiums paid for health coverage is another means of encouraging coverage for the unemployed. Under this option, unemployed individuals obtain and pay for their own health coverage. The amount of premiums paid while unemployed could then be applied as a credit against any state income tax owed.

This option would apply to all of the unemployed, allowing them to take advantage of any coverage available, including group coverage. The value of this method is questionable because those who are unemployed for a substantial period of time would have a relatively low income tax liability and could in fact owe no income tax. Another disadvantage of this method is that it would result in reduced revenue

for the state to the extent that it was used. The state would actually be paying the cost of the coverage.

The cost to the state of a reduction in state income tax for the unemployed is dependent on (1) the amount of the reduction or credit allowed and (2) the number of individuals taking advantage of the program that would owe state taxes. For the purpose of this study, an estimate of an annual credit up to \$500 per wage earner is being assumed and 20,000 Virginians are assumed to use the credit. The cost to the state could reach \$10,000,000 per tax year. The State Corporation Commission does not have a valid estimate of the number of individuals that would use this type of credit if it were available. The credit could be used by fewer than the 20,000 in the above example. A credit of \$500, used in the example, is not expected to cover the full cost of the annual premium of a comprehensive health insurance policy.

Expand Medicaid Eligibility to Include the Unemployed.

The Medicaid Program pays the costs of a wide range of health care services for those eligible and already represents a major expenditure in the budget of the Commonwealth. Under this option the Medicaid eligibility requirement would be modified to include some segment or segments of the unemployed uninsured.

Expanding eligibility requirements to include the unemployed would not require the creation of a new agency. Funding would be required for the provision of services and the additional administrative costs. However, the cost per participant under this option is likely to be greater than the costs under the other alternatives because more services are covered by Medicaid than by most insurance policies and there are minimal requirements for cost participation by the covered individual. This might lead to a lower cost-consciousness among program participants, thereby encouraging greater use of services. If this coverage is offered to the unemployed with no cost to participants, it is possible that nearly all of the approximately 130,000 unemployed Virginians could elect to receive Medicaid benefits.

Medicaid estimates the 1987 average expenditure for program participants not in nursing homes to be approximately \$1,100 per person. The total cost to the Commonwealth to provide this benefit for all of the state's unemployed is estimated to be approximately \$143,000,000 per year.

Another variation of this option would be to require a payment from the unemployed individuals in some amount that would allow them to "Buy-In" to the Medicaid Program. The payment would reduce the cost to the state for this program. It is likely that it would also reduce the number of individuals requesting coverage under the program.

Offer Reduction in Unemployment Compensation in Exchange for Health Coverage or Increase Unemployment Contribution Requirements to Fund Cost of Health Coverage as an Additional Benefit.

Under this option the unemployed could obtain an insurance policy if they had no prior coverage, or retain their current insurance, or the state could attempt to obtain a group contract for those individuals.

An advantage of this alternative is that one possible delivery system for the program, the Virginia Employment Commission, already exists. There would, of course, be an increase in the cost of operation of that agency, and the current system for determining eligibility and compensation would have to be expanded. Reducing unemployment compensation received in exchange for health coverage would result in increased administrative costs for the Virginia Employment Commission. A system would have to be designed and implemented to offer the option of health coverage, identify those electing to receive health coverage, and track those individuals during their eligibility period. This alternative would provide assistance only to those eligible for unemployment compensation. A reduction in the amount of compensation paid directly to the unemployed would result in less money being available to provide for the daily requirements of food, lodging, and clothing. An increase in the required rate of contribution to the system would impact employers negatively and could either be passed on to consumers in the form of higher prices or could result in employers decreasing their workforce.

The agency selected to implement these changes could provide an estimate of the administrative costs. The number of individuals electing this option is not anticipated to be high because the current average benefit amount of \$125.59 may not allow individuals the flexibility of receiving less financial compensation. Increasing the current unemployment compensation payment would benefit approximately 26,000 Virginians. For the purpose of this study, the cost of annual health coverage is estimated at \$1,200 per year, with a semi-annual premium of \$600. The additional funding required to provide this benefit for six months to 26,000 unemployed would be \$15,600,000 per year. Increasing the rate of contribution required from employers is one method of funding the alternative.

Require Premium Contributions by Employers.

Although requiring a premium contribution by the employer is subject to conflict with federal law (ERISA), some states have attempted to do so as discussed earlier. Requiring employers to pay all or part of the premium for their terminated employees could be considered as another alternative. It is possible to structure this alternative in a number of ways, but logically it would not be applicable to the chronically unemployed or to those who no longer seek employment.

The major advantage of requiring some contribution by employers is that it would assist the unemployed in continuing their existing coverage. The disadvantages of this approach are the possible overruling by federal law, adding to the employers' costs of doing business, and the possibility of encouraging more employers to self-insure. This type of requirement may also be viewed negatively because it may be

perceived as a punishment to those employers who are contributing to the public good by providing health coverage to their employees.

Requiring premium contributions from employers is simplistically the least costly option for State Government because it requires expenditures by employers, and not by the state. However, the use of this option could have far reaching effect of increasing the number of companies that do not provide health coverage to their employees or self-insure health coverage. It is extremely difficult to assess the number of employers that could be adversely affected to the point where they would decide to discontinue business.

CONCLUSION

The State Corporation Commission's Bureau of Insurance concludes that there are a substantial number of people that would benefit from a state program offering health care services or health care insurance to the unemployed. The SCC believes that there are a number of viable alternatives for this type of program, but there are expenses associated with each alternative.

The development of a successful program of this type requires major public policy decisions. The merits of a program to provide for health insurance for unemployed Virginians are substantial, but they must be weighed against the costs of operating such a program. The costs include not only financial and manpower resources but also the consequences of shifting existing resources to a program of this type.

The State Corporation Commission's Bureau of Insurance suggests that if a decision is made to implement a program for the unemployed, a pilot program be developed and tested before a state-wide program is initiated. The pilot could be tested in the area or areas of the state where unemployment is the highest and where there is a sufficient population base to accurately reflect the state-wide experience of a plan of this type. A dual testing of the two alternatives that are considered by the General Assembly to be the most feasible is also a viable option. The results of the pilots can then be studied and compared. At that time, the General Assembly could determine whether the program should be expanded, curtailed, or eliminated.

