

Blue Perspective



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

1310 G Street, N.W.
Washington, D.C. 20005
202.626.4780
Fax 202.626.4833

BCBSA Position on Legislative and Regulatory Issues

BCBSA Supports an Individual Mandate Coupled with Guaranteed Issue

Guaranteed Issue, Community Rating in Voluntary Market Drive-Up Premiums, Uninsured

Issue: Some have proposed to require insurers - in the individual market - to accept all individuals regardless of health status (guaranteed issue) and to charge everyone the same premium, regardless of health status (community rating).

Position: BCBSA strongly believes everyone should have health insurance. To make private coverage available, regardless of health status, BCBSA supports an effective individual mandate coupled with a guaranteed issue requirement. By requiring everyone to have coverage, with federal subsidies to make it affordable, insurance will work as it should – spreading risk across a broad population and avoiding the risk of only those who need insurance purchasing coverage.

Without an effective mandate, guaranteed issue and community rating will:

- Increase premiums for current subscribers;
- Result in more uninsured; and
- Reduce choice for consumers.

The greatest challenge in today's voluntary individual market is maintaining a balance of younger and healthier people to cross-subsidize older and sicker individuals. Because individuals must spend their own dollars – there is generally no tax benefit or employer contribution – the people most motivated to purchase coverage are those who need care. To attract younger and healthier individuals, insurers must offer lower premiums; otherwise, this population will forego coverage.

BCBSA supports a strong, effective individual mandate where everyone has health coverage as the critical foundation for insurers to be able to accept all, regardless of health status. In addition, federal subsidies are needed for lower and middle income individuals to help make coverage affordable.

Several states that enacted these reforms in a voluntary market experienced serious consequences. **Without an effective mandate, guaranteed issue and community rating will:**

Increase premiums for current subscribers

Premiums in states with guaranteed issue and community rating are extremely high. In looking at the premiums, it is understandable why young and healthy individuals often choose to go uninsured.

- In New Jersey, the least expensive PPO (with a 20% coinsurance) is nearly \$24,000/year for a family of four.

- In Albany, New York, it will cost a family over \$30,000/year for the least expensive point-of-service plan.
- In Buffalo, New York, the cheapest policy for a 23 year old is almost \$12,000/year.

Why are premiums so high?

- *Minority of individuals drive health costs:* 5% of the population accounts for almost 50% of health costs, and 20% of the population accounts for almost 80% of health costs. The addition of just a few high-cost individuals can dramatically increase premiums for existing subscribers.
- *Many healthy individuals needed to subsidize high-risk individuals:* In order to offset the cost of treating one serious illness (e.g., \$33,000 for ovarian cancer treatment), an insurer must enroll 22 zero-cost subscribers. Otherwise, premiums for the overall pool would increase.
- *Adverse selection:* Simply put, unhealthy individuals are very motivated to purchase coverage – whereas young and healthy individuals are deterred by high insurance prices. Guaranteed issue assures individuals can wait until they are sick and still purchase insurance; it is akin to buying property insurance after your house burns down. This creates a cycle where the enrollment of high-cost individuals drives up premiums, triggering healthier individuals to drop coverage. The loss of healthier individuals further drives up premiums.

Result in more uninsured

Enactment of individual market reforms in a voluntary market has resulted in decreased coverage.

- Individual market enrollment in Maine dropped from 90,000 (pre-reform) to 41,000 between 1993 and 2007 following the State's reforms.
- Enrollment in the New Jersey individual market also declined sharply following reforms. At the end of 1993, 157,000 people were enrolled in the individual market. By the end of 2007, that number had declined by more than 60%, to about 61,000.
- *Loss of Younger Enrollees:* In 2002, an actuary testified that the Maine individual market had lost nearly 90% of enrollees under the age of 30. A Midwest insurer recently estimated it would need to increase premiums by 79% for young individuals under community rating. Higher premiums would only exacerbate the uninsured problem given that the uninsured rate for young individuals is already double that of older individuals (28% for those 18-30, compared to 12% for those 55-64).

Reduce choice for consumers

Guaranteed issue and community rating in states with voluntary health insurance markets have limited choice for consumers.

- *Washington:* Following reforms in the mid-1990s, rising costs drove more than 30 insurers from the State, and by the late 1990s the three largest carriers in the state had stopped selling new individual market policies. Reforms in 2001, which included repeal of guaranteed issue and the creation of a high-risk pool, helped bring stability back to the market. In 2007, seven carriers were selling coverage in the state.
- *Kentucky:* By January 1998 (within 4 years of the 1994 reforms), more than 40 insurers had left Kentucky's individual market, and only two carriers remained. Subsequent reforms, including the repeal of guaranteed issue and the creation of a high-risk pool facilitated carrier re-entry into the market, with consumers having a choice of seven carriers today.

The Blue Cross and Blue Shield Association is a national federation of 39 independent, community-based and locally operated Blue Cross and Blue Shield companies that collectively provide healthcare coverage for more than 102 million individuals – nearly one-in-three of all Americans. For more information on the Blue Cross and Blue Shield Association and its member companies, please visit www.BCBS.com.