

Ideas in Action

By Julie Chinitz
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Idaho Community
Action Network (ICAN)

3450 Hill Road
Boise, ID 83703

Voice: (208) 385-9146

Fax: (208) 336-0997

Web: <http://myweb.cableone.net/ican/>



Northwest Federation of
Community Organizations (NWFCO)
1265 South Main St. #305
Seattle, WA 98144
Voice: (206) 568-5400
Fax: (206) 568-5444
Web: <http://www.nwfc.org>

Insuring an End to Idaho's Health Care Crisis

Introduction

Small businesses and individuals are struggling to keep up with increases in health insurance premiums. There is a widespread feeling that costs are rising, while quality declines. Idaho has a number of options for restoring accountability, transparency, and integrity in health insurance.

Health insurance and health security is eroding in Idaho

Health insurance premiums continue to rise — and small businesses are feeling the squeeze

Health insurance rates are rising in the double digits,¹ and small businesses are being priced out of the market. According to the Idaho Statesman, "thousands of small business owners are choosing between remaining profitable and offering health insurance coverage to workers."² It is hard to determine exactly why premiums are increasing at such a rapid pace. Idaho law permits companies to set overall rates independently, and the Department of Insurance (DOI) does not compile reports of each carrier's increases.³

Increasing numbers of uninsured and underinsured Idahoans

In September, the Idaho Statesman reported that the number of uninsured Idahoans had grown 26 percent since 2000.⁴ Almost one in five Idahoans is uninsured⁵ — only six states have a higher percentage of uninsured people.⁶ There is also growing concern about "underinsurance." This occurs when a person has health insurance, but cannot get needed care because of high out-of-pocket costs or coverage limitations. For example, many individuals and small businesses must opt for plans with higher deductibles because premiums are rising so rapidly.

Uninsurance and underinsurance have profound consequences. Lack of continuous health insurance is linked to poorer health and increased chance of premature death.⁷ Being uninsured or underinsured also puts a person at risk of financial ruin. About half of all bankruptcies in Idaho are the result of medical debt.⁸ When people are uninsured, this also burdens health care providers and state and county budgets through increased use of emergency rooms and uncompensated care.

Overview of Idaho's health insurance markets and regulation

Insurance and spreading risk

The purpose of insurance is to spread risk among many people, making the costs of health care more predictable. Risk-spreading helps everyone in the "pool" protect themselves from the catastrophic costs of a health setback, contributing to both physical and financial health.

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Insurance companies and risk segmentation (“cherry-picking”)

Insurance is less successful when it does not do a good job of spreading risk. A common industry practice is “risk segmentation.” This involves treating enrollees or potential enrollees differently according to whether they are expected to need health care. This is also referred to as “cherry-picking,” because insurance companies hope to attract young, healthy people and limit coverage of older people and people with health conditions. Risk segmentation undermines the purpose of insurance. It involves charging people more or denying coverage based on a person’s health status. This is the opposite of spreading risk among many people.

Regulation of insurance in Idaho

Idaho’s health insurance market is divided into the large group, small group, and individual markets. While all carriers licensed in Idaho are subject to some aspects of Idaho insurance law, regulation focuses on the small group and individual markets. This is because small businesses and individuals have much less bargaining power than do large employers. Regardless of these different rules, the DOI is very limited in what it can do to protect small businesses and individuals from rate increases and risk segmentation.

Idaho’s small group health insurance market

The following are some requirements that apply to health insurance companies selling policies to Idaho small businesses (those with two to 50 eligible employees):

- An insurance company must market all of its policies to any small employer that applies for coverage. If an insurance company sells a policy to a small business, it must offer that coverage to everyone in the group.⁹
- Under Idaho’s rate band system, an insurance company sets an index rate for similar employers getting the same coverage and can charge them up to 50 percent more or up to

50 percent less than that index rate.¹⁰

For example, the company may charge \$450 for a policy that has an index rate of \$300 and a base rate of only \$150.

- The insurance company may refuse to sell or renew a policy for a small business if the business does not meet the insurer’s requirements relating to the minimum number of employees who must participate (“minimum participation”) or the minimum portion of the premium the employer must pay (“employer contribution”).¹¹
- At renewal, an insurer may set an overall rate increase for that policy and apply that increase to the small business. (For example, if the carrier raises the overall rate by 20 percent, it may raise the small business’ premium by 20 percent.) In addition, the carrier may also raise premiums by up to 15 percent based on a small business’ claims experience, health status, or duration of coverage.¹²
- The insurer may impose a pre-existing condition waiting period of up to 12 months as long as it credits people for certain recent, previous coverage.¹³

Idaho’s individual health insurance market

When individuals cannot get insurance through an employer, often the individual market is their only option for coverage. The following are some of the requirements that apply to health insurance companies selling individual policies in Idaho:

- An insurance company may refuse to sell one of their policies to a person based on that person’s health status or claims experience. If they do so, they must offer that person his or her choice among four “high-risk reinsurance pool” policies.¹⁴ (For non-smokers, the rates for the standard high-risk pool plan range from \$167 a month for a male under age 20 to \$780 for a woman 65

or over. A 40-year-old woman would be charged \$368 a month. But these rates are rising. If the 40-year-old woman does not enroll until the last quarter of 2005 — October through December — her rate will be \$403 a month.)¹⁵

- The +/- 50 percent rate band system also applies to the individual market.¹⁶
- At renewal, an insurer may set an overall rate increase for that policy and apply that increase to the individual. (For example, if the carrier raises the overall rate by 20 percent, it may raise the individual's premium by 20 percent.) In addition, the carrier may also increase premiums by up to 15 percent based on the individual's (or dependents') claims experience, health status, or duration of coverage.¹⁷
- The insurance company may impose a pre-existing condition waiting period of up to 12 months, as long as it credits people for certain recent, previous coverage.¹⁸

Idaho's health insurance law still has many gaps

The Department of Insurance has no oversight over general rate increases

Currently, there are no real limitations on the overall rates health insurers may set for their policies. This has resulted in annual double-digit premium increases in the small group and individual markets. The DOI has been granted no authority to investigate why health insurers are raising overall rates and intervene to protect the interest of the public. This authority is especially important in health insurance markets, where there is little competition and regulatory intervention can inject competition back into the market.

The rating rules allow insurance companies to price individuals and small businesses out of the market based on their health care needs

Idaho's 50 percent rate band is the second broadest in the country.¹⁹ It lets carriers

charge widely different premiums for the same policy, based on health status. When the rate band was increased to 50 percent, supporters argued that it would help spread risk. But it does the opposite. When carriers charge more based on health status, they shift risk onto the sick and onto small businesses that employ people with health conditions. Insurers may also take health status into account upon renewal. This shifting of risk is contrary to the purpose of insurance.

There is inadequate transparency in health insurance products and insurer practices

A great deal of information about health insurance pricing and insurance company practices is shielded from the scrutiny of policyholders and the public. Both Idaho insurance law and carrier practices are extremely complex. This undermines transparency in the health insurance market and makes it very difficult for consumers to effectively shop for policies.

Furthermore, broad exceptions to Idaho's public records law shield significant information on insurer practices. The DOI does not track and publish information relating to rate increases and other pricing and coverage issues. This lack of transparency hampers the efforts of policyholders to determine such things as the percentage of a carrier's premium dollar spent on health care, as opposed to marketing, administration, executive compensation, or profit.

Four ways to address the health insurance crisis

Community rating. Community rating involves charging every policyholder the same premium, without increasing premiums based on a person's age, health status, gender, or other factors. Risk is spread most evenly under community rating. It also simplifies the rating structure and increases the transparency of insurance company rating practices.

Prior approval and oversight over general rate increases. Under prior approval, insurance rate increases are subject to review based on a generally applicable standard. Frequently, regulators are permitted to disapprove rates that are “excessive, inadequate, or unfairly discriminatory.” Idaho law references this standard with regard to managed care organizations.²⁰ However, the standard has not yet been extended to insurers generally.

Public hearings. Public hearings with full public participation help ensure that the public interest is taken into account when rates are reviewed. An open public hearing system, with full notice and access to clear and accessible rate filings, permits consumers to help maintain a well-functioning health insurance system.

Public disclosure. Information is key to decision-making, and markets function best under conditions of transparency. Consumers need clear information about prices and rate increases, covered services, how premium dollars are used, indicators of customer satisfaction, and other factors. This information equips potential policyholders to make choices and contribute to a competitive health insurance market.

Conclusion

Idaho is experiencing a health insurance crisis that threatens the physical and financial well-being of the state. The hands of lawmakers are not tied, however. Idaho has a number of options for restoring accountability, transparency, and integrity to its health insurance system.

1 Kaiser Family Foundation & Health Research and Educational Trust, *Employer Health Benefits 2004 Annual Survey*, 2004, available at: www.kff.org.

2 Joe Estrella, “Medical Costs Put Squeeze on Small Businesses: Annual Increases Hurting Profits as Well as Workers,” *Idaho Statesman*, September 27, 2004.

3 Shad Priest, Administrator, Department of Insurance, Correspondence with the Idaho Community Action Network, December 17, 2004, on file with the author.

4 Joe Estrella, “Number of Uninsured Idahoans Keeps Rising: Cost of Health Care — Even for Those Who Have Insurance — Scares Families, Economic Experts,” *Idaho Statesman*, September 24, 2004.

5 Kaiser Family Foundation, State Health Facts, Idaho: Population Distribution by Insurance Status, State Data 2002-2003, U.S. 2003. According to Kaiser, 21 percent of Idahoans under age 65 are uninsured. See, www.statehealthfacts.org.

6 Kaiser Family Foundation, State Health Facts, 50 State Comparisons, Population Distribution by Insurance Status, State Data 2002-2003, U.S. 2003, available at: www.statehealthfacts.org. These states are Texas, New Mexico, Louisiana, Alaska, Nevada, and Oklahoma. California and Arizona have the same uninsured rate as Idaho.

7 Institute of Medicine, *Care without Coverage: Too Little, Too Late*, 2002.

8 Joe Estrella, “Number of Uninsured Idahoans Keeps Rising: Cost of Health Care — Even for Those Who Have Insurance — Scares Families, Economic Experts,” *Idaho Statesman*, September 24, 2004.

9 Idaho Code § 41-4708(1) & (3)(f)(1). Policies covered are those that meet the statutory definition of “health benefit plan.”

10 Idaho Code § 41-4706(1)(b).

11 Idaho Code § 41-4707(1) & 41-4708(3)(e). There are a few additional circumstances in which an insurer may refuse renewal.

12 Idaho Code § 41-4706(1)(c). In addition, rates can be increased based on change in coverage or change in case characteristics.

13 Idaho Code § 41-4708(3).

14 Idaho Code § 41-5208(1)(b). Idaho Department of Insurance, “Individual Health Insurance Availability Act,” available at: www.doi.state.id.us. The High Risk Reinsurance Pool Policies include the standard, basic, and two catastrophic plans. To be entitled to one of the plans, a person must meet statutory requirements.

15 Idaho Department of Insurance, “Attachment A-1: Idaho Individual High Risk Reinsurance Pool: Mandated Street Plan Premium Rates: Monthly Premium Rates for Policies Issued or Renewed Effective 1/1/2005 Through 3/31/2005” & “Attachment A-4: Idaho Individual High Risk Reinsurance Pool: Mandated Street Plan Premium Rates: Monthly Premium Rates for Policies Issued or Renewed Effective 10/1/2005 Through 12/31/2005,” available at: www.doi.state.id.us.

16 Idaho Code § 41-5206(1)(a).

17 Idaho Code § 41-5206(1)(b). In addition, rates can be increased based on change in coverage or change in case characteristics.

18 Idaho Code § 41-5208(3).

19 National Association of Health Underwriters, “State Level Health Insurance Reforms/Rating,” n.d., available at nahu.org.

20 Idaho Code § 41-3915(6)(2004).