



Issue Summary

High-Risk Health Insurance Pools

Overview

- High-risk health insurance pools are currently providing thousands of consumers, who through no fault of their own do not have access to group health insurance coverage and cannot obtain affordable individual market health coverage due to a medical condition, with an affordable, private safety net of coverage. Furthermore, traditional individual market and small group health insurance consumers benefit from the existence of a pool, since the greatest risks are removed from these insurance markets.
- In most states, high-risk pools serve as the guarantee-issue purchasing option for individuals exercising their federal group-to-individual health insurance portability rights provided by the federal Health Insurance Portability and Accountability Act of 1996. In many states, the high-risk pool is also available as a purchasing option for individuals who are eligible for the federal health insurance tax credit provided by the Trade Adjustment Assistance Act of 2002.
- Thirty-three states have created high-risk pools. Of the remaining states that do not have pools, policymakers in Arizona, Georgia, Maine, Massachusetts, Nevada, North Carolina, Ohio, Rhode Island and Tennessee are actively considering moving to the high-risk pool solution.
- The federal government provided states with funding incentives to create high-risk pools and also help offset high-risk pool expenditures during FY 2002 and FY 2003 through the Trade Adjustment Assistance Act. NAHU believes that continuing and increasing federal funding to state high-risk pools is highly advisable, as high-risk pools are an extremely important market stabilizer for both the individual and small group markets and prevent the need to “game” the system to qualify for other sources of guaranteed coverage.
- NAHU recommends that any additional federal funding for high-risk pools be made available to all state pools that cap their participant rates at 200 percent of the base individual market rate or less. The previous funding limited federal funds to states that had a rate cap of 150 percent or lower. However, the prevailing model high-risk pool legislation, which was developed by the National Association of Insurance Commissioners and adopted by most states with existing pools, sets the rate cap at 200 percent. This restriction prevented several larger states from accepting the federal funds that were made available to pools in FY 2002 and FY 2003, since the revenue they would have lost by changing their rate cap would have exceeded the amount of federal funds being offered.
- There has been some discussion about using federal funds to subsidize state programs that help reduce high-risk pool premiums for low-income participants. NAHU is very supportive of these types of state programs. However, the majority of states with pools do not offer a reduced premium program for low-income individuals. Therefore, we believe that the federal government can have the greatest impact on reducing high-risk pool premiums for individuals in all states by increasing the amount of loss offset funding available to all high-risk pools. This will allow all state pools to lower their costs, thereby expanding access to the greatest number of Americans with serious medical conditions who do not have access to group coverage.

How High-Risk Pools Help Improve Markets

- NAHU believes that the development of a high-risk pool is the best way a state can ensure that individuals suffering from catastrophic medical conditions always have access to high-quality affordable private health insurance coverage, while still preserving the viability and competitiveness of the state's traditional private health insurance market.
- By providing individual market carriers with a predictable means of assessing risk, the creation of a state risk pool encourages greater market competition. And, as has been shown time and time again, greater competition in any market drives down prices. Furthermore, as prices drop, adverse selection in the individual market decreases, which reduces market costs even more. Right now, in most states without pools, individual market health insurance costs are so high that the only people who have the incentive to purchase private market coverage are those who anticipate that their annual claims will exceed the amount of their high premiums. As coverage becomes more and more affordable, the incentive for healthy individuals to enter the private insurance market grows, further reducing costs for everyone.
- The existence of a high-risk pool doesn't just help individual market health insurance consumers. Its stabilizing presence in the individual market also benefits the purchasers of group health insurance coverage by eliminating the incentive for very sick consumers to try to "game" the system to obtain coverage in the small group market, where coverage must be guarantee-issue according to federal law. Healthy people do not have this incentive, since they can currently obtain coverage in the individual market. These uninsurable "groups," in addition to being oftentimes fraudulent, hurt the overall small group health insurance market pool, since there is no need for people to create them unless they anticipate that they will be costly high-end users of the health insurance system. Reducing the number of these groups could help reduce the acceleration of small-group health insurance rates.

How High-Risk Pools Work

- The type of coverage available to risk pool members in most states mirrors what is generally available in the traditional private individual health insurance market in a state. Coverage is normally a comprehensive major medical plan, with a range of deductibles offered to consumers. The most common risk pool product offered is a PPO plan, but many states also offer indemnity coverage through the risk pool. Some states have an HMO option available to consumers, and other states are developing consumer-directed health plan products to offer.
- Risk pool consumers are the beneficiaries of well-run comprehensive coverage plans, and they benefit from excellent disease and claims-management programs specifically designed for people with catastrophic medical problems.
- Risk pool consumers are charged more for coverage than the average individual market consumers, which is fair because pool members by definition are those who are considered to be medically uninsurable. However, state laws generally cap risk pool rates at 200 percent of the base individual market rate, and oftentimes the state high-risk pool boards set the actual pool rates even lower, such as 125-150 percent.
- All individual health insurance policies have pre-existing condition waiting periods. Risk pools also have appropriate waiting periods to prevent adverse selection. Nearly all of the pools mimic HIPAA and allow creditable coverage for people entering from a previous group plan within 63 days of termination of coverage.