

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** HB 1265 CS      Small Business Health Care Insurance Assistance  
**SPONSOR(S):** Hukill and others  
**TIED BILLS:**      **IDEN./SIM. BILLS:** SB 2428

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REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) Health Care Regulation Committee	10 Y, 0 N, w/CS	Halperin	Mitchell
2) Insurance Committee	18 Y, 0 N	Tinney	Cooper
3) Health Care Appropriations Committee		Speir	Massengale
4) Health & Families Council			
5) _____			

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### SUMMARY ANALYSIS

The bill creates a statewide two-year pilot program to be called "The Small Business Health Care Insurance Assistance Pilot Program." The program is designed to encourage small businesses to offer comprehensive major medical health insurance to their respective employees. Under the bill, the pilot program will offer companies with more than one, but fewer than six employees, a one-time rebate of \$1,000 per employee covered to help pay the premiums. Employers are required to pay at least 50 percent but less than 100 percent of the cost of coverage, and employees are required to contribute the remaining cost.

The bill states the pilot program shall be funded by \$15 million in general revenue funds and will be administered by the Agency for Health Care Administration (AHCA).

The effective date of the bill is July 1, 2006.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. HOUSE PRINCIPLES ANALYSIS:

**Promote Personal Responsibility**—The bill encourages small businesses and individual employees each to pay a portion of the cost of health insurance coverage and then proposes a \$1,000 rebate to eligible employers per covered employee. The bill indicates funds for the rebate will be provided from the General Revenue Fund.

**Empower Families**—The bill increases the opportunity for small-business employees to receive the benefits of health insurance.

#### B. EFFECT OF PROPOSED CHANGES:

##### Background

House Bill 1265 CS is the product of recommendations by a diverse Citizen Advisory Committee that was commissioned by Representative Dorothy Hukill in December 2005. The advisory committee discussed various ideas for legislation to provide support and incentives to small businesses for offering health insurance coverage to their employees.<sup>1</sup>

##### Structure of the Pilot Program

House Bill 1265 CS creates the Small Business Health Care Insurance Assistance Pilot Program as a statewide pilot program for two years. The program is designed to encourage small businesses with more than one and fewer than six employees to provide full comprehensive major medical health insurance for employees for the first time. The program will offer a one-time rebate of \$1,000 per employee covered while requiring both employers and employees to contribute to the cost of the policies.<sup>2</sup> Employers must pay at least 50 percent, but less than 100 percent, of the cost of coverage, and employees are required to pay the remaining cost. Employers seeking the rebate must demonstrate that they have provided such coverage to their employees for the first time.

The bill specifies that a business is eligible for the rebate if, at the time of applying, the business had provided and paid for such coverage for 12 consecutive months, but had not previously provided such coverage for at least 6 months prior to the 12-month period. Businesses may only receive the rebate once.

The pilot program is to be administered by the Agency for Health Care Administration (AHCA). Applicants must apply for the rebate through the agency. The bill requires AHCA to adopt rules necessary to administer and ensure accountability of the pilot program, and to enforce compliance with the requirements of the program.<sup>3</sup> The bill also authorizes AHCA to audit a business applying for rebates to ensure compliance with eligibility requirements.

The bill states that it is the intent of this act to allocate \$15 million in general revenue funds to establish a statewide pilot program. The bill also requires the program to be funded by general revenue.

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<sup>1</sup> Information available at: <http://www.myhometownnews.net/index.php?id=3517>; viewed April 2, 2006.

<sup>2</sup> The bill specifies employees are to be counted based on the employer's Florida Unemployment Compensation Tax Form 6.

<sup>3</sup> The bill directs AHCA to adopt rules pursuant to ss. 120.536(1) and 120.54, F.S.

## PRESENT SITUATION

This bill addresses the ability of small businesses in Florida to provide health insurance coverage for employees. According to the Office of Labor Market Statistics of the Agency for Workforce Innovation, at the end of 2004, an estimated 62.3 percent (488,595) of the businesses in Florida employed between one and four workers. Businesses that are required to pay the most for health insurance are often the ones that can least afford it. Small businesses cannot dilute their risk by spreading it over large numbers of employees so insurance providers compensate by charging small businesses higher per-employee rates.<sup>4</sup> Proponents of the pilot program report the bill will both assist small businesses in providing insurance coverage, and will save the state money above the cost of the program by reducing the number of uninsured patients who rely on emergency room visits as their primary source for health care.<sup>5</sup>

### Overview of the Uninsured

More than 45 million Americans are uninsured, with nearly 60 percent of those employed by small businesses.<sup>6</sup> Although the majority of Americans obtain insurance through their employer as a benefit, employment does not guarantee coverage. The uninsured are primarily working families with low and moderate incomes for whom coverage is not available in the workplace or is unaffordable. Medicare covers most citizens age 65 and older, while Medicaid and the State Children's Health Insurance Program (SCHIP) provide coverage for millions of low-income people. There remains a significant gap in coverage, in part because employer-sponsored health insurance is sensitive to changes in the general economy and in rising insurance premiums. Between the years 2000 and 2002, there was a nearly 10 percent growth in the number of uninsured Americans.<sup>7</sup>

### Consequences of the Uninsured

There is a strong relationship between insurance coverage and access to medical services. Health insurance influences the amount and type of care that people are able to afford, and increases the ability of people to seek preventative care. Insurance coverage improves overall health and is estimated to reduce mortality rates by 10 to 15 percent. For example, according to Florida Cancer Registry data, the uninsured have a 70 percent greater chance of a late diagnosis, which significantly decreases the chances of a positive health outcome.<sup>8</sup> The uninsured are more likely to be hospitalized for avoidable health problems and are more likely to be diagnosed in the late-stages of disease. Insurance also has an impact on the financial well-being of families: insurance helps reduce financial uncertainty associated with health care, and reduces vulnerability to unexpected out-of-pocket costs.

The problem of the uninsured impacts not just those individuals and families without coverage, but also has considerable externalities on employers and on the state. The cost of uncompensated care in the United States totaled about \$36 billion in 2001, about 75—80 percent of which was paid for by federal and state dollars directly to hospitals. According to AHCA, uncompensated care in Florida's hospitals totaled more than \$4.3 billion in 2001 and is growing at the rate of 12—13 percent per year.<sup>9</sup>

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<sup>4</sup> Information available at:

[http://www.microsoft.com/smallbusiness/resources/finance/business\\_insurance/best\\_and\\_worst\\_states\\_for\\_health\\_insurance\\_costs.mspx](http://www.microsoft.com/smallbusiness/resources/finance/business_insurance/best_and_worst_states_for_health_insurance_costs.mspx); viewed April 2, 2006.

<sup>5</sup> See *supra*, Note 1.

<sup>6</sup> See *supra*, Note 4.

<sup>7</sup> Henry J. Kaiser Family Foundation; Kaiser Commission on Medicaid and the Uninsured; "The Uninsured and Their Access to Health Care," November 2005; available at: <http://www.kff.org/uninsured/upload/The-Uninsured-and-Their-Access-to-Health-Care-Fact-Sheet-6.pdf>; viewed April 2, 2006.

<sup>8</sup> Florida Cancer Registry; available at: [http://www.doh.state.fl.us/Disease\\_Ctrl/epi/cancer/CancerIndex.htm](http://www.doh.state.fl.us/Disease_Ctrl/epi/cancer/CancerIndex.htm); viewed April 2, 2006.

<sup>9</sup> Florida Insurance Council; "Governor Bush announces creation of Governor's Task Force on Access to Affordable Health Insurance," available at: <http://www.flains.org/newfic/mediapublic/latebreakingnews/govhealth825.html>; viewed April 2, 2006.

## **The Uninsured in Florida**

Approximately 22.2 percent of the adults in Florida, and 12 percent of the children were without health insurance in 2004. Employees of small-businesses appear to have an especially difficult time obtaining or affording health insurance. The 2004 Florida Health Insurance Study<sup>10</sup> (FHIS 2004) evaluated levels of insurance coverage based on both employment status of the individual, and on the size of the firm. The study found that approximately 48.1 percent of the unemployed in Florida are also uninsured. The study further reported that obstacles to employer-provided health insurance are greatest for the smallest firms. In companies with four or fewer employees, 36.3 percent of workers are uninsured; in companies with between five and nine employees, 35.2 percent of workers are uninsured; in companies with between 10 and 24 employees, 31.8 percent are uninsured; and in companies with between 25 and 49 employees, 22.7 percent are uninsured. Rates of coverage increase significantly for larger firms.

Among uninsured employed adults, the reasons for lacking coverage vary. A strong majority of 69 percent report that the employer does not offer insurance. For 13.6 percent, the employer offers insurance but the employee is ineligible for coverage; for 12.7 percent, the employer offers insurance but the cost sharing for the employee is too high; and 4.5 percent of uninsured employees declined for other reasons. Finally, 32 percent of exclusively self-employed workers are uninsured.

## **Costs of Insurance**

Since 2000, the cost of health insurance in the United States has increased by 73 percent. In 2005, premiums for family coverage increased 9.2 percent nationally with comparable rates in Florida. This is the first year of single digit increases since 2000. The 9.2 percent increase exceeds the overall rate of inflation by nearly 6 percentage points and the increase in workers' earnings by over 6 percentage points. Covered workers in small firms experienced even greater premium increases of 9.8 percent.

The average cost of single coverage for covered workers in 2005 is \$335 per month or \$4,024 per year. This figure includes both the employer and employee contribution. The average cost of family coverage is \$10,880 a year, which exceeds the annual gross earnings of a minimum wage worker who is fully employed throughout the year. Premiums further vary based on the type of policy workers are covered under. Preferred Provider Organizations plans have the highest enrollment and face higher average premiums for both single and family coverage than Health Maintenance Organizations plans. The average premium for workers in PPO plans is \$4,150 for the individual and \$11,090 for the family, while the average premium for workers in HMO plans is \$3,767 for the individual and \$10,556 for the family.<sup>11</sup>

The Medical Expenditure Panel Survey (MEPS) is conducted annually by the federal Agency for Healthcare Research and Quality and evaluates the price of insurance coverage across the states. According to the 2000 Employer-Sponsored Health Insurance Data, Florida was rated the seventh most expensive state in the average insurance premiums that small businesses pay for family coverage.<sup>12</sup>

## **Other Efforts to Help Small Businesses Provide Health Insurance**

There are currently a number of national and state efforts to increase the capacity of small businesses to provide health coverage for employees. The U.S. Chamber of Commerce and the Florida Chamber of Commerce, in particular, support the Health Savings Accounts (HSAs) and group association rates. The U. S. Chamber of Commerce encourages expansion of the HSAs to make it easier for small

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<sup>10</sup> Agency for Health Care Administration; 2004 Florida Health Insurance Study; available at: [http://ahca.myflorida.com/Medicaid/quality\\_management/mrp/Projects/fhis2004/](http://ahca.myflorida.com/Medicaid/quality_management/mrp/Projects/fhis2004/); viewed April 2, 2006.

<sup>11</sup> Henry J. Kaiser Family Foundation; "Employer Health Benefits 2005 Annual Survey;" available at: [www.kff.org/insurance/7315/sections/ehbs05-sec-1-print.cfm/](http://www.kff.org/insurance/7315/sections/ehbs05-sec-1-print.cfm/); viewed April 2, 2006.

<sup>12</sup> U.S. Department of Health & Human Services; Agency for Healthcare Research and Quality; The Medical Expenditure Panel Survey (MEPS); available at: <http://www.meps.ahrq.gov/>; viewed April 2, 2006.

businesses and individuals to receive coverage and lobbies for the passage of legislation establishing Association Health Plans, which allow small businesses to pool risk and access health coverage.<sup>13</sup> Incentive plans in other states include pilot programs to allow small businesses to buy into the state employee's health care system at no cost to the state;<sup>14</sup> proposals to offer incentives for insurance companies to cut the cost of premiums in exchange for reductions in the premium tax they pay to the state; \$1,000 tax credit rewards to small businesses that offer health care; and proposals to reduce the number of coverage items mandated by state government in order to reduce the cost of coverage.<sup>15</sup>

C. SECTION DIRECTORY:

**Section 1.** Creates law, provides legislative intent, and authorizes a two-year pilot program called The Small Business Health Care Insurance Pilot Program.

**Section 2.** Provides an effective date of July 1, 2006.

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

See Fiscal Comments below.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

To the extent state funds are available to offset health insurance premiums paid by small businesses on behalf of their employees, local monies for health care may be supplanted by state monies.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Eligible small businesses, that is, those with 1 to 6 employees, may apply for state subsidies of \$1,000 each to help pay annual health insurance premiums for their respective employees. The bill specifies the eligibility requirements and application process for the state subsidy.

D. FISCAL COMMENTS:

The language of the bill is ambiguous as to whether a \$15 million appropriation is made in the bill. The bill states, "It is the intent of this act to establish a statewide pilot program that will allocate \$15 million for general revenue for such purposes."

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<sup>13</sup> U.S. Chamber of Commerce; Health Care: Policy Priorities for 2005-2006; available at: <http://www.uschamber.com/issues/priorities/healthcare.htm>; viewed April 2, 2006.

<sup>14</sup> Kansas Small Business; Kenneth Daniel; "Health Insurance Solutions for Kansas Small Businesses; available at: [http://www.kssmallbiz.com/articles/article\\_442.asp](http://www.kssmallbiz.com/articles/article_442.asp); viewed April 2, 2006.

<sup>15</sup> Health Care's Foundation Crumbling; Amanda J. Crawford; *The Arizona Republic*; January 15, 2005; available at: <http://www.azcentral.com/specials/special46/articles/0115HCR-overview15.html>; viewed April 2, 2006.

The bill also states, "The pilot program shall be funded by general revenue." These two sections may be interpreted as appropriating general revenue funds for the Small Business Health Care Insurance Assistance Pilot Program.

### **III. COMMENTS**

#### **A. CONSTITUTIONAL ISSUES:**

##### **1. Applicability of Municipality/County Mandates Provision:**

None.

##### **2. Other:**

None.

#### **B. RULE-MAKING AUTHORITY:**

The bill grants rulemaking authority to AHCA to administer the Small Business Health Care Insurance Assistance Program.

#### **C. DRAFTING ISSUES OR OTHER COMMENTS:**

None.

### **IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES**