NEW YORK'S HEALTHPASS PURCHASING ALLIANCE: MAKING COVERAGE EASIER FOR SMALL BUSINESSES

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EXECUTIVE SUMMARY

Twenty-four million employed Americans were without health insurance in 2000. The problem is particularly severe in New York City, where 27 percent of workers lacked coverage in 2000. As one of several efforts to address this problem, New York City's Mayor's Office and the New York Business Group on Health developed HealthPass, a health insurance purchasing alliance for small businesses in the city and its suburbs.

HealthPass began enrolling small businesses in New York City in December 1999, providing access to a wide range of health benefit plans and prescription drug and dental options. The plans, including health maintenance organizations, exclusive provider organizations, point-of-service plans, and preferred provider organizations, are operated by four different insurers. Even if employees in a firm choose different plans, their employer fills out a single enrollment form, receives a single monthly premium invoice, and has access to a central HealthPass number for member services. The program does not provide premium subsidies, but does offer small businesses this rare combination of choice and administrative simplicity. It lends itself to the "defined contribution" approach, in which employers pay a set amount of each employee's premium and employees can choose more expensive plans and pay the balance themselves.

A review in 2002 of 160 HealthPass enrollment forms showed that the average employer contribution for individual coverage was $197 per month, and for family coverage, $383 per month. The percent of the premium that these amounts represent varies based on family size and choice of benefit plan. The average contributions in HealthPass are considerably lower than the average New York employer contributions reported in a 2001 statewide Commonwealth Fund survey of small employers ($242 for individual coverage and $467 for family coverage).

This report is based on an evaluation sponsored by The Commonwealth Fund of the success and future viability of the HealthPass program. It provides HealthPass managers, as well as other sponsors and potential sponsors of similar programs, with an understanding of which program features and strategies have worked and which have not. It also gauges the program's impact on participating employers, employees, and insurers. The evaluation included: interviews with HealthPass management, staff, and board, and representatives of the Mayor's Office and participating insurance companies; focus group sessions with general agents and brokers actively involved with HealthPass sales; telephone surveys of enrolled employers as well as employers who had expressed interest but chose not to enroll; a review of program documents and data; and a literature review. Collection

of data from employees would have added a valuable perspective but was beyond the budgetary limitations of this evaluation.

By most criteria, the HealthPass program has been a success. In its first three years, enrollment has grown more rapidly than most other programs aimed at fostering health insurance coverage for small business employees. By December 2002, the program was serving more than 1,000 companies—nearly 700 of which had not previously offered insurance—and covering 9,111 lives.

Participating employers report being satisfied with the program. When 40 enrolled employers were asked whether they would recommend HealthPass to friends and colleagues, 34 (85%) said "yes," two were not sure, three did not respond, and only one said "no." As of May 2002, 138 of the 982 companies that had joined the program had disenrolled, for an average disenrollment rate of 5.6 percent per year. This compares very favorably with a mean disenrollment rate of 28.2 percent reported by the National Committee for Quality Assurance (NCQA) for 295 commercial plans nationally in 2000.

The companies choosing to enroll were quite small, with a median size of five full-time employees. The proportion of companies that had not offered insurance in the past was highly correlated with company size, ranging from 39 percent in the largest firms to 80 percent in the smallest. Of the 598 companies that identified their industries on enrollment forms, the largest number were in service industries (42%), followed by retail (17%), and health care (15%). Only 8 percent were in manufacturing, but they were the largest firms, with a median size of eight employees.

Both employers who participated in the program and those who chose not to participate agreed that health insurance helps businesses attract and keep good employees and makes businesses more competitive. Employers also reported that offering health insurance is the "right thing to do," and that employees strongly request to have such coverage.

The HealthPass program owes its success in part to its flexible, user-friendly design. The program offers small businesses a broad choice of benefit options and premium levels while keeping the processes for enrollment, billing, and member services simple. Eighty-five percent of New York State companies that have three to 49 workers and offer health benefits only make one plan available to their employees, and an opportunity to introduce choice without incurring complexity seems to have great appeal. Some small business owners appear to be attracted to HealthPass because the program allows them to enroll their own families in relatively comprehensive plans while making

less expensive benefit packages available to lower-wage employees. The largest number of members chose a benefit option that combined a low office visit copayment with in-network-only coverage. Premiums for the plans in this category tend to be in the middle range compared with the five other options. Owners of small businesses tend to choose more expensive benefit options than do their employees, with 15.7 percent of owners and only 6.9 percent of employees selecting the most expensive plan. It appears that many small business owners may be interested in obtaining low-cost coverage for their employees, but will not join a program unless they also can obtain more complete coverage for themselves and their families.

A second key to the success of HealthPass lies in the organization's leadership. The New York City Mayor's Office contributed money to the program's start-up effort, and lent the Business Group a senior executive to act as the purchasing alliance's first president. The current executive director and his management team have recruited key partners for the program, including an excellent third-party administrator who helped to establish the program's credibility with brokers and a legal advisor who provided invaluable guidance to the program during its formative phase.

The third factor in the success of HealthPass has been the program's interaction with the broker community, which has been the main source of enrollment in the program. The structure of HealthPass, with its many benefit and premium choices, makes it easy for brokers to make their sales. HealthPass leadership has devoted extensive efforts to the development and cultivation of an active network of brokers and general agents: maintaining strong person-to-person relationships, providing brokers with support services, and devoting increasing proportions of their marketing budget to outreach to the broker community.

The participating insurers have found the program generally profitable, in part because of the young populations served through the program. The medical loss ratio appears to be at or below expected levels. A 2001 Commonwealth Fund survey provided evidence of the success of HealthPass marketing efforts. While only 2 percent of small businesses in New York City were familiar with the state's Healthy New York program, 26 percent were familiar with HealthPass. Of those familiar with HealthPass, 15 percent were participating in the program and another 36 percent had considered participation but had not yet joined.

The only measure by which HealthPass has not been successful has been its failure to meet initial expectations that it would become financially self-sufficient after two years.

The city provided the program $2.7 million in start-up funding for the first two years, and the contract between the city and NYBGH was renewed in January 2003. However, further extensions after June 2003 are uncertain, lending urgency to the program's search for self-sufficiency.

The HealthPass program's current strategic plan predicts that self-sufficiency will occur with approximately 13,000 enrolled employees, but estimates that this will not occur until February 2005. Efforts to obtain low-interest loans from development groups and other alternative sources of interim funding have not been productive. With support from its board, HealthPass management is making strenuous efforts to accelerate enrollment growth and premium revenues through improved marketing, product diversification, and high levels of broker and customer support.

To expand to small businesses with a low-wage workforce, HealthPass would benefit from linkage with other public initiatives in New York. This could include partnership with the Healthy New York program, which provides insurers with stop-loss protection when they serve the previously uninsured, or with New York State's Child Health Plus and Family Health Plus programs. With the benefit of the state's stop-loss coverage, Healthy New York premiums in New York City are approximately 16 percent lower than premiums for similar coverage obtained directly from the insurers or through HealthPass. HealthPass could receive a major boost if eligible small businesses purchasing health insurance through the alliance also could benefit from the premium reductions provided by one of these programs.

With some assistance in reaching a level of enrollment that would make it self-sustaining, the HealthPass program can move beyond the demonstration stage to make a significant contribution to insurance coverage for small business employees in the New York area, and can serve as a useful model for programs elsewhere.

NEW YORK'S HEALTHPASS PURCHASING ALLIANCE: HOW WELL HAS IT WORKED FOR SMALL BUSINESSES?

BACKGROUND

The 2000 census found that 24 million working Americans lacked health care coverage.[1] Numerous studies have documented that the uninsured frequently forgo needed care and, when they do obtain care, experience less continuity and poorer quality of care, as well as serious financial stress in coping with medical bills.[2] The census revealed that workers in New York City were more likely than workers nationally to lack health insurance (25% vs. 16%).[3] Employees of small businesses in New York were especially likely to lack health insurance. Only 56 percent of employees in companies with fewer than 25 workers and 65 percent of those in companies with 25 to 99 employees had health care coverage from any public or private source in 2000.

The low level of health care coverage for small business employees in New York was viewed by the city administration as a problem with two dimensions: it compromised employees' access to health care services, and it placed their employers at a disadvantage relative to competitors in other locations. Working together, the Mayor's Office and the New York Business Group on Health (NYBGH) developed HealthPass, a program to assist small businesses in their purchase of affordable health insurance.

HealthPass is administered by the New York Health Purchasing Alliance, a subsidiary of NYBGH, and provides access to a wide and growing range of health plans and prescription drug and dental options. The plans include closed-panel health maintenance organizations (HMOs) and exclusive provider organizations (EPOs), as well as open-panel point-of-service (POS) plans and preferred provider organizations (PPOs). They are operated by four insurers: Group Health Incorporated (GHI), Health Insurance Plan of New York (HIP), Horizon Healthcare, and HealthNet. Originally, each of these four carriers offered five identical benefit packages, for a total of 20 plans that differed from carrier to carrier only in the size and perceived quality of their participating physician networks. As the program has evolved, the plans offered by the four carriers have diverged somewhat. In addition, six new plans have been added by the four original insurers, and several more are being planned to better meet the needs of various employer groups, as identified by brokers.

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[1] S. Silow-Carroll, E. Waldman, and J. Meyer, *Expanding Employment-Based Health Coverage: Lessons from Six State and Local Programs* (New York: The Commonwealth Fund, February 2001).

[2] C. Schoen and C. DesRoches, "Uninsured and Unstably Insured: The Importance of Continuous Insurance Coverage," *Health Services Research* 35 (April 2000, Part II): 187–206.

[3] D. Holahan, M. Cordova, K. Haslanger, and M. Birnbaum, *Health Insurance Coverage in New York, 2000* (New York: United Hospital Fund, September 2002).

Each employee who enrolls in HealthPass can choose to join the plan that best suits his or her needs. Even if employees of a given firm adopt a variety of plans, their employer fills out only one enrollment form, receives a single monthly premium invoice, and has access to a central HealthPass number for member services. Though the program does not offer premium subsidies, it does give small businesses this rare combination of choice and administrative simplicity. It also lends itself to the "defined contribution" approach, in which an employer pays a set amount toward each employee's premium, and employees who choose plans with higher premiums pay the balance themselves.

HealthPass began enrolling small businesses in New York City in December 1999. It has grown to serve employers located in the New York's northern and Long Island suburbs, and their employees living in these areas or nearby parts of Connecticut, New Jersey, and one county in Pennsylvania. In the program's first two years, $2.7 million in start-up funding was provided by the New York City Department of Health and the Economic Development Corporation. During that period, HealthPass enrolled approximately 5,200 employees, spouses, and dependents. However, the program's management believed that, in order to become financially self-sufficient, HealthPass needed to achieve enrollment of at least twice this number. After a change in municipal administrations in January 2002, the contract between the city and NYBGH was renewed. However, further extensions after June 2003 are uncertain, lending urgency to the program's search for self-sufficiency.

There was a preliminary assessment of the program based on interviews and document reviews in mid-2001, when 490 companies had enrolled in HealthPass. This evaluation suggested that the program faced a number of challenges in its early years, including lengthy implementation delays related to difficulties in recruiting appropriate health plans and third-party administrators; the complexity of educating a network of brokers and general agents; New York State regulations that are restrictive and mandate coverage for a number of expensive services; and difficulties in marketing competitively against large health plans with much greater resources.[4]

With the initial implementation of HealthPass complete, and the relationships among the HealthPass program management, its third-party administrator, four participating insurers, and a network of general agents and brokers more firmly established, the leadership of NYBGH and the Purchasing Alliance sought a more detailed evaluation of the program based on a broader variety of sources.

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[4] J. A. Meyer, L. S. Rybowski, J. Schield et al., *Business Initiatives to Expand Health Coverage for Workers in Small Firms, Volume II: Case Studies of Four Initiatives* (New York: The Commonwealth Fund, October 2001).

EVALUATION METHODOLOGY

This evaluation focused on specific questions of importance to the management of HealthPass. This approach was meant to provide HealthPass, as well as other sponsors and potential sponsors of similar programs, with a solid understanding of how a program of this type actually functions once it is implemented, which program features and strategies have worked well and which have not, and the effects on participating employers, employees, and insurers.

Key questions addressed by the evaluation included the following:

- In terms of overall program growth and viability, how successful has HealthPass been in achieving its goals?
- What is the competitive and regulatory environment, and is it changing?
- To what extent is HealthPass expanding access to health insurance for companies that did not previously offer it and to employees who were not previously covered?
- What are the characteristics of companies that have enrolled in the program, and how do they compare with those of small businesses that did not enroll?
- What factors have contributed to the success of HealthPass to date, and what factors have been less than successful? More specifically:
  - How successful is the design of the program and how attractive has it been in the eyes of potential enrollees?
  - How has the choice of insurance companies and benefit options contributed to the success of the program?
  - What has been effective and what could be improved in the implementation and operation of the program?
- How satisfied have participating employers been with the program once they joined, and what are their perceptions of the program's impact on their businesses and employees?

The evaluation sought to obtain the perspectives of multiple parties on as many of these questions as possible, including the views of HealthPass management and staff, brokers, general agents, participating insurers, owners of companies that joined the program, and owners of companies that chose not to enroll. Each of these groups also was asked for their opinions on ways to improve the HealthPass program. The following assessment methods were used to obtain these perspectives:

- face-to-face interviews with four key members of HealthPass management, three members of the HealthPass Board, and a representative of the Mayor's office;
- on-site interviews with five of the six members of the HealthPass sales, marketing, business development, and account liaison staff; observation of their work processes; and a telephone interview with the sixth member of the staff;
- face-to-face and telephone interviews with five representatives of the participating insurance companies;
- focus group sessions with five general agents and six brokers actively involved in HealthPass sales who were selected by HealthPass management;
- a telephone survey of 40 employers enrolled in the program for at least one year;
- a telephone survey of 25 employers who were contacted by brokers, expressed interest, but did not join HealthPass;
- a review of documents and data maintained by HealthPass and its third-party administrator; and
- a literature review and Internet search to obtain benchmark data on the benefits, costs, operation, and growth of similar programs.

FINDINGS

Growth of HealthPass Relative to the Program's Goals

New York City government provided initial financial support for HealthPass with the understanding that the program was designed to become self-sufficient in a reasonably short time. The program's revenues are derived from a small per-employee per-month fee, based on the premiums generated. During the program's planning phase and first two years of operation, this was supplemented by $2.7 million in start-up funding from the New York City Department of Health and the Economic Development Corporation. In addition, participating insurers and general agents contributed a total of $129,000 and considerable in-kind support. Executive staff from the Mayor's Office of Health Insurance Access provided managerial assistance; one staff member served as the first president of the New York Health Purchasing Alliance during the start-up period.

The original business plan estimated that premium-based revenues would begin to fully cover program expenses when 13,000 employees were enrolled, and predicted that this break-even point would be reached at the end of 2001, after two full years of program operation.

This expectation proved unrealistic. In interviews, representatives of participating insurance companies reported that the program's moderate growth during its early months, followed by more rapid enrollment near the end of its first year and early in its second year, was similar to the growth curve for other new health insurance products, and reflected the time needed for marketing to make an impact and for brokers to become familiar and comfortable with the program.

Then, with the downturn in the local and national economy, followed by the turmoil that ensued in New York after September 11, 2001, the program's original growth target began to appear unobtainable. As anticipated, there was a smaller increase in enrollment during the latter months of 2001. By the end of the year, only 577 companies with 3,190 employees and 5,479 covered lives were enrolled in HealthPass, leading the new city administration to grant the program continued support of $700,000 for the 2002–03 fiscal year. Contrary to the expectations of many, however, HealthPass experienced its most rapid enrollment during the first half of 2002 (Table 1.) As this evaluation neared its completion in December 2002, the program had been in operation for three years and 1,077 companies with 5,013 employees and 9,111 covered lives were actively enrolled, representing increases of 87, 57, and 66 percent, respectively, during the past year.[5]

Table 1. HealthPass Enrollment over Time, Total and Previously Uninsured

	Companies			Employees		
		Previously Uninsured			Previously Uninsured	
Time Period	Total Active Enrollment	Number	Percent	Total Active Enrollment	Number	Percent
December 2000	335	N/A★	N/A★	1,887	456	24.2%
June 2001	477	196	41.1%	2,801	812	29.0%
December 2001	577	302	52.3%	3,190	978	30.7%
July 2002	870	543	62.4%	4,325	2,214	51.2%
December 2002	1,077	689	64.0%	5,013	2,807	56.0%

★ These data are not available because the prior insurance status of companies was not collected before June 2001.
Source: Semiannual Membership Snapshot Reports compiled by the program's third-party administrator, Workable Solutions.

Compared with early enrollment growth in other current and recent programs aimed at expanding health insurance access for small businesses, HealthPass has been quite successful. As displayed in Table 2, enrollment in HealthPass during its first three years was considerably greater than enrollment in the New York City components of two other recent small business health insurance programs (the New York State Health Insurance Partnership Program and the New York State Regional Pilot Project), exceeded state-

[5] Unless otherwise indicated, statistics concerning "employees" in this report include business owners.

wide enrollment in New York's current initiative (Healthy New York), and grew more rapidly than enrollment in similar programs in Rhode Island and Oregon.[6]

Table 2. Early Enrollment Growth in Small Business Health Insurance Programs (Number of Covered Lives Enrolled)

	Months After Enrollment Began			
	11	**15**	**21**	**>35**
HealthPass	3,022	3,945	4,972	9,111 (36 months)
NYSHIPP[a]	1,270			
NYS-RPP[b]	610			
Rite Share[c]		2,148		
Healthy New York[d]			2,940	
FHIAP[e]				3,795 (44 months)

[a] Estimate for the New York City component of the New York State Health Insurance Partnership Program, November 1997–October 1998. Source: S. Rosenberg, *Lessons from a Small Business Health Insurance Demonstration Project* (New York: The Commonwealth Fund, February 2002).

[b] The New York City component of the New York State Regional Pilot Project, May 1989–April 1990. Source: S. Rosenberg, 2002.

[c] The small business component of Rhode Island's program, May 2001–August 2002. Source: S. Silow-Carroll, E. Waldman, J. Meyer et al., *Assessing State Strategies for Health Coverage Expansion: Summary of Case Studies of Oregon, Rhode Island, New Jersey and Georgia* (New York: The Commonwealth Fund, November 2002).

[d] Estimate for the small business employee component of this state-wide program (excluding sole proprietors and individuals enrolling independently of their employers), January 2001–October 2002. Source: J. Tallon, "Expanding Health Insurance in New York," presentation to the United Hospital Fund conference, December 10, 2002.

[e] The small business component of Oregon's Family Health Insurance Assistance Program, July 1998–March 2002. Source: Silow-Carroll et al., 2002.

The HealthPass program's current strategic plan continues to predict that self-sufficiency will occur with approximately 13,000 enrolled employees, but estimates that this will not occur until February 2005. Efforts to obtain low-interest loans from development groups and other alternative sources of interim funding until this point is reached have not been productive. With support from its board, HealthPass management is making strenuous efforts to accelerate enrollment growth and premium revenues through further improvements in marketing, product diversification, and high levels of broker and customer support. There are no contingency plans for temporary budgetary cutbacks.

The Competitive and Regulatory Environment

When asked to identify the most important aspects of the competitive environment, HealthPass program managers first remarked upon their good fortune in having so many

[6] S. Rosenberg, *Lessons from a Small Business Health Insurance Demonstration Project* (New York: The Commonwealth Fund, February 2002); derived from J. Tallon, "Expanding Health Insurance in New York," presentation to the United Hospital Fund conference, December 10, 2002; and S. Silow-Carroll, E. Waldman, J. Meyer et al., *Assessing State Strategies for Health Coverage Expansion: Summary of Case Studies of Oregon, Rhode Island, New Jersey and Georgia* (New York: The Commonwealth Fund, November 2002).

small businesses in their market as potential customers, as well as a large number of insurance carriers as potential partners.

HealthPass faces competition from only one small business purchasing alliance, located in a suburban portion of its target area. Its major competitors are the regional health plans that do not participate in HealthPass. Some of those interviewed for this evaluation felt that the health plans that are participating in HealthPass also compete with it when they market their products directly to small businesses. HealthPass staff, however, pointed out that the four participating insurers do not act (or no longer act) like competitors. They may market directly to small businesses, in parallel with HealthPass, but they cooperate closely with the program and include it in their advertising and on their websites.

Since January 2001, the state's Healthy New York program has provided stop-loss coverage to private insurers that enroll individuals and sole proprietors (neither of whom are eligible for HealthPass) as well as small businesses that meet certain eligibility requirements.[7] HealthPass, however, has not been included in this program. Nor has it been included in New York's Child Health Plus or Family Health Plus insurance programs. HealthPass could receive a major boost if eligible small businesses purchasing health insurance through the alliance also could benefit from the premium reductions provided by one of these programs. Participating insurers, among others interviewed, noted that gaining permission to enroll sole proprietors might significantly increase HealthPass enrollment as well.

New York State's community rating requirements are seen by interviewees as both a blessing and a curse. The requirements result in premiums that are considerably higher for most small businesses, whose employees tend to be young and healthy.[8] On the other hand, community rating makes health insurance affordable for small businesses with older or less healthy employees, decreases the potential for adverse selection, and facilitates the work of brokers, who do not need to calculate a separate premium for each employer. HealthPass currently enrolls businesses with two to 50 full-time employees, a market segment in which the state's community rating requirements fully apply. Interviewees pointed out that the state allows modified community rating by age, gender, and industry among employers with 50 to 200 employees, and that HealthPass might want to consider

[7] With the benefit of the state's stop-loss coverage, Healthy New York premiums in New York City are approximately 16 percent lower than premiums for similar coverage obtained directly from the insurers or through HealthPass.

[8] In January 2003, the Bush administration proposed legislation allowing small businesses to purchase health insurance through trade associations that would be exempt from state regulations, including community rating requirements. Unnamed administration officials quoted in R. Pear, "Bush Prepares Health Plan Aimed at Small Businesses," *New York Times,* January 27, 2003, A21.

expansion into this market at some point in the future. It also was suggested that HealthPass could potentially benefit from an exception in state regulations: a group of 10,000 or more enrollees that has been in existence for a long enough time may be able to apply for recognition as "a community," and obtain its own set of premium rates.

The broad range of benefits mandated by New York State also is seen as increasing the cost of health insurance premiums and thereby limiting the affordability of insurance for small businesses. Current mandatory levels of mental health, chemical dependency, and chiropractic and infertility coverage apply only to HMOs and POS plans, though similar coverage is usually offered by PPOs and EPOs in order to be competitive.

The Impact of HealthPass on Access to Health Insurance

Most of those interviewed for this evaluation agreed that increasing health insurance coverage for the city's small business employees was only a secondary objective of the HealthPass program when it was originally conceived. The highest priority for the program, especially in the short term, was to ease the burden on New York area small businesses by simplifying the acquisition and maintenance of health insurance. Unlike many programs subsidized by governmental funds, HealthPass does not limit participation to employers or employees who were previously without health insurance coverage. The program has proven, however, to be quite effective in providing coverage to previously uninsured small businesses and employees, as shown in Table 1. In December 2002, 64 percent of participating companies and 56 percent of enrolled employees—more than 2,800 individuals—had previously been uninsured.

With a weak local and national economy and the disruptions in the New York business community following the terrorist attacks, it might be presumed that fewer of the employers and employees recently seeking insurance through HealthPass would be doing so because they were previously uninsured, and that more would be current holders of insurance seeking less costly coverage. Yet, the opposite appears to be true. The proportion of companies and employees with no previous health insurance has been increasing over time, based on data from the enrollment forms submitted to the program's third-party administrator by employers and employees (Table 1). According to insurers familiar with the suburban purchasing alliance and HealthPass, premium rates are slightly lower in the suburban alliance, but previously uninsured membership is not growing as quickly in that alliance as it is in HealthPass.

Some have speculated that many of the previously uninsured businesses enrolling in HealthPass were start-up companies that did not have health insurance in the past simply

because they did not exist in the past.[9] If true, this would mean that the program is not truly providing coverage for the first time to companies that were uninsured in the past. The program's enrollment forms do not capture information concerning the number of years that companies have been in business, but our telephone survey of 40 companies that have been enrolled in HealthPass for at least one year provided some insight on this issue. Some of the previously uninsured companies joining HealthPass are, indeed, start-up firms, but the majority of companies are not. Twenty-seven of the 40 companies (67.5%) had not offered health insurance in the year before enrolling in HealthPass, including 24 (60.0%) that had never offered it. Twenty-three responded to the question: Why didn't you offer insurance (or why did you discontinue it)? Only six of those 23 (26.0%) stated that their companies were newly formed at the time. Thirteen (56.5%) stated that insurance premiums were too expensive, and four gave various other reasons.[10] (Surprisingly, none blamed the complexity or administrative burden of providing coverage.)

Another secondary objective articulated during the planning process for HealthPass was the integration of public and private health care coverage. For a brief period early in the program, the "Health*STAT" outreach campaign sponsored by Mayor Giuliani's Office sought to match the uninsured with both public and private programs, including Medicaid, Child Health Plus, Family Health Plus, and HealthPass.[11] Since then, there has been no formal mechanism for public–private integration. Several brokers, however, noted that they do assist employers and employees, on their own initiative, with coordination of coverage. When appropriate, they urge employers in low-wage industries to choose four-tier policies (i.e., policies with four different levels of coverage and premium costs). They then advise the company's employees that they do not have to enroll in expensive family coverage if their children are eligible for Child Health Plus, but only have to purchase less expensive coverage for themselves and their spouses. HealthPass management commented that the program and its brokers could be more active in referring part-time employees and others ineligible for HealthPass to public programs such as Child Health Plus and Family Health Plus.

One interviewee recalled that a purposeful decision had been made not to seek government subsidy during the planning for HealthPass. The thinking had been that a subsidy often leads to a "public assistance" image that may stigmatize a program in the

[9] One insurance company representative noted that, with the weak economy, there are fewer start-up companies seeking health insurance for the first time, and felt that this might represent a danger to the future growth of HealthPass.

[10] Not surprisingly, the same reason was predominant in The Commonwealth Fund's New York State survey. See H. Whitmore, K. Dhont, J. Pickreign et al, *Employer Health Coverage in the Empire State: An Uncertain Future* (New York: The Commonwealth Fund, September 2002).

[11] Press release, New York City Office of the Mayor, June 14, 2000.

eyes of business owners. It also was feared that a subsidy often entails periodic conflict with legislators, and the loss of considerable control over the program's management. Some participating brokers think that HealthPass already suffers from this type of stigma to some degree because it is perceived as a program sponsored by city government. HealthPass management is actively exploring the possibility of partnering with one of the state's other health insurance programs in order to offer small businesses the premium reductions these programs provide. If this effort is successful, it will be interesting to see whether this type of indirect subsidy changes how the program is perceived by employers and brokers.

Characteristics of Companies That Enrolled and Did Not Enroll

The characteristics of the companies that were participating in the HealthPass program as of May 2002 are presented in Tables 3 and 4 and summarized below.

- The companies were quite small, with a median size of five full-time employees. Only 8 percent had 25 or more full-time employees.
- Eighty-seven percent of the businesses were located in New York City, with the remainder in the city's Long Island and northern suburbs. Within the city, the majority were located in Manhattan, followed by Brooklyn. Firms in Queens, however, tended to be larger than those located elsewhere.
- Of the 598 companies identifying their industries on enrollment forms, the largest number were in service industries (42%), followed by retail (17%) and health care (15%). Only 8 percent were in manufacturing, but they were the largest firms, with a median size of eight employees.
- The proportion of companies that had not offered health insurance before joining HealthPass varied somewhat by industry, from a high of 71 percent among high-technology firms (many of which were recent start-ups when they joined) to a low of 50 percent among companies in the tourism industry.
- The proportion of companies that had not offered insurance in the past was more highly correlated with company size, ranging from 39 percent in the largest firms to 80 percent in the smallest.

Table 3. Number of Enrolled Companies as of May 2002, by Size and Location

	Company Size (Number of full-time employees, including owner)					
Company Location	**2–4**	**5–9**	**10–24**	**25+**	**Total (All Sizes)**	**Median Size**
Manhattan	205	131	80	30	446	5
Bronx	17	11	7	4	39	6
Brooklyn	72	29	22	10	133	4
Queens	32	26	21	16	95	8
Staten Island	11	5	6	1	23	5
Long Island	34	8	8	4	54	4
Northern Suburbs	24	14	11	5	54	6
Total (All Locations)	395	224	155	70	844	5

Source: Workable Solutions.

Table 4. Total Number of Enrolled Companies as of May 2002 and Companies That Did Not Have Health Insurance Before Joining HealthPass, by Size and Industry

		Company Size (Number of full-time employees, including owner)						
						Total	**Previously Uninsured**	
Industry		**2–4**	**5–9**	**10–24**	**25+**	**(All Sizes)**	**Number**	**Percent**
High-Tech		31	20	7	3	61	43	70.5%
Service		119	71	44	20	254	165	65.0%
Legal		19	9	7	4	39	25	64.1%
Retail		55	27	14	4	100	63	63.0%
Health		32	24	21	11	88	50	56.8%
Manufacturing		12	14	13	7	46	26	56.5%
Tourism		6	1	2	1	10	5	50.0%
Unknown		121	58	47	20	246	150	61.0%
Total (All Industries)		395	224	155	70	844	527	62.4%
Previously Uninsured	Number	317	125	58	27	527		
	Percent	80.3%	55.8%	37.4%	38.6%	62.4%		

Source: Workable Solutions.

Only limited data were readily available to compare companies that joined HealthPass with those that did not. Table 5 compares enrolled companies with others that had contacted HealthPass staff, and thus became "leads," but in the end chose not to enroll. A larger proportion of the companies that enrolled in the program were located in Manhattan (60.5%), compared with those that did not join (51.4%). Those that enrolled tended to be larger than those that did not enroll—47.6 percent of those that enrolled, compared with 78.1 percent of those that did not enroll, had fewer than five full-time employees.

Table 5. Companies Enrolling in HealthPass and Companies Expressing Interest but Not Enrolling, December 1999–April 2002

	Companies Enrolling[a]		Non-Enrolled Leads[b]	
	Number	Distribution	Number	Distribution
Company Location				
Manhattan	525	60.5%	54	51.4%
Bronx	47	5.4%	5	4.8%
Brooklyn	155	17.9%	21	20.0%
Queens	113	13.0%	18	17.1%
Staten Island	28	3.2%	7	6.7%
All of NYC	868	100.0%	105	100.0%
Company Size[c]				
2–4	413	47.6%	82	78.1%
5–9	228	26.3%	11	10.5%
10–24	158	18.2%	9	8.6%
25+	69	7.9%	3	2.9%
All Sizes	868	100.0%	105	100.1%

[a] The enrolling companies include those that subsequently left the program. Because most leads in suburban areas are developed by brokers and general agents, this comparison is limited to the five boroughs of New York City, where information on leads usually flows through HealthPass staff.

[b] Due to data constraints, this analysis is limited to leads developed by HealthPass and excludes the somewhat smaller number of leads developed by general agents and brokers.

[c] Size = the number of full-time employees, including the owner, at the time the company joined HealthPass or expressed interest.

Source: Workable Solutions.

Telephone surveys of 40 businesses participating in HealthPass for at least one year and 25 businesses that expressed interest but did not enroll added to this comparison. Twelve of the 25 companies that did not join HealthPass (48.0%) offered some other form of health care coverage to their employees—a somewhat higher proportion than the 40 percent of surveyed companies participating in the program that had offered some other health care coverage before they joined. Of the 12 non-enrolling companies with other coverage, three offered relatively low-cost plans that also are available through HealthPass, seven offered plans from more expensive carriers, and two did not know or declined to specify their coverage. Only one of these 12 employers offered a choice between two health plans, while the other 11 offered only one health plan option.

In the surveys of both participating and non-participating employers, business owners were asked whether they agreed or disagreed with five statements concerning the potential benefits of health insurance. There was very little difference between the responses of the two groups, with almost all respondents agreeing or strongly agreeing with all five statements:

- Having health insurance attracts good employees.
- Having health insurance helps to keep good employees.

- Having affordable health insurance makes a business more competitive.
- Providing health insurance for employees is the right thing to do.
- Employees strongly request health insurance coverage.

Factors in the Program's Success

Program Design. In the competitive bidding process to select an administrative home for what would become the HealthPass program, the New York Business Group on Health was chosen because of its longtime focus on the city and its potential as an advocate for small businesses, unencumbered by preexisting affiliations with specific brokers, general agents, or insurers. This choice was made despite NYBGH's lack of demonstrated expertise in the field of small business health insurance. All of those interviewed concurred that the choice had been a good one.

There also was a consensus that the key to the success of the program's design is the way that it combines wide choice of benefit options with administrative simplicity for participating employers. Eighty-five percent of New York State companies that have three to 49 workers and offer health benefits only make one plan available to their employees, and an opportunity to introduce choice without incurring complexity seems to have great appeal.[12] Low premium cost was not considered to be a factor: If employers went directly to one of the participating insurers to purchase one of the HealthPass benefit options, they would be charged the same rate.

Interviewees agreed that the primary attraction of HealthPass for small business owners is its combination of flexibility and administrative simplicity: employers can enroll their families and employees in a variety of HMO, POS, PPO, and EPO plans with widely varying premium costs (currently 26 options) and levels of prescription drug coverage, while avoiding the need to interact with multiple carriers during enrollment, when paying monthly premiums, in the COBRA billing process, or when seeking assistance or information. Insurance representatives, in particular, appreciated the way that the program makes it possible for small businesses to have a range of choices "like the largest employers have . . . without the hassles that big employers create human resource departments to handle." In addition to facilitating initial sales, the choice of benefit options enhances retention in the program, because employees can change from an HMO to a PPO or from carrier A to carrier B during an open enrollment period without leaving the HealthPass system.

[12] Whitmore et al., *Employer Health Coverage,* 2002.

As part of the telephone surveys, business owners were asked which features in the program's design had "attracted them a lot." Their responses supported the opinions of the interviewees described above. Both owners who joined the program and those who chose not to join cited "the way employees can choose different plans" and "the ease of enrollment and monthly payment" as the most attractive program features. "The price of the premiums" was only the third most attractive feature for employers who joined the program, and was chosen by very few (16%) of the employers who did not join.

The program's flexibility is enhanced by its choice between a two-tier premium structure (employee only, or employee and one or more family member) and a four-tier structure (employee only, employee and spouse, employee and child, or full family coverage) (Table 6). This choice is not available from some other purchasing alliances, and is not even available when purchasing policies directly from some of the insurers participating in HealthPass. It allows a group that desires full family coverage for most of its members to benefit from the lower cost of two-tier premiums, and a group that expects to enroll many of its members in employee-plus-spouse or employee-plus-children coverage to achieve savings under a four-tier structure.

Table 6. Average Monthly Premium Rate and Employer Contribution for Individual and Family Coverage by Company Size, 2002

	Average Premium	Average Employer Contribution	Employer Contribution as Percent of Premium
Two-Tier			
Employee	$321.86	$196.74	61%
Family★	$847.67	$383.37	45%
Four-Tier			
Employee	$317.32	$196.74	62%
Employee/Spouse	$708.13	$383.37	54%
Employee/Child(ren)★	$616.39	$383.37	62%
Family★	$1,006.49	$383.37	38%

Note: Averages based on enrollees in all counties.
★ Includes unlimited number of children.
Source: Mitch Zaretsky, HealthPass.

Brokers appreciate the "mix and match" benefit options because it allows them to make sales to business owners who would not be interested in a single health plan for all of their employees. Moreover, if employers are interested in multiple plans, it is much less work for brokers to meet their needs through HealthPass than it would be to arrange for coverage under several independent plans.

HealthPass staff and insurers did point out that some brokers have not become enthusiastic promoters of HealthPass because they find its large and growing number of choices too complex. They dread sales and open enrollment meetings in which they would have to describe a host of complicated options. In response to such concerns, several brokers and general agents reported that they choose a relatively small number of the most appropriate options to present to each potential client, and appreciate the ability to select a different set of choices for presentations to employers with different circumstances (e.g., those with predominantly high- or low-wage employees, or those with a mix of employee incomes).

As noted above, the health plans offered through HealthPass are not discounted or subsidized. Indirectly, however, the range of available choices may allow an employer to provide health care coverage at a low overall cost to the company. Most employers participating in HealthPass do so under a defined contribution model, in which they specify a set dollar contribution to premiums, allowing their employees to join more expensive plans by paying the difference in the premiums themselves. A review of the 160 HealthPass enrollment forms submitted by employers from September 1 through December 1, 2002, showed that the average employer contribution for individual coverage was $197 per month, and for family coverage $383 per month. As shown on Table 7, employer contributions varied widely, but the average contributions cited above are considerably lower than the average employer contributions reported in a statewide Commonwealth Fund survey of small employers ($242 for individual coverage and $467 for family coverage). Moreover, the Fund survey captured employer contributions a year earlier, in 2001.[13]

[13] Whitmore et al., *Employer Health Coverage,* 2002.

Table 7. Employer Contributions to Premiums, September–November 2002, by Company Size

Contribution Level	Company Size (Number of full-time employees, including owner) 2–4 (n = 100)	5–9 (n = 24)	10–24 (n = 11)	25+ (n = 1)	All Sizes (n = 136)
EMPLOYEE-ONLY COVERAGE					
No Contribution	12	2	0	0	14
$1–$99	5	0	1	0	6
$100–$199	38	9	3	0	50
$200–$299	20	4	5	1	30
$300+	25	9	2	0	36
Mean Contribution for Individual Coverage	$189.94	$217.44	$210.95	$224.50	$196.74
FAMILY COVERAGE★					
No Contribution	12	2	0	0	14
$1–$99	2	0	1	0	3
$100–$199	20	4	1	0	25
$200–$299	10	3	3	0	16
$300–$399	15	4	1	0	20
$400–$499	18	4	1	1	24
$500+	23	7	4	0	34
Mean Contribution for Family Coverage	$369.52	$412.13	$442.77	$424.50	$383.37

★ "Family coverage" as used here includes coverage for employee+spouse, employee+children, and employee+spouse+children.
Source: Workable Solutions.

Participating Insurers and Benefit Plans. Recruiting health plans to participate in HealthPass presented an initial hurdle for the program. The four carriers that eventually joined, and that continue to provide all of the program's benefit options, are Health Insurance Plan of New York (HIP), Group Health, Inc., Horizon Healthcare, and PHS Health Plans (now known as Health Net). People interviewed in this evaluation did not agree on whether or not these and other carriers initially hesitated when asked to participate out of fears that previously uninsured small business employees would be high utilizers of medical services. They did all agree that this has, in fact, proved to be a young and relatively healthy population with fairly low utilization.

Representatives of the participating insurers did admit to having had some concerns about the managerial capabilities and viability of the program. Their concerns were alleviated when the program's experienced third-party administrator, Workable Solutions, demonstrated the capacity of the back-office operations it would be providing for HealthPass. Various insurers also pointed out that participating in HealthPass was made easier by their experiences with other purchasing cooperatives (e.g., the Long Island Association and Connecticut Business & Industry Association) and their existing

relationships with New York City government. Insurers also noted that they welcomed HealthPass as an opportunity to reach small and uninsured businesses.

Initially, 20 benefit options were available through HealthPass. Each of the four carriers offered two "in-network only plans" (HMOs or EPOs with different physician and hospital copayment requirements) and three "in- and out-of-network plans" (PPOs or POS plans with different copayments), so that choices among the carriers were largely based on the relative sizes and perceived quality of their physician networks. With any of these 20 options, three levels of prescription drug benefits were available. HealthPass and its third-party administrator work with brokers and general agents to process enrollment for employers and their employees, and provide single monthly premium invoices to employers. The participating insurers provide identification cards and do their own utilization review and medical management. Both HealthPass and the carriers provide member services functions.

As the program has evolved to meet changing market demands and the need for additional options, the four insurers were not able to implement identical benefit packages in a synchronous fashion. Therefore, the range of options—currently 26—has become less uniform across carriers. A closed panel dental plan was added through Guardian and kits were made available to facilitate employers' administration of pre-tax premium deductions for their employees under Section 125 of the Internal Revenue Code. Currently, HealthPass is implementing a "security package" of disability, term life, and accidental death and dismemberment plans as well as adding more health benefit options.

Our telephone surveys showed that the reputation of the participating insurers was not a leading attraction for employers considering participation in HealthPass. On the other hand, the insurers' reputations did not appear to be a major barrier to enrollment. Among surveyed employers who joined HealthPass, only 5 percent indicated that they were "not attracted at all" by the participating insurers. Among those who considered participation but did not join, only 8 percent, 4 percent, and 4 percent, respectively, identified the reputation of the insurers, the reputation of their doctor networks, or the benefits being offered as reasons they rejected the program.

More specifically, employers enrolled in HealthPass were asked, "Before you joined this program, what did you think of each of the four insurance companies' reputations?" Their responses were recorded on a scale of 1 to 3 (with 1 indicating "poor reputation," 2 meaning "neutral reputation," and 3 signifying "good reputation"). The aggregate reputation scores assigned by the employers were lowest (1.75) for the carrier

that generally features the least expensive premiums and the smallest provider network and has traditionally served a labor union clientele; higher (2.25) for the carrier with the second lowest premiums, a broader network, and a similar reputation for serving union members; and highest (2.57 and 2.67) for the two insurers that generally have the most expensive premiums and traditionally serve more corporate clients.

Table 8 shows the distribution of employee enrollment by benefit option as of July 2002. The largest number of members chose the "Standard 15" benefit option, which combined a low office visit copayment with in-network-only coverage. Premiums for the plans in this category tend to be in the middle range compared with the five other options. The relatively low enrollment in the economy plan is due, in part, to its fairly recent addition, in mid-2001. The five basic plans have been accumulating membership since December 1999.

Table 8. Distribution of Employee Enrollment by Benefit Option

Benefit Option	Employees Actively Enrolled 7/15/2002	
	Number	Distribution
"Standard 15": In-Network Coverage (HMO & EPO plans) with $15 office visit copay	1,518	35.1%
"Standard 20": In-Network Coverage (HMO & EPO plans) with $20 office visit copay	527	12.2%
"Economy": In-Network EPO with $30 office visit copay	352	8.1%
"Flex 10": In- & Out-of Network (PPO & POS plans) with $10 office visit copay	617	14.3%
"Flex 15": In- & Out-of Network (PPO & POS plans) with $15 office visit copay	649	15.0%
"Flex 20": In- & Out-of Network (PPO & POS plans) with $20 office visit copay	662	15.3%
Total	4,325	100.0%

Sources: HealthPass marketing material and Workable Solutions.

For the purposes of this evaluation, enrollment forms completed by companies joining the program in the spring of 2002 were reviewed to distinguish the benefit options chosen by the business owners from those chosen by their employees. The results are shown in Table 9, with the options listed in order of premium cost. As might be expected, the owners of small businesses tend to choose more expensive benefit options than do their employees, with 15.7 percent of owners and only 6.9 percent of employees selecting the most expensive plan. This finding confirms the observation made in an earlier evaluation of a small business health insurance program: that many small business owners may be interested in obtaining low-cost coverage for their employees, but will not

join a program unless that also can obtain more complete coverage for themselves and their families.[14]

Table 9. Benefit Choices of Business Owners and Their Employees

Benefit Option	Rank by Price (1 = least costly)	Number Choosing		Distribution	
		Owners[a]	Employees[b]	Owners[a]	Employees[b]
Economy	1	10	106	11.2%	12.0%
Flex 20	2	12	116	13.5%	13.2%
Standard 20	3	13	138	14.6%	15.7%
Standard 15	4	28	362	31.5%	41.1%
Flex 15	5	12	98	13.5%	11.1%
Flex 10	6	14	61	15.7%	6.9%
Subtotal		89	881	100.0%	100.0%
None		55			
Unknown		2			
Total		146			

[a] Owner selections 1/02–3/02.

[b] Employee selections 1/02–4/02.

Source: HealthPass enrollment forms.

Given business owners' interest in providing coverage for their own families, it is surprising that 55 of the 146 business owners participating in HealthPass (38%) chose not to enroll themselves or their families in any of the health plan options. During interviews, representatives of the participating insurance companies suggested that small business owners (more so than their employees) are often covered by their spouses' health plans, and that other small business owners may be purchasing coverage for themselves and their families on the individual market, independent of the HealthPass program and perhaps from more expensive carriers with provider networks they perceive as more prestigious.[15]

We followed up on this issue during the telephone survey of participating small businesses. Five of the 32 survey respondents who replied to the question concerning the owner's insurance (15.6%) indicated that the owner had no insurance: a smaller proportion than we had found on enrollment forms. Three of the five had not enrolled because they were covered by their spouses' insurance, one business owner had not joined HealthPass because of health care coverage as a union retiree, and one did not join because he lives in London.

[14] S. Rosenberg, *Lessons from a Small Business,* 2002.

[15] The original program requirement was that at least 75 percent of employees must be covered by a HealthPass plan. This was modified, and currently at least 75 percent must be covered by any health plan.

The insurance carrier representatives who were interviewed reported that the products they offer through HealthPass differ only slightly, if at all, from the products they offer directly to small businesses. For a few products, the participating provider networks are not quite as large in their HealthPass offerings. The insurers, and all other interviewees, agreed that none of the products offered through the program had excessively high out-of-pocket payment requirements. All interviewees agreed that HealthPass members are treated exactly the same as other employees covered by the four participating carriers. The insurers' sales staffs, who deal with inquiries from employers concerning HealthPass, are extensively trained concerning the program's features and requirements. Their member services staffs, on the other hand, respond to questions and requests from plan members who obtain coverage directly or through HealthPass. They usually do not (and should not) know how a member obtained coverage.

In the fall of 2002, monthly premiums for the health insurance options available through HealthPass ranged from $222 to $417 for employee-only coverage. HealthPass management and staff, brokers, general agents, and representatives of the participating insurers all agreed that the program would be enhanced by the addition of options with lower premiums, especially to attract more firms not currently offering health insurance. Several interviewees pointed out that benefit options that rely on complex or extensive exclusions to achieve their low premiums could result in member dissatisfaction, however. Instead, they recommended that premiums of new plans added to HealthPass should be kept low through simple mechanisms, such as relatively small provider networks or higher deductibles, and they noted that programs in Minnesota and California had been successful with these approaches. This strategy for expanding options is currently being implemented.

Since early in the program, there has been an ongoing debate concerning the advantages and disadvantages of adding richer, more expensive benefit options—and perhaps adding carriers perceived as "more prestigious"—to the choices under HealthPass. Proponents of this strategy feel that it would attract additional employers in the professional and higher-salary industries. They argue that a broader range of benefit packages would be attractive to executives who want rich plans for themselves, combined with lower-cost options for their employees. Opponents of this approach point out that some of the current benefit options are already quite "rich," and some of the current carriers are perceived as "prestigious" by the public. They emphasize that the four participating insurers have been extremely supportive of the program, and would react negatively to the inclusion of more of their competitors. They also note that health plans that focus heavily on the corporate sector have not shown an interest in participating in

HealthPass. Some interviewees who opposed the addition of more expensive options in general did advocate the introduction of at least one plan with more generous mental health benefits than the 20 visits per year currently covered, though others noted that this could introduce the problem of adverse selection.

The participating insurers note that, even though the utilization data available to them are fragmentary, they suggest that the program is profitable for their companies—unlike the nearby suburban purchasing association. Together with the age distribution of HealthPass enrollees, in which 25- to 34-year-olds are the largest segment, the insurers' impression that utilization is moderate has resulted in widespread agreement that the carriers were correct in their decisions to participate. (Some of them indicated that they had originally hoped for a larger share of the program's total enrollment.) The medical loss ratio appears to be at or below the expected level. One insurer estimated that their medical loss ratio in the program is about 80 percent, and another reported a medical loss ratio 15 percent below its overall rate because of the young population served through HealthPass.

Program Implementation and Operation. *Mobilizing Resources and Partners.* The early evaluation of HealthPass mentioned in the Background section of this report noted that the challenges encountered in the early years of the program included difficulties in recruiting appropriate health plans, a third-party administrator, and a network of brokers and general agents. HealthPass management accords considerable credit to their legal advisors, Epstein Becker & Green, and to the Institute for Health Policy Solutions for sage advice and assistance in overcoming these and other early challenges. Epstein Becker & Green provided both legal and strategic guidance as well as a network of contacts that were highly valuable in the program's development and implementation. The Institute for Health Policy Solutions provided an estimated $23,000 worth of in-kind support, educating the program's management in the intricacies of underwriting rules and other details of the small business insurance market and bringing them lessons from similar demonstration projects around the country. Once they were recruited, the health plans have been extremely cooperative with and supportive of HealthPass, and the program's relationships with its third-party administrator, general agents, and brokers are seen as leading factors in its success to date.

The HealthPass management, staff, and board give credit to the program's third-party administrator, Workable Solutions, for implementing and maintaining the highly professional administrative infrastructure that established the program's credibility with both insurers and brokers, and that continues to support its efficient operations. Workable

Solutions distributes monthly invoices to employers, receives the premiums, disburses the revenue to the participating insurers, and sends the commissions to the brokers and general agents. Workable Solutions also maintains the enrollment database, provides the lead-tracking system, prepares routine and ad hoc reports (including several requested for this evaluation), provides customer service support (e.g., responding to questions regarding claims and invoices), and built the HealthPass website. In addition to these operational functions, Workable Solutions assisted HealthPass with guidance in its marketing efforts and takes the lead in maintaining communication with the participating insurers. In the opinion of at least one member of the program's management, Workable Solutions may be the only third-party administrator in the country that fully understands the program's business model.

Assembling a Sales Network. The most important factor in marketing and sales, in the opinion of most interviewees, is the program's relationship with brokers and general agents. Asked to name the most important contribution to the program's growth to date, nearly all interviewees named the program's skillful interaction with brokers and general agents, including extensive broker education, and sponsorship of special events and contests to motivate brokers. More than 1,300 area brokers have been assigned to specific HealthPass staff members, who visit them every few months. As the brokers become known, HealthPass attempts to pair them with staff members who have compatible styles of communication.

The brokers and general agents who attended our focus group sessions were highly enthusiastic about HealthPass. They noted that the program's defined contribution approach and combination of broad choice with administrative simplicity enables them to sell insurance to businesses that were not interested in their products in the past. They were appreciative of the large number of leads they receive from the program, its marketing campaigns, and its website (though they felt that the latter could be even more helpful as a tool for writing tailored proposals).

One insurer noted that many brokers were initially hesitant to be involved until they saw that HealthPass had competent "back-office operations," was not a "short-lived government-sponsored program," and would be around for quite some time. Once this hesitation had passed, brokers became the program's most important source of sales. The network of actively participating brokers has been growing steadily. In January 2001, 129 brokers received commissions from the HealthPass administrator. By November 2002, the number had grown to 287.

HealthPass management, participating insurers, and the active brokers who attended our focus group session all recognized that a key to the program's success is the way in which HealthPass provides support services that relieve the brokers of many of their usual tasks (e.g., accompanying them to sales meetings with potential clients and answering numerous telephone questions from enrolled employers that would otherwise impose a burden on brokers). A few brokers complained about slow responses when they ask HealthPass to process a new client quickly, but the brokers greatly appreciated the fact that HealthPass refers the bulk of the leads it generates to the brokers.

One insurance company representative observed that the number of general agents in the region is declining, making HealthPass a more important source of support to brokers. At the same time, it was noted that a factor in HealthPass's successful interaction with brokers is the inclusion of general agents as intermediaries in the network. The general agents support brokers with quotes, proposals, leads, education on new products, and assistance at sales and enrollment meetings with employers. The strategy of a nearby purchasing coalition that attempted to bypass general agents and establish more direct relationships with brokers is said to have been much less successful.

Our survey results indicate that employers' perceptions of the brokers' performance were quite positive. None of the 24 companies that offered reasons for not joining HealthPass said that "Enrollment was too complicated," or "You didn't get the help with enrollment that you needed"—two responses that may have indicated that brokers had not served them well. Three of the 24 (12.5%) did select "You might have enrolled if someone had contacted you again at a later time," suggesting that brokers could be more persistent in their follow-up of leads. Of the 40 surveyed companies that did enroll in HealthPass, 30 recalled enrolling through brokers. Twenty-four of the 30 stated that enrollment was "very easy," six that it was "easy," and none reported that it was "difficult" or "very difficult." Twenty indicated that the broker was "very helpful" with the enrollment process, six that the broker was "helpful," and none gave negative responses. (Four indicated that the question was not applicable since they did not need any help.) Once enrolled in the program, 17 employers sought assistance with questions or problems. Eight of them turned to their brokers. According to five of these eight, the brokers were "very helpful"; one said "somewhat helpful," one said "not so helpful," and one did not respond to this question.

While the number of brokers arranging health insurance coverage through HealthPass has been growing, several interviewees noted that only small proportions of the brokers and general agents in the area are truly active participants in the program. Our

analysis of HealthPass sales during the period December 1, 1999, through June 15, 2002, revealed the following concentration of sales among brokers and general agents:

- A total of 840 employer contracts were arranged by brokers during this period.
- These contracts were arranged by 260 different brokers.
- Only 19 of these 260 brokers (7.3%) arranged 10 or more contracts.
- These 19 brokers were responsible for a total of 398 of the 840 contracts (47.4%); the most active broker arranged 79 contracts (9.4%).
- Of the 840 broker-arranged contracts, 638 (76.0%) involved brokers working through general agents.
- A total of 11 general agents were involved in one or more of these sales.
- The five most active general agents accounted for 546 of the 638 contracts (85.6%).

HealthPass management and the participating insurers agreed that the program can and should make further efforts to build the loyalty of its high-volume brokers and, at the same time, recruit the active participation of more brokers and general agents. Currently, brokers and general agents each year receive industry-standard commissions of 4 percent and 2 percent of annual premiums, respectively. HealthPass management (and the brokers, of course) felt that additional incentives are needed. There is a system of bonuses for brokers who arrange large numbers of contracts, but some of the active brokers who attended the focus group were unaware of this. Several brokers thought that HealthPass staff could perform an important service for brokers—and recruit more of them—by reducing confusion resulting from the program's multiple offerings. They suggested that HealthPass create a "story line" that clearly demonstrates the unique attributes of each available benefit option.

Staff Functions and Leadership. At the time of our interviews at HealthPass, the program employed six staff members in account liaison, sales support, and marketing/ business development positions. Their primary functions relate to three major areas:

- Planning and implementing marketing efforts in conjunction with a marketing consultant (e.g., direct mail, advertisements in subways and newspapers), and promoting the program by working with groups such as the National Federation of Independent Businesses;

- supporting the broker network through recruitment and training, development and referral of leads, writing proposals, accompanying brokers to sales and enrollment meetings with prospects and renewal meetings with current clients, providing them with literature, maintaining a broker database, and "opening doors" for the brokers through outreach to unions, trade associations, and ethnic groups; and
- providing customer support, i.e., dealing with questions and problems of clients and prospective clients through telephone services and site visits. A HealthPass staff member said that this support "offers a face for the product, which insurers do not provide."

HealthPass staff and management attribute the effective and efficient performance of these ongoing functions to leadership and staff selection that has resulted in a goal-oriented but collegial organizational culture in which staff are cross-trained in multiple tasks and do not hesitate to assist each other with a variety of functions. This absence of a "silo mentality" may be more easily attained in a small organization like HealthPass. But interviewees gave the credit for this—and for effective planning and marketing strategies—to the program's directors. The participating insurance carriers, brokers, general agents, and HealthPass board all noted the strong leadership provided by the organization's current executive director and, before him, by an executive on loan from the Mayor's Office. There was striking unanimity among the participating insurers, brokers, and general agents concerning the excellence of their relationships with HealthPass in planning and marketing, and the high quality of the services provided by HealthPass. Customer service, sales, and marketing at HealthPass were singled out for particular praise, along with the HealthPass website, the program's development of broker and general agent networks, and the current executive director's efforts to "reenergize" the program shortly after his arrival in June 2001.

Six of the participating employers who responded to our survey had turned to HealthPass staff for assistance with questions or problems. Four of them stated that the staff was "very helpful," one said "not at all helpful," and one did not respond to this question.

In the opinion of HealthPass management, three problems continue to limit the program's growth and effectiveness:

- Lack of control over the products and premiums offered by their carriers;
- inability to obtain routine utilization data or definitive medical loss ratios from the insurers; and

- carrier delays in updating enrollment rosters and distributing identification cards to new members.

The HealthPass board consists of four members of the New York Business Group on Health board, in addition to the Group's executive director. It had originally been planned to add some brokers and small business owners, but candidates reported that they were too busy to participate in board activities.

The board sees its primary role in terms of maintaining and emphasizing a broad perspective in such areas as finance, plan design, and the social and economic importance of the program for the city. Board members noted that "We ask a lot of questions that need to be asked" and ensure accountability. The board also has assisted the program in its relationships with the senior executives of insurance carriers, playing a role in obtaining their companies' participation in the program. Board members said that HealthPass management has been highly receptive to board suggestions.

Marketing. The HealthPass marketing strategy is based on three approaches: recruiting and educating brokers, marketing directly to employers, and working through local and national organizations.

Marketing the HealthPass program to brokers, albeit indirect, was widely seen as the most effective of these approaches, though the other two marketing approaches clearly support the brokers in their sales efforts. HealthPass recruits brokers directly, reaches out to them through general agents, holds events to educate and motivate brokers about the program and its products, provides special services to them on its website (e.g., model proposals and pricing information), and mails promotional materials and program updates to maintain and enhance their involvement.

Direct marketing to employers has included advertisements in the city subways, in business periodicals (e.g., *Crain's New York Business*), and general circulation newspapers (*New York Daily News*); direct mailings to the general small business community and to target groups (e.g., leads identified by brokers, members of the American Institute of Architects); and a website accessible to employers and employees. The website provides general information and allows an employer to choose among benefit options and receive a preliminary estimate of monthly premiums.

HealthPass has done some of its marketing through organizations such as the National Federation of Independent Businesses (which mailed program endorsements to

its 5,500 New York area members), local business associations, and local community and ethnic organizations, particularly in the Hispanic, Asian, and Russian communities.

Several questions on the telephone surveys of participating and non-participating employers elicited responses that confirmed the importance of brokers in HealthPass marketing and sales. Most employers who enrolled in HealthPass (63%) first heard about the program from brokers, and brokers were rated as, by far, the largest influence on their decisions to enroll. After brokers, employers cited direct mail advertising, friends and business associates, and the HealthPass website as having been influential.

Among non-enrolled business owners, a smaller but substantial proportion (32%) had initially learned about the program from brokers. Brokers also were this group's second most common source of information about health insurance in general. Compared with employers who did enroll, larger proportions of non-enrolled business owners learned about the program from subway and direct mail advertisements. The non-enrolled employers indicated that they usually receive information about health insurance from, in order of ranking: newspapers, brokers, business groups, the Internet, and friends and associates. HealthPass has been marketed through newspapers and business groups, but with little apparent impact: no enrolled business owners identified these channels as their initial sources of information about HealthPass, or as major influences on their decisions to join the program.

As shown in Table 10, the program's expenditures for marketing to the public and the broker community began before enrollment was initiated. Both components were expanded in the second year of the program. In the program's third year, after the need to establish name recognition with the public and awareness among the brokers had been met (and also because of budgetary constraints and the disruptions of September 11), the budget devoted to these activities decreased markedly. As time progressed and HealthPass managers came to recognize the relative importance of the brokers' role in sales, the share of the marketing budget focusing on the broker network was increased from 19 to 46 percent.

Table 10. Average Monthly Expenditures for Marketing to the Public and to Brokers

Time Period	Marketing to the Public	Marketing to Brokers	Percent Devoted to Brokers
7/1999–6/2000	$24,218	$5,823	19%
7/2000–6/2001	$37,281	$27,180	42%
7/2001–12/2002	$7,500	$6,333	46%

Source: HealthPass internal budget documents.

A 2001 Commonwealth Fund survey provided evidence of the success of HealthPass marketing efforts. While only 2 percent of small businesses in New York City were familiar with the state's Healthy New York program, 26 percent were familiar with HealthPass.[16] Of those familiar with HealthPass, 15 percent were participating in the program and another 36 percent had considered participation but had not yet joined.[17] HealthPass staff feels that it would be productive to allocate additional funds and efforts to further enhance direct marketing and outreach to the broker community.

Satisfaction Among Participating Employers

Employers participating in the HealthPass program appear to value it greatly. When the 40 enrolled employers in our telephone survey were asked whether they would recommend HealthPass to friends and colleagues, 34 (85%) said "yes," two were not sure, three did not respond, and only one said "no." This finding is consistent with the low disenrollment rate in the program. As of May 2002, after the program had been in existence for 30 months, 138 of the 982 companies that had joined the program had disenrolled, for an average disenrollment rate of 5.6 percent per year. This compares favorably with a mean disenrollment rate of 28.2 percent reported by the National Committee for Quality Assurance (NCQA) for 295 commercial plans nationally in 2000 (although the NCQA data include individual as well as group disenrollment).[18] A survey of health plans by the State of North Carolina reported employer group disenrollment rates ranging from 10 percent to 33 percent in 12 commercial plans in 1998, with an unweighted average of 19.9 percent.[19]

Based on data gathered by HealthPass and its third-party administrator, the companies that left the program differed from those that continued their participation in three ways:

- They were more likely to be located in New York City (only 4.3 percent were in the suburbs, compared with 12.8 percent suburban location of those continuing);
- They were smaller (with an average of 3.6 full-time employees, compared with 5.6 among those maintaining their participation); and

[16] The survey was conducted one and a half years after HealthPass began, and only four to 10 months after the start of Healthy New York. On the other hand, Healthy New York had the benefit of statewide media promotion.

[17] Whitmore et al., *Employer Health Coverage,* 2002.

[18] "National Results for Selected 2000 HEDIS and HEDIS/CAHPS Measures" (Washington, D.C.: National Committee for Quality Assurance, 2000). Available at http://www.ncqa.org.

[19] *Managed Care Plan Handbook: A Comparison Guide for North Carolina Consumers* (Durham, N.C.: North Carolina Institute of Medicine, 1999).

- They included a larger proportion of high-tech companies (12.3 percent, compared with 7.2 percent of those continuing).

The first of these differences may merely reflect the more recent enrollment of suburban firms in HealthPass, i.e., they haven't had as much time to disenroll. The latter two differences may be, in part or entirely, results of the higher rates at which both smaller businesses and high-tech firms tend to go out of business. Somewhat surprisingly, companies that remained in HealthPass and those that left were similar in terms of their provision of health insurance prior to joining the program (37.4 percent and 38.4 percent, respectively).

HealthPass management conducted a telephone survey of employers leaving the program during the first four months of 2002. Sixteen small business owners responded to their request for information. The "primary reasons" for disenrollment cited by five of the 16 were not under their control: one went out of business and four became ineligible for participation (e.g., they no longer had two or more full-time employees). Among the primary reasons that were under the control of the employers, the largest number (seven) left the program because of opportunities to obtain less costly health insurance elsewhere, two were dissatisfied with the services of their carriers, and two desired a network or a benefit unavailable through HealthPass.

HealthPass staff and management, as well as brokers and representatives of the insurance carriers, had the impression that employers participating in the program valued it for a number of reasons. Most often mentioned was employers' appreciation of the range of products and prices available and the ability to offer a choice among these products to their employees under a defined contribution model. For some employers, these attributes of the program allowed them to save premium dollars; for others, these features made it possible for them to offer health insurance to their employees for the first time. (As noted above, 64 percent of enrolled firms and 56 percent of enrolled employees had not had health insurance previously.) Owners and employees also said they valued the opportunity to change benefit plans or carriers during open enrollment periods without needing to leave the program. They also appreciated that the program has a single enrollment process, a single monthly invoice, customer services available from any of three sources (HealthPass, insurers, and brokers), and a third-party administrator that handles all COBRA billing for the employer.

When we asked 40 participating employers about specific aspects of the program, 100 percent of respondents agreed or strongly agreed with the statement that the

enrollment process for employers was "straightforward and easy," and that the monthly payment system is "easy to use." Seventy-six percent agreed that their employees found their enrollment process "straightforward and easy," and 92 percent concurred with the statement that, "If I have any problems with my health insurance, I know who to call for help."

Sixteen of the 40 participating employers had offered insurance previously and 12 of the survey respondents were able to compare their prior insurance with the insurance purchased through HealthPass. (The other four respondents had not been with their firms or had not been involved with the firm's insurance when the previous policies had been in effect.) These 12 identified the following advantages under HealthPass:

- All 12 are offering employees more health plan choices.
- In 10 companies, employees are offered a wider range of premiums and at least some of those premiums are lower than in their previous plan(s).
- For six of the 12, the employers' contributions are lower (three are higher and three are approximately the same).
- For five firms, covered benefits are improved.
- For four, the network of physicians is better.
- In three companies, a larger number of employees are covered.
- In nine of the 12, the employer reports that the company is receiving better value for its money under HealthPass.

When asked for suggestions to improve HealthPass, six participating employers requested lower premiums and/or a reduction in the periodic premium increases. Three other business owners recommended adding more health plan choices, especially plans from "better" carriers, one suggested improving the billing system, and one requested clearer information comparing the available benefit options.

CONCLUSIONS

The lack of health insurance has become a truly chronic problem in this country that has defied repeated attempts at national, state, and local solutions. The HealthPass program has been one of the most successful local efforts to address this problem. Its successes, and the obstacles that it has yet to overcome, can provide valuable lessons for similar programs in other parts of the country.

Perhaps the most important public policy lesson to emerge from the experience of HealthPass is that such programs must be seen, from the moment that planning begins, as long-term investments rather than short-term solutions. Enrollment growth trends in HealthPass make it realistic to project eventual self-sufficiency, but it does not appear that this will occur until the program has been in operation for at least five years. Similar programs that set shorter-term break-even goals run the potentially fatal risk that they will exhaust public start-up funds (and the patience of politicians) before they have outgrown the need for them.

At this point in time, the future of the HealthPass program is in jeopardy if public support cannot be extended and financial self-sufficiency cannot be reached quickly. Raising the program's administrative fee (and therefore its premiums) would seem to be unrealistic. The program must continue to press for additional public support while doing everything to build its membership as quickly as possible—a two-pronged strategy that it is pursuing vigorously. Painful as it may seem, it may soon become necessary to prepare a contingency plan for the temporary reduction of program expenditures in case public support does run out before membership has reached the necessary level.

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#656 *Rethinking Recertification: Keeping Eligible Individuals Enrolled in New York's Public Health Insurance Programs* (August 2003). Karen Lipson, Eliot Fishman, Patricia Boozang, and Deborah Bachrach, Manatt, Phelps & Phillips LLP. According to this study, New York State's laborious recertification process for public health insurance helps keep a large number of New Yorkers uninsured because they fail to complete required documentation. The authors recommend that health insurance programs require a full eligibility review every other year, rather than every year, and rely on existing databases to confirm eligibility.

#591 *New York Seniors and Prescription Drugs: Seniors Remain at Risk Despite State Efforts—Findings from a 2001 Survey of Seniors in Eight States* (December 2002). David Sandman, Cathy Schoen, Deirdre Downey, Sabrina How, and Dana Gelb Safran. Although New York has one of the nation's largest and most effective prescription drug assistance programs for the elderly, nearly one of five seniors in the state had no coverage for medications in 2001, according to this analysis. As a result of lack of coverage or inadequate benefits, one-fifth of all New York seniors, including one-third of those without drug coverage, reported they skipped doses of medication or did not fill a prescription because of cost concerns.

#574 *Employer Health Coverage in the Empire State: An Uncertain Future* (September 2002). Heidi Whitmore, Kelley Dhont, Jeremy Pickreign, Jon Gabel, David Sandman, and Cathy Schoen. According to this report, the combination of a weak economy, higher unemployment, and rising health care costs is placing pressure on New York State employers to eliminate or scale back health benefits for workers, their dependents, and retirees.

Achieving and Sustaining Improved Quality: Lessons from New York State and Cardiac Surgery (July/August 2002). Mark R. Chassin. *Health Affairs,* vol. 21, no. 4. Copies are available from *Health Affairs,* 7500 Old Georgetown Road, Suite 600, Bethesda, MD 20814-6133, Tel: 301-656-7401 ext. 200, Fax: 301-654-2845. Available online at http://www.healthaffairs.org/readeragent.php?ID=/usr/local/apache/sites/healthaffairs.org/htdocs/Library/v21n4/s8.pdf.

#546 *Health Coverage for Immigrants in New York: An Update on Policy Developments and Next Steps* (July 2002). Deborah Bachrach and Karen Lipson, Kalkines, Arky, Zall & Bernstein LLP. This field report examines the way in which federal welfare reform restricted legal immigrants' access to Medicaid and how a New York State Court of Appeals' decision provides coverage for those previously denied.

#507 *Lessons from a Small Business Health Insurance Demonstration Project* (February 2002). Stephen N. Rosenberg, PricewaterhouseCoopers LLP. This report finds that the recently concluded pilot project, the Small Business Health Insurance Demonstration, launched by New York City in 1997, was successful in providing a comprehensive, low-cost insurance option for firms with two to 50 workers. But poor implementation and marketing, plus flaws in product design, prevented the program from catching on among small businesses.

#485 *Implementing New York's Family Health Plus Program: Lessons from Other States* (November 2001). Rima Cohen and Taida Wolfe, Greater New York Hospital Association. Gleaned from research into the ways 13 other states with public health insurance systems similar to New York's have addressed these matters, this report examines key design and implementation issues in the Family Health Plus (FHP) program and how Medicaid and the Child Health Plus program could affect or be affected by FHP.

#484 *Healthy New York: Making Insurance More Affordable for Low-Income Workers* (November 2001). Katherine Swartz, Harvard School of Public Health. According to the author, Healthy New York—a new health insurance program for workers in small firms and low-income adults who lack access to group health coverage—has so far been able to offer premiums that are substantially less than those charged in the private individual insurance market.

#473 *Coordinating Care for the Elderly: A Case Study of a Medicaid Long-Term Care Capitation Program in New York* (October 2001). Korbin Liu, Sharon K. Long, Matthew Storeygard, and Amanda Lockshin, The Urban Institute. According to the authors, a New York State demonstration program offering managed care to low-income adults who require long-term care appears to be enrolling more patients than previous programs and offering an expanded range of services.

Accessibility of Primary Care Services in Safety Net Clinics in New York City (August 2001). Eve Weiss, Kathryn Haslanger, and Joel C. Cantor. *American Journal of Public Health,* vol. 91, no. 8. Copies are available from Kathryn Haslanger, United Hospital Fund, 350 Fifth Avenue, 23rd Floor, New York, NY 10118-2399, E-mail: khaslanger@uhfnyc.org.

#458 *Expanding Access to Health Insurance Coverage for Low-Income Immigrants in New York State* (March 2001). Deborah Bachrach, Karen Lipson, and Anthony Tassi, Kalkines, Arky, Zall & Bernstein, LLP. This study of health insurance coverage among New York State's legal immigrants finds that nearly 170,000 low-income adults who would otherwise be eligible for public insurance programs are denied coverage solely because of their immigration status.

Medicaid Managed Care in New York City: Recent Performance and Coming Challenges (March 2001). Derek DeLia, Joel C. Cantor, and David Sandman. *American Journal of Public Health,* vol. 91, no. 3. Copies are available from Derek DeLia, United Hospital Fund, 350 Fifth Avenue, 23rd Floor, New York, NY 10118-2399, E-mail: ddelia@uhfnyc.org.

#444 *Creating a Seamless Health Insurance System for New York's Children* (January 2001). Melinda Dutton, Kimberley Chin, and Cheryl Hunter-Grant, Children's Defense Fund–New York. New York has recently brought Medicaid and Child Health Plus together, making the two programs more compatible. This paper takes a comprehensive look at both these programs in order to identify areas of continued programmatic disparity and explore ways to bridge differences.

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#378 *Using Community Groups and Student Volunteers to Enroll Uninsured Children in Medicaid and Child Health Plus* (March 2000). Melinda Dutton, Sarah Katz, and Alison Pennington, Children's Defense Fund–New York. In this field report, the authors evaluate two innovative models for enrolling uninsured New York children into Medicaid or Child Health Plus.

#372 *The Role of WIC Centers and Small Businesses in Enrolling Uninsured Children in Medicaid and Child Health Plus* (March 2000). Inez Sieben, Terry J. Rosenberg, and Yoly Bazile, Medical and Health Research Association of New York City, Inc. In this field report, the authors evaluate two innovative models for enrolling uninsured New York children into Medicaid or Child Health Plus.

#369 *Five Boroughs, Common Problems: Health Care in New York City* (February 2000). David Sandman and Elisabeth Simantov. This fact sheet summarizes, by New York City borough, the number of uninsured, the rates of Medicaid coverage, demographic characteristics, and access to health care.

Preventive Service Use and Medicaid Managed Care in New York City (January 2000). Anne Reisinger and Jane Sisk. *American Journal of Managed Care,* vol. 6, no. 1. Copies are available from *American Journal of Managed Care,* American Medical Publishing, 241 Forsgate Drive, Suite 102, Jamesburg, NJ 08831, Phone: 732-656-1006, Fax: 732-656-0818, www.ajmc.com.

#349 *Health Care in New York City: Understanding and Shaping Change* (September 1999). David R. Sandman. This issue brief highlights Fund programs that have been implemented to protect health care access for New York City residents—especially its low-income citizens—in the face of rising uninsurance, the move to mandatory Medicaid managed care enrollment, and the increasing strain on the city's safety net providers and academic health centers.

#340 *A New Opportunity to Provide Health Care Coverage for New York's Low-Income Families* (July 1999). Jocelyn Guyer and Cindy Mann, Center on Budget and Policy Priorities. The authors show how New York could make a substantial dent in its number of uninsured working adults if it took advantage of a little-known legislative opportunity and raised the income eligibility level for subsidized health insurance.