



# The Council for Affordable Health Insurance's ISSUES & ANSWERS

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## State High Risk Pools: A Low-Cost Solution to Access to Coverage

One of the key issues in the health care reform debate is how to guarantee the uninsured, and especially those with a pre-existing medical condition, have access to affordable health insurance coverage.

Most of the reform proposals impose “guaranteed issue,” which requires insurers to accept anyone who applies for coverage regardless of health status. They also include some form of “community rating,” in which every insured person is charged the same price. Under “modified community rating” the premium can vary based on certain non-health-related factors, such as the age or geographical location of the applicant.

But there is a better way to guarantee access to coverage for the uninsured with a pre-existing condition: it's called a high risk pool. And both the House and Senate versions of health care reform provide money to fund existing high risk pools in order to guarantee access immediately, phasing them out in the near future as the new reforms take shape.

However, lawmakers could solve the access problem for a lot less money and with fewer distortions to the current system by embracing high risk pools as a permanent, rather than temporary, solution to the access problem.

**The Access Problem.** First, policymakers need to keep the health insurance access problem in perspective. The large majority of Americans — about 175 million — get their coverage through an employer, and even those with pre-existing medical conditions cannot be denied that health coverage. That's because under federal law the group market, both small and large employers, guarantees coverage to anyone who gets a job with an employer offering health insurance. And, of course, those eligible for or participating in Medicare or Medicaid (some 100 million-plus Americans) are accepted regardless of their health status. Thus, the vast majority of Americans have access to coverage that cannot be denied because of a pre-existing medical condition.

By contrast, the uninsured with a pre-existing medical condition who do not have access to employer-provided coverage can face problems getting health insurance in most states. To address this problem, 35 states have created state-based high risk pools to provide the uninsurable and those with disproportionately high health insurance premiums with access to coverage.

By contrast, six states rejected the high risk pool option and imposed guaranteed issue and community rating on the “individual” health insurance market, where individuals buy their own policies. The problem with guaranteed issue and community rating is they distort the market for everyone else by creating an incentive for people to wait until they need health insurance to buy it. To try and avoid that problem, Washington reformers propose mandating that everyone have insurance coverage.

Because guaranteed issue distorts and ultimately destroys an individual health insurance market, every one of those states have significantly higher health insurance premiums than the risk pool states.

**The Role of High Risk Pools.** High risk pools usually offer a range of coverage options, including PPOs, HMOs, high deductible plans and even Health Savings Accounts. Enrollees pay higher-than-standard premiums — usually about 50 percent more. Even with the higher premium, every state risk pool loses money. In most cases, states assess health insurers operating within the state to make up the difference. But some states find other sources of income to offset their risk pool losses.

Since 2002, the federal government has also provided the pools with some modest funding — up to a total of \$75 million for one year. The health reform bills pending in Congress recognize the critical role of state high risk pools and help fund their operation — up to \$5 billion, but only over the next three years (2010–12) — when the bill's more dramatic changes begin. State risk pools are not intended to have a permanent place once the other reforms go into effect. This is a huge mistake.

An even bigger mistake is believing that moving to an insurance system with guaranteed issue and community rating will somehow make health insurance less costly. Research has consistently shown that these reforms always increase premiums. By contrast, the data clearly show that state high risk pools help make private health insurance coverage more affordable for everyone.

**Improving Affordability with State Risk Pools.** Industry data show:

- Annual premiums for single coverage in states with guaranteed issue were as high as \$8,537 in Massachusetts (2006-07). By contrast, premiums for single cov-

erage in states with risk pools ranged from \$1,254 in Wisconsin to \$3,377 in Louisiana.

- Similarly for family coverage, annual premiums in Massachusetts were as high as \$16,897, compared to \$3,087 in Wisconsin to \$7,749 in Connecticut.

**Expanding State Risk Pools.** State high risk pools are an inexpensive option for expanding affordable coverage to uninsured Americans with pre-existing conditions, both in the short-term and long-term. And they're "shovel ready." Most of the high risk pools have been up and running for years, and they know how to get coverage to uninsurable populations quickly.

Additional funding, like that set aside in the health care bills, could be used to subsidize the cost of coverage for some low-income workers. Moreover, with additional federal subsidies, risk pools can provide health coverage to certain groups not addressed in the recent American Recovery & Reinvestment Act, including:

- Unemployed, uninsurable individuals who are not eligible for the new federal COBRA subsidy because of when they lost their job, the break up or bankruptcy of their former employer, or the employer's group plan due to the economic downturn;
- Uninsurable individuals whose current employer does not offer coverage or are self-employed;
- Chronically uninsurable individuals currently unable to afford risk pool coverage due to the cost of premiums and limited state subsidies; and,
- Individuals on Social Security disability during their two-year waiting period for Medicare eligibility.

**Lowering Health Insurance Costs.** In the long-term, state high risk pools will help make private health insurance coverage more affordable because they don't make private insurance underwrite applicants who are uninsurable. But they also lower the costs of those with expensive medical conditions.

Risk pools essentially function as "special needs plans" for uninsurable populations with chronic diseases. Risk pool administrators design comprehensive benefit plans and member management programs to meet the uninsurables' unique needs. Medicare recognized this in its offering of "Special Needs Plans" under Medicare Advantage for those Medicare recipients with certain chronic conditions.

Risk pools could also provide long-term health coverage solutions in a number of other ways. For example, substantial and sustained expansion of the existing Federal High Risk Pool Grant program would allow risk pools to lower premiums and member cost sharing. In addition, risk pools could:

- Offer standardized income-subsidy programs to limited-income members and applicants;
- Ease eligibility rules and expand outreach; and
- Expand disease management to improve members' health status and limit health provider uncompensated care costs.

**A Better Alternative to Other "Public Plans."** State high risk pools are a lower-cost alternative to Medicare and Medicaid expansions, and offer substantial advantages to other "public plan" options.

- Most state risk pools pay medical providers higher fees than Medicare and Medicaid;
- Risk pools generally have more generous benefits than Medicare and individual market plans; and
- Risk pools are attuned to regional needs and have extensive provider networks.

Well-funded state risk pools have demonstrated the ability to quickly expand enrollment. States such as New Mexico, Tennessee and Maryland have taken recent steps to make their pools more affordable and accessible and have seen enrollment grow dramatically, by 30 to 60 percent over the past three years. Increased infusion of federal funding to state risk pools and other state guaranteed-issue mechanisms would quickly provide more affordable and accessible coverage to the uninsurable who need coverage the most.

**Conclusion.** Congress should rethink its approach to providing affordable coverage for all Americans by embracing an expanded, long-term role for state high risk pools. The \$5 billion in the current legislation is a good first step, but greater funding is needed to support and improve risk pools for the future. High risk pools aren't just a short-term solution to health insurance access for those with pre-existing medical solutions; they are *the solution*.

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