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The Benefits of Association Group Health Insurance

Health insurance premiums are rising at double-digit rates for the third year in a row, and some workers and employers are seeing increases of 30, 40 and even 50 percent. Not coincidentally, the number of uninsured has risen to more than 41 million Americans.

What people need — especially those who lack employer-provided insurance — is access to affordable alternatives. Fortunately, the “association group” market offers such alternatives.

Why Individuals Need Affordable Alternatives. The large majority of people under age 65 with health insurance get it through their employers. The self-employed and those who do not have an employer-provided health insurance option usually seek policies in what is known as the “individual market,” just as people purchase their own life and auto insurance.

However, both employer-based health insurance and the individual market have problems. Those with employer-provided policies don't own them; the policies belong to the employer. Employers decide what type of coverage employees will have, and when employees leave their jobs they lose their coverage.

The individual market avoids these problems but has some of its own. Individuals do not get the economies of scale that come with group coverage, and most states impose regulations and restrictions that make individual policies more expensive.

Ideally, individuals should be able to get the savings that come with group coverage, along with the flexibility and personal ownership available in the individual market. That is what the association group market provides.

What Is Association Group Health Insurance? Millions of Americans are members of associations. Some of these associations are job- or career-related, some are hobby-related and some are tied to people's special interests. Many associations offer access to or group discounts on a wide range of products and services; some include health insurance among their offerings.

Purchasing health insurance as well as other products and services through an association is a long-established and well-accepted model. Perhaps the oldest and largest of these associations is the AARP.

In 1947, two decades before the federal government launched Medicare, retired principal Ethel Percy Andrus created the National Retired Teachers Association (NRTA) to provide affordable health insurance and other services to retired teachers. But it wasn't until 1955, when she met Leonard Davis, that she found someone who would market policies to seniors. Davis, an insurance broker with Continental Casualty Co. and an aggressive marketer, put up \$50,000 in 1958 to start a parallel organization, the American Association of Retired Persons (AARP) and soon created the Colonial Penn Group, which offered health, auto, life and homeowners policies.

Some 35 million people, roughly a third of whom are under age 60, pay annual dues to AARP because they believe they get value out of being a member. One offering they value is Medicare supplemental insurance, which millions of AARP members purchase.

There are roughly 15,000 active associations in the U.S. today. These include such groups as local Chambers of Commerce, the American Automobile Association, the National

Associations Are Regulated

The National Association of Insurance Commissioners' association group health insurance model asserts that:

- “The association or associations shall have at the outset a minimum of 100 persons and have been organized and maintained in good faith for purposes other than that of obtaining insurance;
- “Shall have been in active existence for at least one year;
- “And shall have a constitution and by-laws that provide that (i) the association or associations hold regular meetings . . . (ii) . . . collect dues or solicit contributions from members, and (iii) the members have voting privileges and representation on the governing board and committees.”

Rifle Association and the Sierra Club. Following the AARP model, some associations offer health insurance to their members, using an established insurance company to write the policies. However, association groups have come under attack for the way they operate and market their policies. Are the criticisms valid?

Association Groups Are Regulated by States. Critics of association groups contend that they are not regulated by the states like the individual and small group health insurance markets. However, 46 states specifically authorize group health insurance offered through associations, and these states mandate the benefits that are offered.

In addition, the National Association of Insurance Commissioners (NAIC) provides a model to guide states' oversight of the association group market. [See the insert on reverse.]

It is true that many states do not regulate the association group market to the same extent they regulate the individual and small group markets. But that is precisely why insurers selling policies through associations can offer more choices at lower prices.

Large employers who provide health insurance usually self-insure under the Employee Retirement Income Security Act (ERISA), which places their plans under federal rather than state insurance laws. A primary reason these employers self-fund is to gain freedom in structuring their plans and controlling their coverage costs. About half of those who have employer-provided coverage are in self-funded plans. These plans don't escape health insurance laws, they just operate under different laws. The same can be said for most association group plans.

If the concern is that less regulation of association groups skews the marketplace and puts individual and small group insurers at a disadvantage, *the solution is not to regulate association groups more but to regulate the other markets less so they too can offer a wide range of policies at affordable prices.*

Are Health Insurers too Close to the Associations? Another criticism is that some associations have too close a relationship with the insurers that provide the coverage.

It is probably true that some insurers have a close working relationship with the associations that sell their policies. But many associations have been working closely with their insurance providers for years. You would expect the head of AARP to have a good working relationship with the CEO of Prudential, which sells policies to AARP's seniors. And if AARP wanted to restructure some of the policies it offers, it would surely go to Prudential executives beforehand to discuss workable options and get the insurer's input.

In fact, nothing is inherently wrong with an insurance company playing an important role in forming an association that eventually will market its policies, just as Colonial Penn did with AARP. The NAIC and many states may discourage the

practice, and most insurers follow those laws and guidelines. But it is a reasonable way to create a viable group to purchase health insurance.

Association Groups Are One among Many Choices. Some 6 million Americans are currently insured through association groups, and more are choosing this option all the time. However, these people don't have to pay the additional money it takes to join an association in order to get health insurance. There are other options. Most states have a viable individual health insurance market, and people often have more choices at lower prices there than they get from a group policy. And 30 states operate high-risk pools for those who have been denied coverage. Consumers who do not want to join an association or do not like the policies associations offer are free to choose another option, even though those policies will likely cost them more.

Thus, denying consumers the association group option by eliminating or overregulating them does not protect consumers, it simply limits their options.

What's the Real Reason for Opposing Association Groups? It may be instructive to note that the complaints against association groups come primarily from other insurers operating within states where association groups do business. By offering consumers more options at affordable prices, association groups increase competition and attract customers — people who would otherwise be forced to pay higher prices or forego health insurance altogether. It's the oldest trick in the business book: if you can't beat the competition on price, service and quality, get the law to beat them for you.

Conclusion. The association group is a well-accepted model for offering products and services to people who share interests. The ability to offer more products at lower prices will always upset established vendors who are used to a captive audience. But if we want to help contain the cost of health insurance and give people more affordable options, we need more association groups competing for consumers.

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