POLITICAL ECONOMY RESEARCH INSTITUTE
PERI Research Brief
University of Massachusetts Amherst

10th floor Thompson Hall, University of Massachusetts, Amherst, MA 01003
(413) 545-6355, peri@econs.umass.edu, http://www.umass.edu/peri

Expanding Health Care Coverage Using Living Wage Ordinances: New California Law Paves the Way for Expansion

Mark D. Brenner[1]
October, 2002

Research Brief 2002-1

In September of this year, California became the first state in the country to explicitly link local living wage ordinances to other state efforts to expand health care coverage, as AB 2178 was signed into law. This bill was sponsored by long-time living wage supporter Los Angeles Assemblywoman Jackie Goldberg. AB 2178 modifies the definition of small businesses under the California Health Reform Act (CHRA) to include those firms covered by local living wage legislation. The CHRA guarantees small businesses access to health plans and limits the cost increases which they face. By opening up these small business health insurance programs to firms covered by living wage laws, supporters hope to substantially lower costs for covered employers, thereby removing an important barrier to affordable health care for many low-wage workers in California. With the soaring costs of health insurance and rising numbers of uninsured, this effort offers a timely and important new direction for the living wage movement.

If AB 2178 succeeds in increasing the proportion of low wage workers with employer-provided health insurance, the state of California stands to benefit substantially from this shift. Currently, uninsured individuals and their families must rely on publicly provided health care programs, such as Medicaid, for their health care needs. Yet a substantial portion of Medicaid and other program costs are funded through the state budget. For example, the 2002-03 budget for Medi-Cal – California's Medicaid program – is $26.9 billion, with $10.1 billion coming from the state's General Fund.

In this research brief we provide an estimate of the cost savings that could result from lower Medi-Cal utilization by low-wage workers and their families through AB 2178.[2] These estimates are based on an analysis of the 2001 Current Population Survey (CPS) for California, which we used to identify the participation rate in the Medi-Cal program among the low-wage population.[3]

---

[1] The author would like to thank Thomas Masterson for his able research assistance.
[2] We focus here only on Medi-Cal because it is four times larger than any other public health program operated by the state. It is our view that the patterns of cost savings would be broadly similar for other state health programs.
[3] Specifically, we used the March Annual Demographic File (ADF) of the 2001 CPS for our analysis.

Table 1 reports these figures according to different wage categories. Here we define low-wage workers as those earning less than $9.00 per hour, and we divide low-wage workers into three segments: those earning up to $7.00/hour; those between $7.01-$8.00 per hour; and those between $8.01-$9.00 per hour. In the last row we report figures for all low-wage workers (i.e. all those earning less than $9.00 per hour). From column 2 we see that for all three categories of low-wage workers, between 23 and 29 percent of low-wage workers are living in households where at least one member is participating in the Medi-Cal Program. The average for all low-wage workers is 28 percent. In column 3, we see that within those participating households, there are between 2.5 and 2.8 household members utilizing the Medi-Cal program, with an average of 2.5 percent for all low-wage workers. These figures demonstrate the vital role that Medi-Cal is playing for many low-wage families in the state. Indeed, these utilization rates are significantly above the average coverage rate of 18.1 percent for all California residents.

Table 1 – Proportion of Low Wage Workers in California with At Least One Household Member Using Medi-Cal, and Average Number of Users per Participating Household

Wage range for covered workers	*(2) Proportion with a household member using Medi-Cal*	*(3) Average number of Medi-Cal users in participating households*
Less than or equal to $7.00	28.5%	2.8
Between $7.01 and $8.00	23.3%	2.5
Between $8.01 and $9.00	23.3%	2.5
All low-wage workers (less than or equal to $9.00)	27.8%	2.5

Source: Author's analysis of March 2001 Current Population Survey data

Based on these utilization rates, we can now calculate how many people are likely to transfer from Medi-Cal to an employer-provided health insurance plan if AB 2718 has its intended effects. As a simple example, consider those workers earning less than $9.00 per hour. If 100 such workers were to receive employer-provided health insurance, our figures suggest that approximately 70 people would move out of the Medi-Cal program. This follows from the fact that out of the 100 newly covered workers, approximately 27.8 percent are currently receiving Medi-Cal benefits for themselves or members of their families; and an average of 2.5 members of their family are likely to be getting such benefits (i.e. 100 workers x .278 x 2.5 = 69.5).

In order to assess the potential economic benefits to the state from shifting Medi-Cal enrollees to employer-provided health insurance, we still also need to derive some measure of the per-enrollee cost to the state of the Medi-Cal program. Estimating a single such statistic is quite complicated, given that Medi-Cal covers a variety of services, from elder care to dental, and can be provided on a fee-for service basis, or through a managed care system, depending on the county of delivery. However, California's Medi-Cal program does maintain detailed summaries of per enrollee costs for a variety of programs. These figures can provide us with a solid basis on which to make reliable estimates of the potential savings through policies such as AB 2718.

At the high end, per enrollee costs statewide averaged $411.99 per month in 2001, for all services provided on a fee-for-service basis.[4] By contrast, enrollees eligible through the CalWORKS program (California's Welfare to Work program) cost the state an average of $180.86 per month for services provided on a fee-for-service basis.[5] At the lowest end are rates paid to managed care organizations. For example, rates paid to Los Angeles county HMOs for Medi-Cal patients eligible through AFDC (now CalWORKS) range between $91.29 and $95.23 a month.[6]

Because of the demographic similarity between the CalWORKS population and the low-wage labor force statewide, we believe that the most appropriate per enrollee cost for our purposes is the average of the fee-for-service and managed care monthly costs per enrollee. This figure is approximately $136 per enrollee per month.[7]

Let us now return to our example of 100 workers earning between $8.01 - $9.00 per hour. If a total of 70 workers and their family members were moved out of the Medi-Cal program and into an employee-provided program, the average monthly saving would be $136 x 70 people, or $9,520, which translates to $114,240 per year.

Following on these results, we estimate that if AB 2178 were able to extend employer-provided insurance to 100,000 low-wage employees in California, the savings to the Medi-Cal program would be approximately $114 million. If we assumed that the cost savings from Healthy Families and the state's other health-related programs serving the working poor were of similar proportions, this would suggest that that the overall savings to the state would approach $125 million through a measure such as AB 2178 that enabled 100,000 low-wage workers to move from state- to employee provided health-care coverage. Of course, if AB 2178 were to enable a larger number of low-wage workers to obtain employee-provided coverage, the cost savings to the state would rise proportionately.

---

[4] See, California Department of Health Services, Medi-Cal Services and Expenditures Month-Of-Payment Report for January 2001 to December 2001, 1/25/02, p. 17,937.
[5] Ibid, p. 17,645.
[6] LA county HMO rates for AFDC eligible Medi-Cal enrollees come from the Department of Health Services, Managed Care Capitation Report, March 2002, pp. 13-14, provided by personal communication with Jim Klein, Department of Health Services, 5-15-02. Note Los Angeles county has the highest number of Medi-Cal enrollees in managed care in the state.
[7] Taking the average of the managed care and fee-for-service monthly costs per enrollee is appropriate as approximately half of Medi-Cal enrollees obtain benefits through fee-for-service, and the other half through managed care (Governor's Budget Summary, 2002-03, January 10, 2002, p. 171).
.