California Health Policy Roundtable on Individual Health Insurance Market Reform

Key Questions to Explore at this Roundtable

♦ What can California learn from the individual health insurance market reform efforts in other states?
♦ What are the major barriers to reform in California?
♦ What package of reforms will have the greatest positive impact in California?
♦ What package of reforms is operationally feasible in California?
♦ What package of reforms is most likely to receive the broadest support in California?

The Individual Health Insurance Market in California

The estimated percentage of the nonelderly population in California with privately purchased individual health insurance coverage is 6 percent - 1.7 million people. Those with employer-sponsored coverage comprise 57 percent - 16.5 million people. Twenty-two percent of Californians - 6.5 million people - are uninsured. Access to health insurance in California could be extended through the implementation of individual health insurance market reforms.

What Are the Consequences of a Lack of Health Insurance Coverage?

The uninsured...

… are more likely to cite cost as a barrier to seeking needed medical care,
… report poorer health status,
… have less access to preventive care,
… have higher rates of preventable risk factors for disease, and
… are less likely to receive recommended preventive counseling on health risks

...than the insured.

Who Buys Individual Health Insurance?

♦ Employed individuals without employer-sponsored coverage
♦ Self-employed individuals
♦ Unemployed individuals
♦ People transitioning to Medicare
♦ People transitioning off Medicaid

What’s Wrong with the Individual Health Insurance Market?

The individual health insurance market is not a market in the classic sense because sellers may refuse to sell to the buyer, even if the buyer has funds to pay.

♦ Lack of Access - Insurers may use any risk characteristics to decide whether to offer coverage and to establish premium rates for individuals. Insurers have used medical underwriting to screen out “bad risks,” competing on the basis of risk selection, instead of risk management.
♦ Unaffordability - Individual coverage is more expensive than group coverage and more expensive for sick individuals than healthy ones.
♦ Limited Choice - Individuals access the market on their own and choose from different plans with little or no guidance, except from a broker.
♦ Cost-Coverage Tradeoff - To obtain an affordable premium, individuals often choose a limited-benefit and/or high-deductible plan, leaving them under-insured.

What Are the Possible Elements of Reform in the Individual Market?

♦ Guaranteed Issue - Requires insurers participating in the market to sell a health benefit plan to any eligible individual who agrees to pay the applicable premiums.
♦ Pre-Existing Condition Limitations - Limits the period of time coverage can be excluded for a pre-existing medical condition.
Portability - Requires insurers to waive any pre-existing condition limitation for covered services if services were previously covered under another policy for a specified period of time.

Rating Bands - Limits the amount insurers can vary premium rates.

Community Rating - Limits the factors used by insurers to vary premium rates.

Basic/Standard Benefit Plans - Facilitates comparison shopping based on price; could increase the level of comprehensive coverage.

Participation Requirements - Requires carriers selling some form of health insurance either to offer individual coverage or to pay an assessment to partially reimburse carriers that lose money in the individual market.

Subsidies - Increases financial access to the market for low-income individuals.

Purchasing Cooperatives - Enables individuals and small groups to purchase insurance with the same choice and administrative efficiencies as large group purchasers; standardizes benefits.

Which of These Reforms Have Been Implemented in California?

Many of these reform have been implemented in California’s small group market (AB1672), but these same guarantees and protections are not available in the individual market.

California is one of four states that is not in full compliance with the Health Insurance Portability and Accountability Act of 1996 (HIPAA). HIPAA provides states with the opportunity to increase access, availability, affordability, and choice in the individual health insurance market.

What Are the Challenges to Reform of the Individual Health Insurance Market?

Making coverage affordable is a key component of expanding access. Guaranteed issue individual health insurance with no limits on premiums does little to increase access. However, guaranteed issue coverage without limits on enrollment could mean that healthy individuals will wait to purchase coverage until they become ill.

Moreover, in a voluntary market, individuals who believe they are at low risk for injury or illness may opt out of the health insurance market. If younger, healthier individuals forgo coverage, the average health status of those remaining in the individual pool declines. Consequently, higher claims costs for this less healthy group could result in higher premiums for individual coverage, which could force more individuals out of the market.

When contemplating reform of the individual health insurance market, policymakers should consider those elements of reform that must be packaged together to prevent adverse selection and instability in this market.

About the Roundtable Speakers

NATIONAL EXPERTS IN HEALTH INSURANCE POLICY

Linda Blumberg, Ph.D., is a Senior Research Associate at the Health Policy Center of the Urban Institute in Washington, D.C. Dr. Blumberg will review the major issues and the major policy tools available in reforming the individual health insurance market.

Deborah Chollet, Ph.D., is the Vice President of the Alpha Center in Washington, D.C. Dr. Chollet will review the responses of the health insurance industry to individual market reforms.

Deborah Garnick, Sc.D., is a Research Professor at the Institute for Health Policy at the Heller School, Brandeis University, in Waltham, Massachusetts. Dr. Garnick will review the experiences of and lessons learned by the state of New Jersey in reforming its individual health insurance market.

Nicole Tapay, J.D., is an Assistant Professor at the Institute for Health Care Research and Policy at Georgetown University in Washington, D.C. Ms. Tapay will review state compliance strategies as they relate to the individual market reforms under the HIPAA.

CALIFORNIA POLICYMAKERS

Richard Figueroa is the Principal Consultant for the California State Senate Committee on Insurance in Sacramento, California.

Kevin Hanley is the Director of the Governor’s Office of the Insurance Advisor in Sacramento, California.

CALIFORNIA STAKEHOLDERS

Anne Eowan is the Vice President for Governmental Affairs for the Association of California Life and Health Insurance Companies in Sacramento, California.

Jeanne Finberg is a Staff Attorney for the National Center for Youth Law in San Francisco, California.

Sandra Shewry is the Executive Director of the California Managed Risk Medical Insurance Board in Sacramento, California.

Maureen O’Haren is the Vice President for Legislative Affairs of the California Association of Health Plans in Sacramento, California.

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