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Issue Brief

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STATE HIGH RISK POOLS-AN OVERVIEW

INTRODUCTION

Thirty-five states have developed high risk pools that provided health insurance coverage to 190,641 individuals in 2006 with a combined funding of $1.8 billion (NASCHIP 2007). High risk pools are designed for those with pre-existing health conditions who do not have access employer-sponsored insurance and have not been able to secure affordable coverage in the individual market. Eligibility for these plans typically require that individuals demonstrate that they have been denied coverage in the private market or are offered a plan with an excessively high premium.

High risk pools serve the self-employed, workers of employers who do not provide health insurance as an employee benefit, individuals who are in between jobs and have lost group coverage, and young adults transitioning off of a parent's health insurance plan. The 15 states without a high risk pool include New York, Arizona, Delaware, Georgia, Hawaii, Maine, Massachusetts, Michigan, Nevada, New Jersey, Ohio, Pennsylvania, Rhode Island, Vermont, and Virginia (NASCHIP, 2007).

KEY ELEMENTS OF HIGH RISK POOLS

-*State high risk pools offer a last resort to high risk individuals who are not able to obtain affordable coverage in the private market.* A key function of a high risk pool is to address a key area of vulnerability in the private individual health insurance market: the lack of statutorily guaranteed coverage. High risk pools provide health coverage to all eligible individuals and either limits or does not impose any pre-existing condition exclusions. Large and small employer health insurance plans are required by federal law to provide guaranteed issue coverage to employees (i.e., not restrict access based on health status), the individual market is not regulated in this way, and most states have not mandated guaranteed issue in their individual market. Insurance plans assess or "underwrite" individuals based on their health conditions and may impose pre-existing condition limitations, higher than average premium rates or limited coverage (Communicating for Agriculture and the Self-Employed 2006).

-*High risk pools meet federal Health Insurance Portability and Affordability Act (HIPAA) requirements for guaranteed availability for people converting from group to individual coverage.* HIPAA requires that all states provide guaranteed portability and renewability for policy holders transitioning from group to individual coverage. States have flexibility in meeting this requirement, with a high risk pool being one mechanism approved by the federal government. Several of the states that have not established a high risk pool to date (e.g., New York, Maine, New Jersey, Vermont) have mandated guaranteed issue in their individual markets which is also an approved mechanism to meet this HIPAA requirement.

-*High risk pools help spread and stabilize risk in the individual market*. States use multiple approaches for managing risk (i.e., costs of coverage for people with more expensive health issues) in the individual health insurance market. High risk pools represent one approach. Other approaches include guaranteed issue mandates, rate regulation and reinsurance. Through financing from industry members (e.g., via carrier assessments), government, and enrollees, high risk pools provide a means for sharing and spreading the costs associated with high-risk individuals. By pooling these high risk individuals, the rest of the individual market has a lower and more predictable risk on average.

-*High risk pools serve as a mechanism for providing coverage for individuals eligible for the Federal Health Coverage Tax Credit (HCTC).* Under the HCTC, early retirees receiving payments from the Pension Benefit Guaranty Corporation and displaced workers due to foreign trade are eligible for a tax credit amounting to

65% of the individual's health premium. High risk pools are one of the mechanisms states can use as part of their HCTC acceptance program. Twenty states utilize their high risk pool for this reason (NASCHIP, 2007).

FINANCING HIGH RISK POOLS

Given the population high risk pools are intended to serve, high risk pools "inherently lose money." (CA 2006) The average claim costs per pool enrollee in 2006 was $8,660 or $720 per month. Premiums paid by enrollees cover an estimated 58% of program costs while mandated assessments on fully-insured health plans, stop loss and reinsurance carriers cover the remaining losses.

A less common for of financing is a state assessment on providers, as is the case in Maryland and West Virginia (NASCHIP, 2007). States also use general funds, tobacco tax revenues and tobacco settlement funds to supplement base revenue for high risk pools.

Finally, eleven states provide full or partial tax credits to insurers to offset assessments which could also be considered a general fund subsidy to support high risk pools. Each state uses different combinations of these financing schemes with sustainable funding an ongoing concern for state high risk pools (NASCHIP, 2007).

-***Premiums for High Risk Pools are Capped***. To offer affordable coverage, states set and then cap their risk-pool premiums based on the standard risk rate – that is the average rate in the individual market within the state. High risk pool premiums range from 125 to 200% of the average individual private market premium with Florida law allowing rates up to 250% (NASCHIP, 2007).

- Several states offer premium subsidies or discount programs. To improve affordability for individuals, some states have adopted premium discount programs to assist low-income participants. Federal grants (under the Trade Adjustment Assistance Reform Act of 2002 and State High-Risk Pool Funding Extension Act of 2006) have been available to states to assist with these efforts.

-***Self insured ERISA plans do not help finance high risk pools.*** High risk pools are available to all individuals who do not have access to employer-sponsored insurance. Yet, assessments to cover losses in the high risk pool are only assessed on fully-insured plans that are regulated by state insurance statutes. Self-insured plans governed by ERISA are not regulated by the state and do not participate in financing. Some legislators and policy analysts have considered alternative financing mechanisms including assessment on third party administrator assessments similar to those implemented in Maine, as well as broad-based provider assessments.

FEDERAL ROLE IN FINANCING STATE RISK POOLS

The 2006 State High-Risk Pool Funding Extension Act was passed and extended initial grant funding for state risk pools initially included in the Trade Adjustment and Assistance Act of 2002. These grants are intended to increase coverage of those with no health insurance who are considered "uninsurable" due to their health status. These grants include funding for existing pools, funds for low-income subsidies and start-up funds for states that currently do not have risk pools. A total of $75 million per year for each fiscal year 2006 through 2010 is administered by the Center for Medicaid and Medicare Services (CMS) to eligible state risk pools based on a formula that includes, in part, a component that includes the number of uninsured in the state.

ADVANTAGES OF HIGH RISK POOLS

-Increases stability of the individual health insurance market. By directing individuals with serious (and costly) health problems a state's high risk pool, those left in the individual market have less risk on average helping to keep premium costs down. Depending on the pools' eligibility rules, state underwriting practices, and allowing dependents and spouses may allow lower-risk individuals into the pool helping to stabilize the average cost.

-High risk pools provide health insurance coverage to a population that typically could not find or afford coverage in the private market. With concerns about erosion of employer-sponsored health insurance and the high cost of coverage in the individual market, high risk pools provide an opportunity for the uninsured with health conditions to obtain health insurance coverage at significantly reduced premium costs.

-High risk pools provide unique patient population who could benefit from care coordination and disease management. Many high risk pools are developing and implementing disease-focused care management which has the potential to improve the health status of individuals and reduce health care costs.

-The new federal funding for high risk pools may help stabilize financing and keep premiums affordable. The State High-Risk Pool Funding Extension Act of 2006 solidified federal financing support over a period of five years. The $75 million of funds per year for 2006 through 2010 provides base operational funding in addition to incentives to develop premium subsidy options, to reduce trends in premium increases, to loosen up pre-existing condition limitations and provide increased benefits including disease management (NASCHIP 2007).

*-**Providing health insurance coverage for those with significant health care needs may reduce hospital and provider levels of uncompensated care.*** High risk pools provide one component of the health care safety net by providing reduced-cost health insurance coverage for those with significant health care needs. These individuals would otherwise be considered "uninsurable" and would be left to face the direct costs of care in the market – many of these costs would go uncompensated leaving providers with an increase in either charity care or bad debt.

Ongoing Issues with High Risk Pools

-There is limited evidence that high risk pools have had a significant impact on the uninsured (NASHIP 2007). The number of participants in state high risk pools range from 236 participants in West Virginia to 30,000 in Minnesota in 2006 (NASHIP 2007). Most states have a participation rate from .05 to .33% of the population. Participation in the largest pool, Minnesota, still represents less than 1% of the population.

-Premiums for high risk pools may still be unaffordable for many individuals. Even with the mandated caps on premium levels, the average premium in the individual market may still be high and the caps may be as high as 250% of the average rate. Without additional subsidy, low-income individuals with health conditions may not be able afford to enroll in a high risk pool.

-Increasing health care costs create pressures on high risk pool financing and enrollment. Cost pressures have led some states to limit enrollment of non-federally eligible individuals, limit the time an individual can be in the pool, limit the annual claim payment, and/or increasing enrollee cost-sharing. The long-term stability of these pools is a concern given the high-level and cost of health care services that are required for those with significant health care needs.

-Concern about the stability of fund base required to support risk pool operations over time. There is some concern that the funding base for high risk pools is too narrow and cannot sustain overall growth in the pools. Since assessments to cover losses are directed only to fully-insured plans there is interest in broadening this funding base through assessments on third-party payers, broad-base provider assessments and general fund revenue support. A concern related to state funding, however, is its consistency and stability. Some believe that relying on annual state budgets may make pool funding more uncertain. In this context, insurer assessments have been viewed by some as more predictable.

SUMMARY

State high risk pools continue to be an important component of the complex US health care system. They provide guaranteed access to health insurance coverage for individuals with significant health care needs removing significant risk from the individual health insurance market. While the size of these pools is relatively small compared to a state's populations (less than 1%), they play an important role for these individuals and for the health care system overall. Continued expansion, however, is unlikely without additional financing to support the costs of the coverage and subsidies to provide affordable premiums to those with lower-than-average incomes.

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Notes:

Communicating for Agriculture and the Self-Employed (CA), Inc. (2005/06). *Comprehensive Health Insurance for High-Risk Individuals: A State-by-State Analysis.* 19th Edition. Fergus Falls, MN.

National Association of State Comprehensive Health Insurance Plans (NASCHIP). (2007/08). *Comprehensive Health Insurance for High-Risk Individuals: A State-by-State Analysis*. 21st Edition, 2007/2008. St. Louis Park, MN.