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Issues for State High-Risk Pools with Implementation of National Health Reform

Introduction

State high-risk pools fill a gap in the availability of coverage for people who do not have access to affordable employer-sponsored insurance, do not qualify for public assistance, and have not been able to secure affordable coverage in the individual market due to their health status, such as a pre-existing condition.

The national health reform bill, the Patient Protection and Affordable Care Act (PPACA) of 2010, established a temporary high-risk pool that will exist until 2014, when access to private health insurance coverage will be required without regard to pre-existing conditions. Coverage without regard to preexisting conditions is called guaranteed issue, meaning no one can be turned down for health insurance coverage.

On April 2, 2010 the Secretary of Health and Human Services, Kathleen Sebelius asked states to decide how to participate in the temporary high-risk pool. States could: (1) operate a new high-risk pool alongside a current state high-risk pool; (2) establish a new high-risk pool (if a state does not currently have a high-risk pool); (3) build upon other existing coverage programs designed to cover high-risk individuals; (4) contract with a current HIPAA carrier of last resort or other carrier, to provide subsidized coverage for the eligible population; or (5) do nothing, in which case HHS will carry out a coverage program in the state.[1]

This brief addresses the history of state high-risk pools, provides information on individual state high-risk pools, states' decisions about participation in the temporary high-risk pool and concerns about the transition from state high-risk pools to guaranteed issue in the individual market.

About State High-Risk Pools

State high-risk pools have existed for over 30 years. Connecticut and Minnesota were the first states to form high-risk pools in 1976 and North Carolina was the most recent, establishing its high-risk pool in 2007.[2]

In 2008, state high-risk pools provided coverage to about 200,000 people at a cost of $2.3 billion, 62% of which was covered by enrollee premiums.[3,4] The following exhibit provides information on the high-risk pools by state including: enrollment, premium cost, the state's decision about participation in the temporary pool and the amount of the initial federal allocation available to subsidize the temporary pool by state.

Exhibit 1: Implementation of Temporary High-Risk Pool under the Patient Protection and Affordable Care Act (PPACA)[5,6]

				State Election for Temporary High-Risk Pool		
State	State has High-Risk Pool 2008	Enrollment 2008	Premium as % of Individual Market Premium	Federally Run Pool	State Run Pool	Initial Federal Allocation (in millions)
Alabama	✓	2,653	200%	✓		$69
Alaska	✓	469	150%		✓	$13
Arizona		n/a	n/a	✓		$129
Arkansas	✓	3,061	150%		✓	$46
California	✓	7,036	125%		✓	$761
Colorado	✓	8,543	150%		✓	$90
Connecticut	✓	2,336	150%		✓	$50
Delaware		n/a	n/a	✓		$13
District of Columbia		n/a	n/a		✓	$9
Florida		300 Enrollment closed	250%	✓		$351
Georgia		n/a	n/a	✓		$177
Hawaii		n/a	n/a	✓		$16
Idaho	✓	1,338	n/a	✓		$24
Illinois	✓	15,682	150%		✓	$196
Indiana	✓	6,561	200% if > 350% FPL**; 150% if < 350% FPL	✓		$93
Iowa	✓	2,732	150%		✓	$35

State	State has High-Risk Pool 2008	Enrollment 2008	Premium as % of Individual Market Premium	State Election for Temporary High-Risk Pool: Federally Run Pool	State Election for Temporary High-Risk Pool: State Run Pool	Initial Federal Allocation (in millions)
Kansas	✓	1,830	150%		✓	$36
Kentucky	✓	4,458	175%		✓	$63
Louisiana	✓	1,110	200%	✓		$71
Maine	No pool; guar. issue.*	n/a	n/a		✓	$17
Maryland	✓	15,180	200%		✓	$85
Massachusetts	No pool; guar. issue*	n/a	n/a		✓	$77
Michigan		n/a	n/a		✓	$141
Minnesota	✓	27,386	125%	✓		$68
Mississippi	✓	3,464	175%	✓		$47
Missouri	✓	2,999	150%		✓	$81
Montana	✓	2,995	200% (for risk pool), 150% for HIPAA		✓	$16
Nebraska	✓	5,089	140%	✓		$23
Nevada		n/a	n/a	✓		$61
New Hampshire	✓	1,094	150%		✓	$20
New Jersey	No pool; guar. issue*	n/a	n/a		✓	$141
New Mexico	✓	6,020	150%		✓	$37
New York	No pool; guar. issue*	n/a	n/a		✓	$297
North Carolina	✓	New. No data.	200%		✓	$145
North Dakota	✓	1,463	135%	✓		$8

State	State has High-Risk Pool 2008	Enrollment 2008	Premium as % of Individual Market Premium	State Election for Temporary High-Risk Pool: Federally Run Pool	State Election for Temporary High-Risk Pool: State Run Pool	Initial Federal Allocation (in millions)
Ohio		n/a	n/a		✓	$152
Oklahoma	✓	2,098	150%		✓	$60
Oregon	✓	15,320	100% (HIPAA), 125% (risk pool)		✓	$66
Pennsylvania		n/a	n/a		✓	$160
Rhode Island	No pool; guar. issue*	n/a	n/a			$13
South Carolina	✓	2,328	200%	✓		$74
South Dakota	✓	653	150%		✓	$11
Tennessee	✓	4,516	200%	✓		$97
Texas	✓	26,908	200%	✓		$493
Utah	✓	3,715	200%			$40
Vermont	No pool. guar. issue*	n/a	n/a		✓	$8
Virginia		n/a	n/a	✓		$113
Washington	✓	3,397	150%		✓	$102
West Virginia	✓	653	150%		✓	$27
Wisconsin	✓	16,284	200%		✓	$73
Wyoming	✓	697	200% ≥ 250% FPL**, 135% < 250% FPL	✓		$8

*These states have guaranteed issue provisions which prevent private insurers from denying coverage on the basis of a pre-existing condition.

**Federal Poverty Level (FPL)

State high-risk pools benefit high-risk enrollees by providing coverage to individuals who are not able to obtain coverage in the private market. State-based pools are also one of the approved mechanisms for meeting federal requirements for guaranteed portability and renewability for policy holders converting from group to individual coverage as required under the Health Insurance Portability and Affordability Act (HIPAA) of 1996. In addition, twenty-three states use their high-risk pools as a mechanism for providing health coverage for individuals eligible for the federal Health Coverage Tax Credit (HCTC).

In addition to directly benefitting people with pre-existing conditions, high-risk pools spread and stabilize risk in the rest of the insurance market. By pooling these high-risk individuals, the rest of the market has a lower and more predictable risk on average.

Differences between State High-Risk Pools and the Temporary High-Risk Pool Created by PPACA

There are differences between existing state high-risk pools and the temporary high-risk pool in terms of cost, eligibility and financing.

Eligibility: In order to receive insurance through the temporary high-risk pool a person must be uninsured for six months prior to enrollment. All state high-risk programs have eligibility requirements, but most states do not have a six month waiting period. In fact, some states have designed their high-risk pool eligibility requirements to promote continuous coverage.

Premium cost: Enrollee premiums for participation in the temporary high-risk pool will not exceed 100% of the standard nongroup rate. As indicated in Exhibit 1, most existing high-risk pools have a higher cap, of between 125%-200%, with one state allowing premiums up to 250%.

Financing Beyond Premium Payments: HHS has received a $5 billion appropriation to offset costs for the temporary high-risk pool. Existing state high-risk pool financing mechanisms vary by state. Many states mandate assessments on fully-insured plans, stop loss and reinsurance carriers. Some states use provider taxes, general funds, tobacco tax revenues and tobacco settlement money. In 2006, the federal State High-Risk Funding Extension Act provided $75 million per year in federal subsidies for base operational funding as well as incentive funds for programs such as disease management.[7]

The Transition between Now and 2014

A key concern for many states is that the $5 billion appropriated for the temporary high-risk pool will not be enough to cover the costs of the program. Many states have had high-risk pool funding concerns. Although enrollment in high-risk pools has historically been low (participation in the largest pool, Minnesota, still represents less than 1% of the population) costs are high. Given the cost of the population they serve, high-risk pools are designed to lose money—even when premiums are well above the market rate. Officials in some states have expressed concern that the $5 billion federal appropriation will not be enough.

The 2014 Transition

In 2014, when health plans may no longer deny coverage or charge premiums based on health status, it is likely that purchasing coverage through the national exchange will be attractive to many, if not most, enrollees in both existing state high-risk pools and the temporary high-risk pool. Premiums may be lower, there will be a greater choice of plans and many individuals will be eligible for income-based subsidies.

The health reform law provides for a three-year transition period during which the cost of high-risk enrollees in the individual market will be distributed broadly across the entire health insurance market. Currently, high-risk pools function as a way to spread the financial risk associated with high-cost enrollees more broadly than just within the individual market. Unless such a mechanism is maintained, premiums for individually purchased health insurance would be higher.

Beginning in 2017, the reform law provides for a risk adjustment mechanism for individual and group health plans in each state, excluding self-insured plans. This mechanism, combined with an expected increase in enrollment of low-risk individuals caused by the mandate to have health insurance, was designed to ensure that the cost of high-risk people is shared broadly. However, this transition will need to be monitored over time to ensure that these safeguards are sufficient to guard against any unintended effects of the reform law. Such unintended effects could include a disproportionate amount of financial risk associated with high-cost enrollees falling on the individual market or adverse selection against any single plan.

Suggested Citation

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Endnotes

1 United States Department of Health and Human Services. "Sebelius Continues Work to Implement Health Reform, Announces First Steps to Establish Temporary High Risk Pool Program: Secretary Sends Letters to Governors, Insurance Commissioners." April 2, 2010. Available at: http://www.hhs.gov/news/press/2010pres/04/20100402b.html

2 National Conference of State Legislatures (NCSL). "Coverage of High-Risk Uninsurables: State and Federal High-Risk Pools." May 27, 2010. Available at: http://www.ncsl.org/?tabid=14329

3 *Ibid.*

4 Kaiser Family Foundation. 2008. "State High Risk Pool Costs." Available at: http://www.statehealthfacts.kff.org/comparetable.jsp?cat=7&ind=609

5 *Ibid.*

6 National Conference of State Legislatures (NCSL). "Coverage of High-Risk Uninsurables: State and Federal High-Risk Pools." May 27, 2010. Available at: http://www.ncsl.org/?tabid=14329

7 United States Department of Health and Human Services, Center for Medicare and Medicaid Services. "Public Law No: 109-172 Extension of Funding for Operations of State High Risk Health Insurance Pool Funding." 2008. Available at: https://www.cms.gov/HighRiskPools/

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