



The Council for Affordable Health Insurance's ISSUES & ANSWERS

Solutions for Today's Health Policy Challenges

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Why Indiana Policy Is Increasing the Number of Uninsured

Americans expect options in car styles, food items, television programs — and health insurance. But an Indiana law needlessly restricts consumers' choices and in the process denies access to affordable health insurance to thousands of Hoosiers.

The Role of Medical Underwriting and Waivers. When someone applies for a health insurance policy with a multi-million-dollar limit in the individual (i.e., non-group) market, that person has to qualify for coverage, just as he or she would when applying for a multimillion-dollar life insurance policy. The qualification process is known as medical underwriting.

Some applicants have preexisting medical conditions that make it impossible for the insurer to offer them coverage at standard rates because expected costs for those applicants are higher than for the average person. Again, the same is true of life insurance.

When this situation occurs, health insurers in most states can offer the applicant a policy with a medical waiver

(also known as a rider) that excludes coverage for that condition or part of the body.

The Proper Role of Insurance. Some people are critical of medical underwriting and waivers. They believe insurance should cover any person who needs health care, irrespective of the person's medical condition. Yet the proper role of health insurance — or any type of insurance, for that matter — is to provide protection from a catastrophe that may or may not occur sometime in the future. If and when the catastrophe does occur, the insurer pays the bills.

Providing standard coverage at standard rates to applicants with a preexisting medical condition is *not* the proper role of health insurance. Doing so simply encourages more people to wait until they have a medical condition before applying. This would be like allowing people to buy life insurance policies on loved ones who are about to die — something no rational individual expects and no insurer allows.

Why Medical Waivers Increase Access to Insurance. In almost every state, insurers are permitted to offer either

Health Insurance Premiums vs. Indiana's High Risk Pool					
Customer Profile	Private Company Premiums				Indiana Comprehensive Health Insurance Association (ICHIA) — Plan 3B
	Anthem Personal Protection Plan — \$1000 Deductible; 80/20	Celtic Select PPO — \$1000 Deductible; 80/20	Unicare 1500 — \$1500 Deductible; 80/20	Golden Rule Plan 80 — \$1500 Deductible; 80/20	
Male, age 30 Bloomington (zip code 47405)	\$59.10	\$75.47	\$62.00	\$73.92	\$180.12
Female, age 12 Fort Wayne (zip code 46804)	\$49.68	\$58.63	\$43.00	\$50.12	\$121.30
Female, age 55 Gary (zip code 46404)	\$289.90	\$277.52	\$245.00	\$377.52	\$560.52
Male, age 40 La Porte (zip code 46350)	\$115.28	\$130.67	\$118.00	\$155.60	\$265.77
Female, age 25 Indianapolis (zip code 42628)	\$87.80	\$97.81	\$69.00	\$87.98	\$362.93

Rates are for illustrative purposes only and are subject to change. Celtic, ICHIA and Unicare rates obtained from their corporate web sites, 10/11/02. Anthem rates are based on industry research conducted April 2002. Golden Rule rates are actual quotes effective 11/4/02 or after.

temporary or indefinite medical waivers. The benefit of medical waivers is that they provide consumers an option they otherwise wouldn't have. Consumers can still get health insurance, perhaps even at standard rates, if the preexisting condition is excluded. Permitting medical waivers transforms health insurance from an all-or-nothing proposition to an affordable option for many U.S. consumers.

Consider, for example, a person with high cholesterol who applies for a health insurance policy. The cholesterol levels of many patients are well controlled with medications. Applicants may be comfortable accepting a cholesterol rider, especially if it allows them to choose from policies at standard rates. While a policy with a cholesterol rider would not pay for the cholesterol drugs, it would pay for medical care in the event of a later heart attack or stroke.

Or consider a waiver for a Caesarean section. C-sections are costly and a woman who has had one has an increased chance of having another at any subsequent delivery. A woman applying for insurance who hoped to increase the size of her family might be unwilling to buy coverage with a C-section waiver.

But if the woman were not planning on expanding her family, she might not mind having a C-section waiver on her policy, especially if doing so permits her to buy otherwise complete coverage at an affordable rate. If she did get pregnant later, she would just pay the cost of the C-section directly.

If an applicant does not want to accept a rider, he or she is free to apply to other insurers, or to enter the state's high-risk pool where one exists, or to go uninsured. Yet Indiana denies its residents the opportunity to accept a policy with a medical waiver.

The Hoosier Choice: Pay More or Go Uninsured. Fortunately, even though Hoosiers are denied a medical waiver option, they don't have to go uninsured. They can enroll in the state's high-risk pool, the Indiana Comprehensive Health Insurance Association (ICHIA). While ICHIA does provide coverage, its premiums are sometimes more than twice those of underwritten plans.

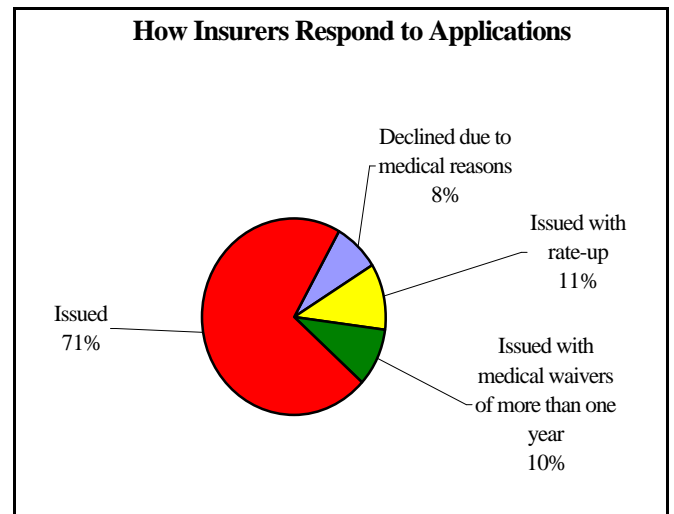
The table on the previous page compares the prices of four insurance companies' policies with the price of the *least expensive* plan the high-risk pool offers. The insurers' plans provide similar coverage to the one offered through ICHIA. A single glance at the table shows why Indiana residents with preexisting medical conditions need the option of medical waivers. The premium savings from an underwritten plan can offset what the person is spending to treat the medical condition.

How Many People Does Indiana's Law Affect? CAHI conducted a survey of its members selling health insurance in the individual market. Of those policies that made it to underwriting (i.e., they weren't rejected for nonmedical reasons such as a premium check wasn't included or the agent wasn't

registered with the insurance company) 10 percent of the health insurance applicants in states that allow medical waivers (for longer than one year) agreed to a policy with a waiver at standard rates.

Moreover, some insurers offer coverage to applicants with a preexisting medical condition but charge them above-standard rates so as to cover the increased risk. As shown in the figure below, 11 percent of the applicants accept that offer.

In both instances, applicants are free to decline the offer — but not in Indiana. Since Indiana doesn't give the option of medical waivers, roughly 15,000 residents (extrapolated for Indiana from U.S. Census Bureau data) are trapped in high-priced coverage or forced to join the ranks of the uninsured.



Conclusion. Louisiana tried excluding medical waivers for a couple of years but saw that it did more harm than good. As a result, Louisiana lawmakers voted almost unanimously to once more allow the use of medical waivers. Indiana needs to take similar action, making policies with medical waivers an option for working families.

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