



Short Cuts ISSUES & ANSWERS

The Council for Affordable Health Insurance

Solutions for Today's Health Policy Challenges

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Community Rating and Adjusted Community Rating

What is it? Community rating requires everyone in the same “community” to be charged the same rate for health insurance and requires health insurers to ignore such cost factors as:

- Geography — Doctors and hospitals in different cities may charge different rates for the same services;
- Age — As their health needs increase with age, older people tend to be more expensive to insure;
- Sex — Women and men have different costs, depending on their age; and
- Health status — Those with health conditions cost more to insure.

And there may be other factors that are disallowed for consideration. The result is a single rate for all applicants. Adjusted community rating (also referred to as modified community rating) typically allows variation based on some or all demographic factors (e.g., sex, age, geography) but not based on health status.

In most states, community rating is combined with guaranteed issue — the requirement that a policy must be issued to any applicant.

How does it work? Supporters of community rating and adjusted community rating believe the laws increase access to health insurance — especially for those with medical conditions. However, state experience demonstrates that community rating raises rates on the young (who can least afford health insurance) and healthy in order to lower rates for the older and sicker.

Since most of the individuals and groups in the health insurance market are relatively healthy, this means the large majority of insureds will receive a rate increase. In fact, community rating penalizes those who are doing the right thing by purchasing health insurance when they are healthy. Conversely, it rewards those who wait to purchase insurance until they are sick by subsidizing their policies.

Why does it reduce access to affordable coverage? Because community rated health insurance costs the same whether a person is healthy or sick, it encourages people to game the system by waiting to purchase health insurance until they need it. This defeats the whole purpose of insurance, which is protection against *unanticipated* risk.

As more healthy people postpone joining the pool until they need care, rates continue to rise for those who remain. In the end, the rates become unsustainable and many health insurers abandon the market.

Maine, New York, New Jersey, Vermont and other states have implemented community rating as part of a package of health reforms, and they have seen their premiums skyrocket. In many cases, most insurers abandoned the market, leaving only a few (or one) dominant health insurance carriers. Consumers face high rates, few choices and a market that has imploded.

Is there an alternative? Many states that have implemented community rating have tried to fix their deteriorating health insurance market by turning to further government intervention: rate controls, limiting plan designs, or the creation of new government-established health insurance plans. These haven't worked either.

Repeal of community rating is the only workable solution. In order to protect those with serious medical conditions, states can and should implement a high risk pool funded, in part, by the health insurance industry. In the small group market, appropriate rate limits (e.g., usually +/-35% of the standard rate) can strike a balance between protecting groups with health conditions while still ensuring affordable rates for the vast majority of the population.

For further reading . . .

For more information, please visit www.cahi.org for the following publications:

“Understanding the Uninsured,” Merrill Mathews and J.P. Wieske.

“The State Legislators’ Guide to Health Insurance Solutions,” J.P. Wieske.

Destroying Insurance Markets: How Guaranteed Issue and Community Rating Destroyed the Individual Health Insurance Market in Eight States, Conrad Meier, Heartland Institute (www.heartland.org).

For more information please visit www.cahi.org.

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