

Public program crowd-out of private coverage: What are the issues?

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based on a Research Synthesis
by Gestur Davidson et al.

SUMMARY OF KEY FINDINGS

- > **Whether implemented as direct-coverage expansions or through private-sector approaches, most public policies to expand coverage will result in some amount of crowd-out.**
- > **There is no single answer to the question of how much crowd-out exists.** This is because of differences in the amount of crowd-out across programs and because measuring crowd-out is so difficult.
- > **Crowd-out is more likely among programs targeting moderate-income families.** These families have greater access to and ability to pay for employer coverage than do low-income families.

What is crowd-out and why do policy-makers care?

- For a variety of reasons people may substitute public coverage for private insurance.

Substitution is considered “crowd-out” if the action taken—people dropping private coverage or employers changing their insurance offerings—would not have occurred had the public program not existed.

Policy-makers are concerned about crowd-out because it limits the impact of public coverage expansions. When crowd-out occurs, scarce resources are used to cover people who would have insurance anyway.

Much has been written about this topic, but studies present confusing and conflicting conclusions. This brief addresses these issues by presenting what we know about the extent and dynamics of crowd-out, discussing the effectiveness of policies to limit crowd-out and outlining the policy trade-offs between reducing crowd-out and expanding coverage through public programs. The programs of interest include Medicaid, the State Children’s Health Insurance Program (SCHIP) and certain state-funded initiatives.

How does crowd-out occur?

- There are three ways crowd-out can occur:

People drop private coverage for public: A person or family drops private insurance—either employment-based or individually purchased—to enroll in public coverage.

A public program enrollee refuses an offer of private coverage: Someone with public coverage refuses an employer’s offer of insurance, which that person would have accepted in the absence of the public program. This phenomenon is known as “within enrollment” crowd-out.

An employer changes coverage offerings in response to the existence of a public program: An employer changes elements of its insurance offerings—for instance, dropping dependent coverage or increasing employee premiums—resulting in an employee losing or deciding to drop private coverage and enrolling in a public health insurance program.

Research gives us a range, not a single value, for how much crowd-out exists.

Despite all the research on this topic, there is no bottom-line answer to the question of how much crowd-out occurs. This is because of differences in crowd-out rates across time periods and programs (based on program design, enrollee characteristics and economic conditions) and because measuring crowd-out is difficult.

Policy-makers should, therefore, be skeptical of definitive and broad statements about the extent of crowd-out. Both the definition of crowd-out and the data used can change crowd-out estimates.

How prevalent is crowd-out?

- Researchers measure crowd-out by examining changes in private and public coverage after the creation or expansion of public programs.
- Research gives us a range, not a single value, for how much crowd-out exists (Figure 1).

It is difficult to determine whether changes in private coverage are directly related to public program expansions (i.e., would not have occurred if the public program expansion did not exist).

Estimates are imprecise and vary greatly depending on the type of coverage expansion and the assumptions, methods, and data used, as well as the time period covered by the study.

Figure 1. Range of crowd-out estimates

| Public programs | Target population | Crowd-out estimate* |
|-------------------------|-----------------------------|---------------------|
| Medicaid expansion | Children and pregnant women | 0–100% or more |
| State-initiated program | Adults | 0–100% |
| State-initiated program | Children | 0–60% |
| SCHIP | Children | 0–77% |

* 0 = No empirical support for crowd-out
Source: Authors, 2004

What factors influence crowd-out?

- The potential for crowd-out is greater among families with income above the federal poverty level, who are more likely than poor families to have private insurance coverage.
- Crowd-out rates may also be higher if whole families can enroll together in public coverage.
- Crowd-out rates are likely to change over time, influenced by the economy, labor market conditions, characteristics of private coverage and attitudes toward public coverage.

Policy interventions may reduce crowd-out, but also discourage the uninsured from enrolling in public programs.

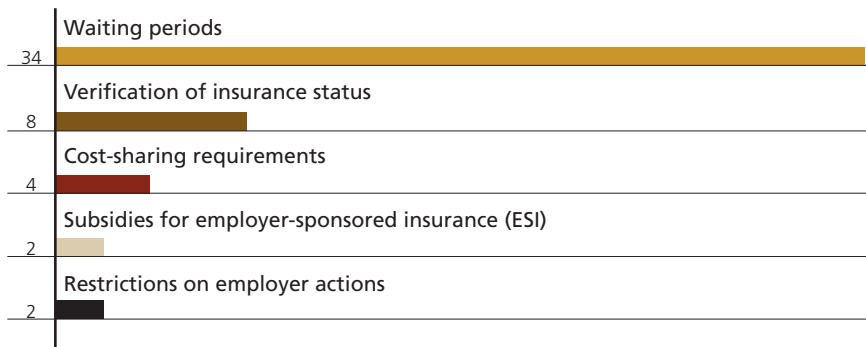
What policy approaches might limit crowd-out and how effective are they?

States have most commonly used waiting periods and cost-sharing as tools to limit crowd-out in SCHIP (Figure 2).

Waiting Periods. No real evidence exists on the effectiveness of waiting periods, although logically they are likely to reduce some forms of crowd-out. Waiting periods will not prevent “within enrollment” crowd-out.

Cost Sharing. Cost sharing may limit crowd-out by reducing the difference in out-of-pocket costs between public and private coverage, but may also discourage the uninsured from enrolling in or using health benefits offered by public programs.

Figure 2. Policies to limit crowd-out in SCHIP (number of states with each policy)



Source: Lutzky-Westpfahl and Hill, 2001

What are the trade-offs between limiting crowd-out and expanding coverage?

- Crowd-out raises the government’s cost of expanding coverage through public programs or other subsidies. Public resources are spent covering people who would otherwise have private insurance, rather than providing insurance for the uninsured.
- Attempts to limit crowd-out, for instance by using waiting periods or cost sharing, may be costly to implement and may reduce program participation by all families, including the uninsured.
- People who shift from private to public coverage may be better off, although the government may pay more as a result. Better benefits and lower out-of-pocket costs are often available through public coverage and may improve access to care and the standard of living for low-income families.
- Measures to minimize the substitution of public for private coverage also raise equity concerns; low-income families who have paid for private coverage may be excluded from the public program while families who have not purchased coverage benefit.

Scant evidence exists on the effectiveness of anti-crowd-out measures. Particularly little is known about the impact of waiting periods, one of the main policy approaches used by states to discourage substitution.

Even though we lack hard evidence, measures to control crowd-out are likely to result in some reduction. But they also have other potentially adverse effects. In particular, they may discourage the uninsured from enrolling in public programs.

In order to ease problems for families facing serious hardships, some states exempt families from waiting periods if they:

- Have high medical expenses.
- Experience an involuntary loss of coverage.
- Purchase coverage in the individual market.

Policy Implications

REFERENCES

Figure 1: Davidson G. et al. *Public program crowd-out of private coverage: What are the issues?* The Robert Wood Johnson Foundation Synthesis Project, 2004.

Figure 2: Lutzky-Westpfahl A., Hill I. *Has the Jury Reached a Verdict? States' Early Experiences with Crowd Out Under SCHIP.* Occasional Paper #47, Urban Institute, June 2001.

- > **Policy-makers should consider the trade-offs between limiting crowd-out and covering the uninsured. Crowd-out limits the impact of public coverage efforts, but lower-income families enrolling in public programs may gain a more stable source of insurance.**
- > **While anti-crowd-out measures will probably reduce the substitution of public for private coverage, they may also lower participation in public programs and raise equity concerns.** They can also be costly and require substantial effort to implement.
- > **To achieve meaningful reductions in the number of uninsured, some amount of crowd-out seems inevitable.**

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