



Short Cuts ISSUES & ANSWERS

The Council for Affordable Health Insurance

Solutions for Today's Health Policy Challenges

No. 100

Guaranteed Issue

October 2007

What is it? Guaranteed issue requires health insurers to accept any applicant for health insurance coverage even if the applicant has a serious medical condition. In the individual market (health insurance policies sold to individuals and families), health insurers are not usually required to provide coverage on a guaranteed issue basis. There are some exceptions as outlined in the federal law known as HIPAA (The Health Insurance Portability and Accountability Act of 1996) and specific state laws. However, most people receive their health insurance from either government sources (around 27%) or employer sources (more than 60%). Health insurance coverage provided by government and to employees is almost always issued on a guaranteed issue basis. As a result, it is only the relatively small individual health insurance market (around 9%) that does not provide guaranteed issue rights.

How does it work? Guaranteed issue laws guarantee access to health insurance, but do not limit a health insurer's ability to charge higher premiums to a group or individual with a chronic medical condition. Policymakers have often responded by passing price restrictions that limit the ability to raise rates, known as community rating.

The combination of these two policies in the individual market — price controls coupled with guaranteed issue — encourage individuals to game the system. Since in a guaranteed issue environment health insurance can be purchased at any time, it makes little sense to purchase health insurance when healthy. Instead, it makes much more financial sense to wait until threatened by an expensive medical condition. Once the condition is resolved, coverage can be dropped.

State Experience. Maine, Massachusetts, New York, New Jersey, Vermont and Washington State have experimented with guaranteed issue and price restrictions. The result is predictable.

Those who need insurance the least — the young and healthy — appear to abandon the health insurance market. With a less-representative pool, the rates increase, making policies unaffordable for most. In the end, the market is usually left with expensive health insurance, very few insurance companies participating and only the sickest with coverage.

The recent eHealthInsurance report “The Cost and Benefits of Individual Health Insurance Plans: 2007” illustrates the problem just as clearly. As seen on the chart below, New York and New Jersey have higher health insurance rates, higher average ages, and more uninsured than their neighbors Pennsylvania and Connecticut. What is the difference? New York and New Jersey have implemented guaranteed issue and community rating.

State	Average Premium	Average Age	Uninsured
New York	\$338	44	13%
New Jersey	\$277	37	17%
Pennsylvania	\$148	31	8.6%
Connecticut	\$156	35	11.3%

Is there an alternative? It is vital that state legislators, in attempting to ensure access to coverage for the 1% to 2% of the population that is medically uninsurable, not destroy the health insurance market for the other 98%. Guaranteed issue may provide access to health insurance, but it *does not* ensure those health insurance premiums are affordable. Fortunately, guaranteed issue is not the only way to provide access to health insurance for those with serious or chronic health conditions; 34 states have an alternative way to provide coverage through the use of a high risk pool.

For more information please visit www.cahi.org.

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