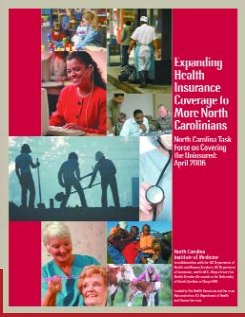

Fact Sheet

Covering the Uninsured

Expanding Health Insurance Coverage to More North Carolinians

April 2006

Expanding Health Insurance Coverage to People with Pre-existing Health Problems

Individuals who have pre-existing health problems face significant barriers obtaining health insurance coverage in the nongroup market. In employer-sponsored plans, those with pre-existing health problems cannot be excluded from coverage or charged higher premiums. However, the same rules do not apply in the nongroup market.

Many insurance companies refuse to issue policies or limit coverage for people with pre-existing health problems in the nongroup market. For example, a national study conducted for the Kaiser Family Foundation found that 8% of insurers refused to issue a policy to a 24-year-old female with hay fever, and 55% refused to issue a policy to a 55-year-old, overweight, male smoker with high blood pressure.[1]

BlueCross BlueShield of North Carolina (BCBSNC) is the only insurer in the state to offer health insurance in the nongroup market on a guaranteed issue basis. Premiums vary, based on the age, geographic location, and health status of the individual. The premiums are established to cover the anticipated costs of care for people with pre-existing health problems. Since there are no other sources of payments for these individuals with high medical costs, premiums may be as much as seven times the standard rate charged to someone with average health risks. For example, nongroup health insurance coverage for a 35-year-old man with major health problems could cost more than $800/month (for a $1,000 deductible, 30% coinsurance plan), or more than $1,800/month for a 55-year-old man. Coverage for women is generally more expensive, especially if they want maternity coverage. *People with pre-existing health problems are most in need of health insurance to help pay for healthcare services, but the premiums needed to cover the costs of care often make this coverage unaffordable in the nongroup market.*

Thirty-three states have established high-risk pools to help spread the costs of providing insurance to people with significant pre-existing health problems.[2] Research suggests that about 1% of the population have difficulties obtaining insurance due to their health status. This population is often called the "medically uninsurable."[3] Experience from other states with high-risk pools suggest that 10%-30% of these individuals may enroll in a high-risk pool, depending on the premium price and whether the state offers additional subsidies for low-income people.[2]

States typically limit the maximum premium charged to medically uninsurable individuals to no more than 150% of the standard rate in order to make it more affordable. Some states provide a further subsidy to help lower-income individuals pay their premiums. The premiums paid do not cover the full cost of the claims incurred in these high-risk pools. Therefore, most states fund the deficits through an assessment on insurance companies, state appropriations, or other means.

The NC Institute of MedicineTask Force on Covering the Uninsured recommended that the NC General Assembly create a high-risk pool that limits premiums to 150% of the standard risk, so that more people with pre-existing health problems can afford coverage. Losses should be covered through an assessment on insurers, including traditional insurance companies, Health Maintenance Organizations (HMOs), Multiple Employer Welfare Arrangements (MEWAs), third party administrators, and stop-loss and reinsurance carriers.[4,2] Providers would be paid using Medicare payment rates, which are less than what is typically offered through commercial insurance. The General Assembly should also help subsidize premium costs for lower-income individuals.[5]

Federal funding is available to help defray some of the costs of the high-risk pool. Congress appropriated funds to provide start-up grants of up to $1 million for states that have not yet established a high-risk pool. In addition, Congress appropriated $75 million/year through 2010 to help offset some of the ongoing operational costs of state high-risk pools: 40% of the money will be distributed equally among states that operate high-risk pools, 30% based on the numbers of uninsured in the state, and 30% based on the number of participants in the state's high-risk pool.

References

1 Pollitz K, Sorian R, Thomas K. How Accessible is Individual Health Insurance for Consumers in Less-Than-Perfect Health? The Kaiser Family Foundation. Executive Summary. June 2001. Available at: http://www.kff.org/insurance/20010620a-index.cfm. Accessed April 11, 2006.

2 Abbe B. Overview: State High Risk Health Insurance Pools Today. Communicating for Agriculture and the Self-Employed. Available at: http://www.selfemployedcountry.org/riskpools/overview.html. Accessed December 6, 2005.

3 Conover C, Hall M. Assessment of Potential Impact on Accessibility and Affordability of Health Care. Section VIII. Potential Impact on Accessibility. Report submitted to the NC Department of Insurance. Available at: http://www.hpolicy.duke.edu/cyberexchange/Regulate/Redacted.pdf. Accessed March 17, 2006.

4 Twenty-seven states use an assessment on insurers to help fund the losses in the high-risk pool. Of this, 11 states provide full or partial tax credit offsets for the assessment, thereby shifting the costs back to the state (AL, AR, IN, IA, KS, MO, MT, NM, ND, SC, WY); another 11 states have no tax credit offset [AL, CT, FL, ID, IL for its HIPAA pool, KY (partial funding source), LA (only for its HIPAA pool), MN, OK, TX, WA]. Seven of the states have a broad assessments on insurers, including commercial insurance carriers, stop-loss, reinsurance carriers, and Third Party Administrators (TPA's) on a per-person/per-month basis (CO, IN, MS, NH, OR, SD, and WA). Two states pay for the high-risk pool through surcharge on hospital bills (MD, WV) and six states use general revenue or other sources of funding (CA, IL, KY, LA, NE, UT).

5 Seven states help subsidize the premium costs for lower-income individuals (CO, CT, MT, NM, OR, WA, WI).

This issue brief is one in a series, produced as part of North Carolina's "State Planning Grant" effort, led by the NC Department of Health and Human Services, to examine options to expand health insurance coverage to the uninsured. The State Planning Grant supported a Task Force on Covering the Uninsured, which brought together stakeholders from a variety of interest groups to examine these issues and develop a set of recommendations for improving healthcare coverage across the state. Collaborating organizations include: the NC Department of Insurance, Cecil G. Sheps Center for Health Services Research at The University of North Carolina at Chapel Hill, and North Carolina Institute of Medicine. The State Planning Grant was funded by the Health Resources and Services Administration of the US Department of Health and Human Services. For other issue briefs or a copy of the final report of the *NC IOM Task Force on Covering the Uninsured*, visit the NC IOM website at: http://www.nciom.org.

For more information contact: Pam Silberman, JD, DrPH, President & CEO or Mark Holmes, PhD, Vice President. North Carolina Institute of Medicine. 5501 Fortunes Ridge Drive, Suite E, Durham, NC 27713. 919-401-6599 Email at:pam_silberman@nciom.org or mark_holmes@nciom.org. www.nciom.org.