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Missouri leads way on health insurance reform

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As political pundits and activists consider the policy implications of next year's presidential elections, states are taking their own steps to address important issues such as health care. Missouri is one state that recently took an important step towards making health insurance more accessible to one segment of the population.

HB 818, formally known as the Missouri Health Insurance Portability and Accountability Act, was overwhelmingly approved in May. While both houses of the Missouri Legislature are controlled by Republicans, the act garnered substantial Democratic support as well: The Senate approved it by a vote of 31-0, while the House initially approved it by a vote of 150 to 4. After the Senate offered an amendment to an obscure provision of the bill, the House passed the final version with "only" a 70 percent approval rate, or 106 votes for to 41 against. Gov. Matt Blunt, a Republican, signed the legislation on June 1.

So what does HB 818 do? There are many provisions in the bill, but the one that may actually help a large number of people addresses employees of small businesses. It lets small companies use what is known as a section 125 cafeteria plan to give their workers pre-tax money with which they can buy insurance in the individual insurance market. Both employees and employers can make tax-free contributions. The implications are significant for both employers and employees.

The legislation addresses a major segment of the uninsured: small-business employees. Small companies are widely praised for their contributions to job growth, but with smaller budgets and minimal HR staffs, they often don't offer health insurance to their employees. The National Federation of Independent Businesses says that 27 million of the uninsured, or nearly half the uninsured, are small business owners, employees, or family members.

This law makes it easier for them to get insurance. More on that later.

It offers portable insurance. Most people who have insurance get it through their employer. There are several problems with that approach. The most significant one may be this: What happens when you leave your job? Leaving a job can be traumatic enough, especially if you're not doing it on your own terms. But losing your insurance in the process makes the separation even more difficult.

With an individually owned policy, however, you've got portable insurance. Not only does that give peace of mind, it also alleviates the dreaded "job lock," in which people stay in jobs they hate in order to maintain an insurance policy. A business climate that promotes job lock is an affront to human dignity, and it's bad for economic growth, too.

It gives businesses more control over their health care budgets. In a small group plan, a few claims here or there can dramatically affect premiums. That's not only a financial burden that can force an employer to drop coverage altogether, it's also a planning burden. HB 818 simplifies the insurance business for an employer, which can simply decide how much it will contribute each year to employee costs. Without being tied to the sometimes volatile small group market, the employer enjoys a more predictable budgeting process.

Employees get the benefits of payroll deduction and financial support from employers while being able to participate in the individual market. All insurance policies are subject to a variety of rules that raise their costs. This is especially true for small businesses. Laws governing small-group coverage dictate things such as how much an employer must contribute towards any small-group plan as well as how many employees in a company must participate.

Requirements that plans include specific benefits or providers increase the costs of premiums, prompting some employers and employees to decline coverage. In effect, public policy governing small group plans says "You can't buy a Kia, even if that's what you want. You only can buy a Lexus, and if you can't buy that, you've got to take public transit." By contrast, large companies get around these rules through a federal law known as ERISA. The new Missouri law offers small-company employees their own escape clause.

The new Missouri law, in short, frees small business employees from the arbitrary nature of what their employer happens to offer that year—if insurance is available at all. In short, it helps people buy insurance by letting them leave the red tape and expense of the small-group market, with an employer subsidy, for the relatively simple and cheaper individual market.

Cheaper? Yes. Cheaper.

Beverly Gossage, director of HSA Benefits Consulting, a Lawrence, Kan., company, reports that in 2006, the average small-group family plan in Missouri cost $765 per month. The average individual-based family plan cost $332, less than half.

Why the large difference in cost? Most individuals choose higher-deductible plans, which offer lower premiums. In addition, small group policies in the state are subject to additional regulations that drive up their costs, most notably community rating and guaranteed issue.

Employees who are accustomed to taking whatever policy the HR office serves up may not like having to chose from among insurance policies. And the insurance industry—assisted by some legal changes—could do a better job of making its products more easily understood.

Shopping for insurance, though not as pleasant as shopping for the latest consumer gadget, will be the way for many Missouri residents to find, and control, their own insurance options.