AMERICAN ACTION FORUM

Primer: High-Risk Health Insurance Pools

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Introduction

Efforts to reform the healthcare system focus on expanding coverage and providing continuous access to uninsured Americans. Currently, concerns about access to insurance coverage are especially pronounced among Americans with pre-existing conditions, such as asthma, diabetes, cancer and heart disease. In the individual market, people with serious pre-existing medical conditions are often denied coverage, or are charged very high monthly premiums, as they are considered by insurance companies to be "high-risk" candidates. The Affordable Care Act (ACA) addresses this with insurance reforms set to begin in 2014. Guaranteed Issue requirements will prohibit plans from excluding individuals based on pre-existing conditions; similarly, Community Rating will require health insurance providers to offer plans at the same price to everyone, despite health status. The ACA created the Pre-existing Condition Insurance Plan (PCIP) as an attempt to provide temporary coverage for this vulnerable population until the insurance reforms go into effect. However, the PCIP program has delivered unsatisfactory results thus far, since fewer Americans than expected have enrolled.

What are pre-existing conditions?

A pre-existing condition is a healthcare diagnosis an individual received prior to applying for a health insurance policy. In total, there are over 100 diagnoses considered to be pre-existing health conditions for insurance underwriting purposes.[i] Often these conditions require intensive or long-term medical care. Without healthcare coverage, individuals are at risk of delaying or foregoing medical care, which can lead to even higher medical costs, should their conditions worsen.

Pre-Existing Conditions Limit Access to Health Insurance Coverage in the Individual Market

Key Takeaway Points

High-Risk Pools: A Vulnerable Population
Prior to the enactment of the Affordable Care Act (ACA), insurance companies could deny coverage, charge increased premium rates, or provide coverage excluding the respective condition of an individual with a pre-existing health condition.

An Underwhelming Solution
The "Pre-existing Condition Insurance Plan" aims to provide affordable, available coverage to individuals with pre-existing conditions who have been uninsured for longer than 6 months.

The ACA reserved $5 billion for the program and estimated that 375,000 individuals would enroll. As of May 2012, there were approximately 73,000 enrollees. The per capita coverage cost of state-based PCIP enrollees is 2.5 times greater than state high-risk pool enrollees. The Center for Medicare and Medicaid Services reported that each PCIP enrollee costs $29,000 per year.

Concerns for the Future
Efforts to increase enrollment have proven ineffective and have since been terminated, which creates uncertainty over the success and necessity of the program.

With program costs increasing, the program might exhaust the $5 billion budget before 2014.

People with pre-existing conditions seeking coverage in the individual market face greater challenges than those with access to group plans,[ii] which are purchased by an employer and offered to eligible employees. Under the federal law Health Insurance Portability and Accountability Act (HIPAA), small employer group plans cannot deny coverage to employees with pre-existing conditions. Currently, receiving coverage in the individual market is difficult for patients with pre-existing conditions. Generally, insurers offer lower monthly premiums for healthy individuals, since they are low-risk candidates. Individuals with pre-existing conditions in the individual market experience the opposite. Before the

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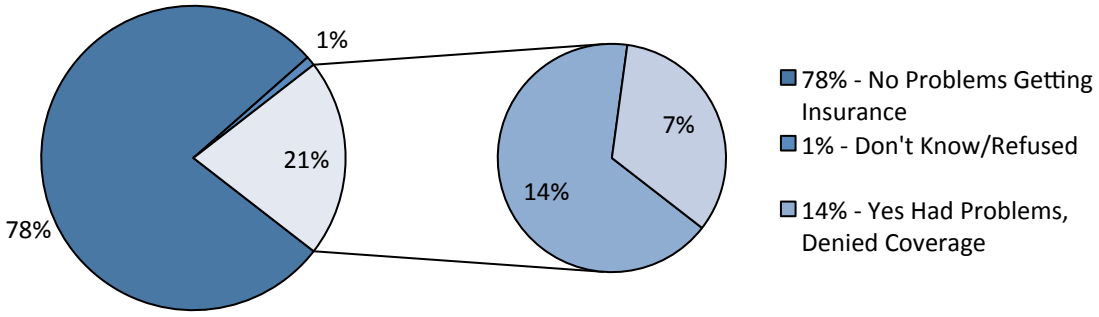
ACA's insurance reforms go into effect insurance companies can refuse to sell coverage, charge higher premiums, and/or offer coverage that excludes benefits related to an individual's particular health condition.[iii] Individuals with pre-existing conditions are often denied coverage because the insurer often cannot confidently predict the individual's future medical costs.

A 2011 household survey measured the prevalence of pre-existing conditions and the effect these conditions had on securing health insurance coverage.[iv] 21% of respondents with a pre-existing condition reported experiencing difficulties obtaining insurance (see Figure 1 below). Of the 21 percent who reported difficulties securing coverage within the individual market, 14 percent had been denied coverage completely.[v]

Figure 1: Problems Securing Health Insurance Coverage



Although states were formerly not required to provide an alternate option for medically uninsurable individuals, several have made attempts to address this population. For example, some states expanded their Medicaid programs to include all adults; others (including New York, New Jersey, Maine, and Kentucky) reformed their insurance markets and instituted Community Rating and Guaranteed Issue.[vi] Over the past 30 years, more than 35 states have launched high-risk pools aiming to provide a safety net for medically uninsurable populations. However, offering coverage through these high-risk pools has proven to be very expensive. The people served by the risk pools are likely to have high healthcare costs, and the total costs frequently exceed the revenue generated by the premiums charged to beneficiaries. In some cases, high-risk pools have proven too difficult to sustain. For example, Florida experimented with a high-risk pool but had to close enrollment in 1991.[vii]

Seeking a Resolution: The PCIP Program

To expand coverage to uninsured persons with pre-existing conditions, the ACA sought to build on the existing infrastructure of state high-risk pools by creating temporary, federally-funded high-risk pools. On July 1, 2010, the ACA's "Pre-existing Condition Insurance Plan" took effect, which established new high-risk pools in each state.[viii] The program was designed to immediately provide health insurance coverage to individuals who were previously denied coverage. Eligibility is not based on income and enrollees are not charged a higher premium because of their medical condition. To qualify for the PCIP program, applicants must have a pre-existing health condition, which means they are more likely to need on-going, potentially expensive care. In addition, they must have been uninsured for a minimum of 6 months prior to applying for coverage.[ix] As such, they may have greater medical needs and higher medical costs due to a previous inability to obtain care.

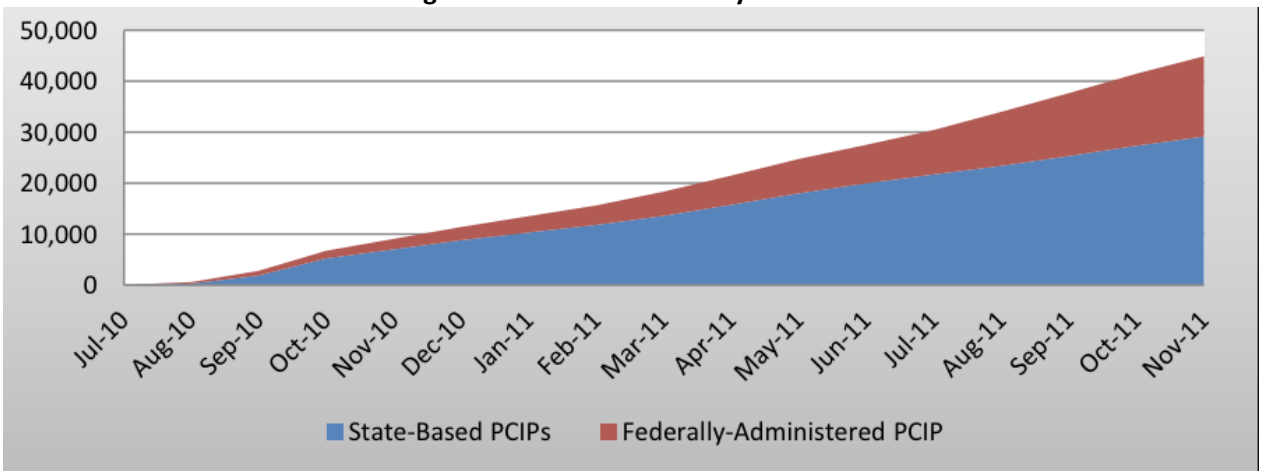
States were given the option to operate their own pool or allow the Department of Health and Human Service (HHS) to implement one. Currently, 27 states are operating their own programs while 23 States and the District of Columbia have

opted to have a federally run pool.[x] The program is temporary, lasting only until 2014 when state insurance exchanges will launch with Guaranteed Issue and Community Rating regulations.

Overestimation of Enrollment

Prior to the enactment of the ACA, high-risk pools provided coverage for 200,000 individuals. High premiums, which were often twice as high as individual market premiums, contributed to low-enrollment numbers. Because PCIP offered premiums comparable to market prices, an estimated 375,000 individuals were expected to enroll.[xi] However, the PCIP program has delivered underwhelming results, with far lower enrollment numbers than expected. Figure 2 represents the Centers for Medicare and Medicaid Services (CMS) report of PCIP enrollment by month for both state-based and federally administered plans and illustrates the program's slow enrollment rate that fails to reach even 13 percent of the expected 375,000 enrollees within the first 16 months.[xii]

Figure 2. PCIP Enrollment By Month[xiii]



Since the program's inception, the benefits and eligibility requirements have been adjusted to encourage enrollment. For example, in May 2011, the Administration announced that it would begin paying insurance brokers $100 to help eligible high-risk individuals obtain coverage through the PCIP program. Other attempts to increase enrollment included reducing premiums and broadening eligibility qualifications. At the end of April 2012, the Centers for Medicare and Medicaid Services ended payments to insurance brokers who referred customers to the PCIP program.[xiv] Although the program grew from 21,454 enrollees in April 2011 to 56,257 in February of 2012, total enrollment remains far below the expected 375,000 enrollees.

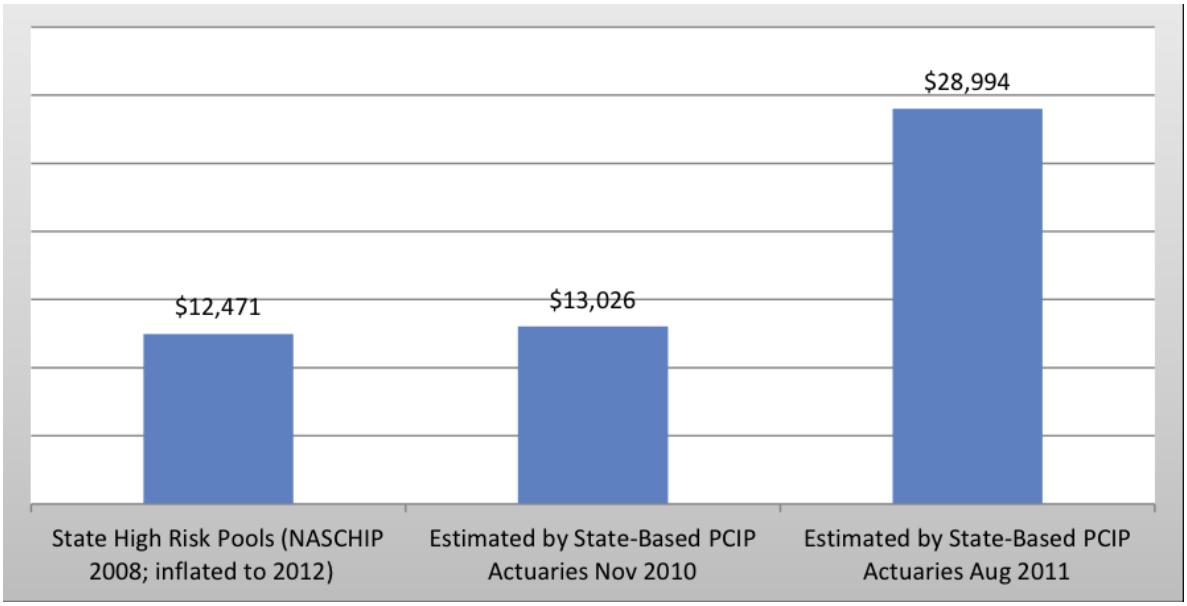
Underestimation of Cost

The ACA appropriated $5 billion for the payment of claims and administrative expenses in excess of the premiums collected from people enrolled in the PCIP program.[xv] Despite the low enrollment numbers, the program is spending its budget much faster than predicted, with costs far exceeding those of state high risk pools. PCIP enrollees have higher medical needs and costs per capita, since they are already ill. Table 1 indicates that the cost of state-based PCIP enrollees is approximately 2.5 times more than the costs of individuals in the original state high risk pools.[xvi]

Table 1. Illustrative Cost and Utilization Attributes of State-based PCIP Enrollees Compared to State High Risk Pool Enrollees		
Attribute	PCIP	State High Risk Pool
Hospital Admissions per 1,000 (Colorado)	562	137
Inpatient Days per 1,000 (Colorado)	5,174	735
Per Member Per Month Claims Expenditures (Kansas)	$3,449	$1,376
Loss Ratios (New Hampshire)	1,916%**	144%
*Each State uses the same provider networks and drug formulary. **In March 2011, 11% of PCIP enrollees in New Hampshire accounted for 96% of claims costs.		

Furthermore, Figure 3 illustrates the discrepancy in actuarial estimates of initial per-member costs for PCIP enrollees.[xvii] Each PCIP enrollee costs nearly $29,000 per year, which is more than twice the 2010 cost estimates. Although the program enrollment is currently just 20 percent of the initial projection, the significant difference in cost of high-risk pools is concerning, as it suggests the program may still exhaust the $5 billion before 2014.

Figure 3. Projected Per Member PCIP Costs for Calendar Year 2012[xviii]



Conclusion

Currently, 36 million to 122 million Americans have a pre-existing condition that creates barriers to sufficient health insurance coverage.[xix] This vulnerable population may receive delayed or deferred care, which will likely impact their condition and lead to heightened medical costs and needs. However, low enrollment in the PCIP program persists while coverage costs continue to increase. These costs soar above state high risk pool costs and risk exhausting the $5 billion of reserved funds. Efforts to encourage enrollment have proven ineffective and further challenge the program's credibility. Prior to the PCIP program's enactment, states successfully managed their medically uninsurable populations with state-based pools; however, the federal government's attempt to do the same has largely failed. As the

appropriated funds quickly shrink and enrollment numbers remain low, the PCIP program fails to provide a sustainable, cost-effective solution that expands coverage to individuals with pre-existing conditions.

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