

# Policy Points

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## ARHealthNet: Helping Small Businesses Afford Employee Health Coverage

One in four working-age Arkansans—378,000 people ages 19 to 64—lacked health insurance coverage in 2004. Of these working-age uninsured, more than three in five were employed.<sup>1</sup>

Increasingly, health insurance is no longer a guaranteed benefit of employment, especially for employees of small businesses. The rising cost of sponsoring health insurance coverage for employees is one of the most significant challenges facing small business owners, both nationally and in Arkansas.

In Arkansas, nine in 10 private-sector firms with 50 or more employees offer health insurance. But the situation is starkly different for private-sector firms with fewer than 50 employees. Just three in 10 of these smaller firms offer health insurance.

One participant in the 2005 Arkansas Small Employer Focus Group sponsored by the Arkansas Center for Health Improvement described the dilemma: “The rising cost of health insurance will not allow me to have insurance because the cost is just too high for my small business.” Another participant in the focus group stopped offering health insurance because the business’ employees said they couldn’t afford the monthly premiums deducted from their paychecks.<sup>2</sup>

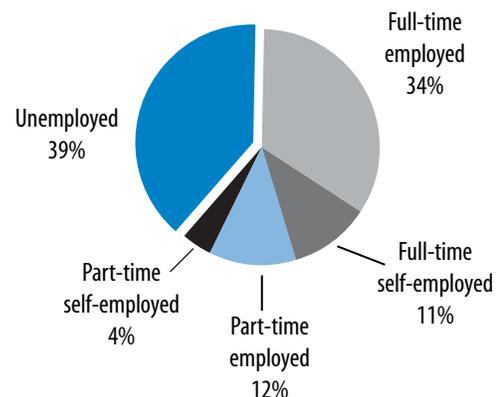
ARHealthNet, a recently implemented, unique partnership between state and federal government, employers and families, is designed to provide basic health coverage for small business employees—particularly those with low incomes—through a limited package of benefits at an affordable price.

This brief summarizes the main elements of ARHealthNet and explains how this innovative program can help bridge the gap between small business owners’ desire to offer health insurance and their financial ability to do so.

### Employer-based Health Coverage Gaps

Of the one in four working-age Arkansans who lack health coverage, 61 percent are employed, as the chart below shows.

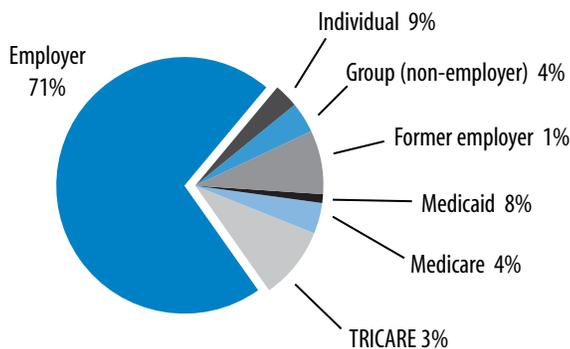
**Employment status of uninsured working-age adult Arkansans, 2004**



Source: Arkansas Center for Health Improvement, 2005 *Arkansas Fact Book: A Profile of the Uninsured*

Of those with coverage, the lion’s share—71 percent—receive it through their employer.

**Sources of health insurance for working-age Arkansans, 2004**



Source: Arkansas Center for Health Improvement, 2005 Arkansas Fact Book: A Profile of the Uninsured. TRICARE is a publicly financed health insurance program for military personnel (formerly known as CHAMPUS).

Nationally, an average of 55.1 percent of all private-sector companies offer health coverage to their employees; in Arkansas, the proportion is 42.4 percent. Arkansas ranks 47th out of the 50 states in this measurement and is one of 17 states in which less than half of all private-sector companies offer health coverage.<sup>3</sup>

The statistics are more encouraging for larger private-sector firms, but compared with other states Arkansas still ranks low. Nationally, an average of 96 percent of private-sector firms with 50 or more employees offers health insurance to their employees. In Arkansas, the figure for firms with 50 or more employees is 89.8 percent—the lowest percentage among the 50 states save Utah.<sup>4</sup>

The picture both nationally and in Arkansas is discouraging for private-sector firms with fewer than 50 employees. Nationally, an average of 41.9 percent of these firms offer health insurance coverage to employees, and in Arkansas, the proportion is even smaller—just 29.2 percent. Arkansas ranks 44th out of the 50 states, tied with Oklahoma and Wyoming, in the proportion of smaller businesses that offer health coverage.<sup>5</sup>

For firms with fewer than 10 employees, the national average is 34.1 percent. Just 19.6 percent of Arkansas

firms with fewer than 10 employees offer health insurance. The Natural State ranks 49th in the nation, with only Mississippi showing a smaller proportion of private firms with fewer than 10 employees that offer health insurance.<sup>6</sup>

**Percentage of private-sector companies that offer health insurance, 2004**

	National Average	Arkansas	Arkansas National Rank
All private sector firms	55.1%	42.4%	47
Fewer than 10	34.1%	19.6%	49
Fewer than 50	41.9%	29.2%	44
50 or more employees	96%	89.8%	49

Source: 2004 Medical Expenditure Panel Survey-Insurance Component. Accessed at [www.meps.ahrq.gov](http://www.meps.ahrq.gov)

Research conducted for the U.S. Small Business Administration’s Office of Advocacy shows that the smaller the company, the less likely that the company offers health insurance coverage to employees.<sup>7</sup>

A 2006 survey of small business owners conducted by the National Federation of Independent Business found that the largest plurality of respondents (19 percent) cited the

cost and availability of health insurance as their most important problem, ahead of taxes (15 percent), quality of labor (12 percent), and government regulations and “red tape” (11 percent).<sup>8</sup>

ARHealthNet offers a real opportunity for Arkansas to improve its poor nationwide rankings in employer-based health care coverage. Head of the Class Child Care and Learning Center in Monticello is an example of a small business that is offering health coverage thanks to ARHealthNet.

Sherrie Gillespie, a client of Southern Good Faith Fund’s Business Development

Center, owns Head of the Class with her husband, Shay. Sherrie Gillespie says the business previously couldn’t afford to offer health insurance to its employees—and the employees couldn’t afford to pay the expected premiums.

“The rising cost of health insurance will not allow me to have insurance because the cost is just too high for my small business.”

—participant in the 2005 Arkansas Small Employer Focus Group

Under ARHealthNet, Head of the Class offers health coverage to eight employees at a total cost of about \$300 a month in premiums. Previous estimates were that offering coverage would cost \$300 a month per employee. The business's other six employees have health coverage through their spouses.

“Being able to offer health coverage to your employees is very important,” Sherrie Gillespie says. “We’re able to probably retain employees because of it. We spend a lot of money training employees. Now that we’re able to offer them insurance through ARHealthNet, we really think it will reduce turnover.”

Some of the types of small businesses covered under ARHealthNet include child care, churches, lawn care, a municipal government, a travel agency, and restaurants.

### Employer-based Coverage Expansion

Arkansas is one of four states—the others are New Mexico, Oklahoma, and Rhode Island—that recently have implemented or began to implement employer-based health coverage partnerships.<sup>9</sup>

The concept for ARHealthNet was developed by the Arkansas Health Insurance Expansion Initiative Roundtable and the Arkansas Center for Health Improvement (ACHI), in partnership with the Arkansas Department of Health and Human Services. Southern Good Faith Fund is one of the consumer representatives on the Roundtable.

ARHealthNet is funded through a combination of federal Medicaid dollars, state tobacco settlement money, and contributions from employers and employees.

Businesses that have not offered health care coverage for at least 12 months and have between two and 500 full-time employees (at least 30 hours per week on average) are eligible to participate in ARHealthNet.

Participating employers must cover all of their employees ages 19 to 64 through ARHealthNet or provide evidence of other coverage. Employees covered under another existing group health plan, such as coverage provided through a spouse, will be exempt from participating in ARHealthNet.

Spouses who meet plan requirements are also eligible for coverage. Children are not covered under ARHealthNet,

but children of employees will be evaluated for coverage under the ARKids First program.

Under ARHealthNet, employees who are U.S. citizens, live in Arkansas, and have annual household incomes at or below 200 percent of the federal poverty level will be eligible for assistance in paying health insurance premiums.

At least one employee must have income at or below 200 percent of poverty for the employer to participate in ARHealthNet.

The table below shows the income guidelines to receive subsidized premiums under ARHealthNet. Income guidelines are revised annually by the U.S. Department of Health and Human Services.

**ARHealthNet income limits for subsidized premiums, 2007**

Family Size	Annual Income	Monthly Income
1	\$20,420	\$1,701.67
2	\$27,380	\$2,281.67
3	\$34,340	\$2,861.67
4	\$41,300	\$3,441.67
5	\$48,260	\$4,021.67
6	\$55,220	\$4,601.67
7	\$62,180	\$5,181.67
8	\$69,140	\$5,761.67

Source: 2007 Federal Poverty Guidelines, accessed at <http://aspe.hhs.gov/poverty/07poverty.shtml>

The amounts shown represent 200 percent of federal poverty levels for each household size.

ARHealthNet premiums will vary among employees depending on age and gender. The average premium is estimated at \$278 a month for employees who earn greater than 200 percent of the federal poverty level. Employers decide how much, if any, of the premium cost is the responsibility of employees.

Employees who earn at or below 200 percent of poverty will have their monthly premiums subsidized by federal and state dollars. The subsidy rate is 81 percent for lower-income employees with dependent children and 73 percent for lower-income employees who don't have dependent children.

The remaining premium, which will typically range between \$10 and \$50 a month, can be paid by the employer, the employee, or a combination.

All ARHealthNet participants, regardless of income, will be subject to a \$100 annual deductible, which is included in the maximum \$1,000 annual out of pocket cost to the employee. After the deductible is satisfied, a 15 percent co-insurance will be required. The deductible does not apply to office visits and prescriptions.

ARHealthNet does not exclude any pre-existing condition from being covered. Employees do not have to answer medical questions to be eligible for coverage. There is no waiting period for initial enrollment and benefits begin immediately.

Statewide, 15,000 slots will be available in 2007 for the first phase of the program, while an estimated additional 65,000 slots will be available from 2008-2012.

## Benefit Package

Every 12 months ARHealthNet will cover the following:

- Seven inpatient hospital days.
- Six physician office visits.
- Two major outpatient services, including emergency room and major services performed in the office.
- Two prescriptions per month, subject to co-insurance (but not deductible). Co-insurance is \$5 for generic prescriptions, \$10 for brand-name formulary, and \$30 for brand-name nonformulary.
- There is a maximum annual benefit of \$100,000 per employee. After benefits are exhausted, employees will receive ongoing discounts. They will pay the rate that the health plan administrator has negotiated with medical providers. These negotiated rates are significantly discounted from the billed cost.

ARHealthNet is renewable every 12 months. The program is administered by NovaSys Health, a Little Rock-based health plan administrator. NovaSys Health providers must be used for benefits to be paid (including emergency services).

Employer groups can enroll in ARHealthNet coverage through local insurance agents who participate in the program. There is a searchable database of participating agents online at <http://www.arhealthnet.com/bsearch>

A list of participating NovaSys providers and a downloadable provider directory is available online at <http://www.arhealthnet.com/psarcha>

A detailed benefits summary is available online at <http://www.arhealthnet.com/benefits>

More information also is available about enrolling in ARHealthNet:

- On the Web at <http://www.arhealthnet.com/support>
- By telephone at 1-800-540-7566
- By e-mail at [arhealthnet@novasyshealth.com](mailto:arhealthnet@novasyshealth.com)
- By mail at P. O. Box 25330, Little Rock, AR 72221

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## Endnotes

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