National Center for Policy Analysis

BRIEF ANALYSIS
No. 168
For immediate release:
Tuesday, July 11, 1995

Solutions to the Problem of Health Insurance Portability

One of the biggest problems facing workers in job transition is that health insurance is not "portable." Although the average person will change jobs eight times during his working life, employees are limited in their ability to keep their health insurance during job changes and periods of unemployment. One consequence is that many employees experience "job lock," remaining in jobs just to keep their health insurance. Most of those working for health care reform in the 103rd Congress understood the need for portability of health insurance, and many of the comprehensive reform proposals included solutions to this problem.

Four Reforms to Help Portability

- **Expand COBRA.**
- **Adopt Medical Savings Accounts.**
- **Guarantee insurance for job-switchers.**
- **Encourage high risk pools.**

Moreover, President Clinton recently called on the 104th Congress to consider his reform proposals for enhancing portability, though he has been vague about what his proposals are.

The Managed Competition Solution. The Clinton health care plan and other 1994 managed competition proposals would have attacked the problem of portability by placing everyone in health care alliances, i.e., regional health insurance purchasing cooperatives. Employers and employees would have paid premiums to an alliance rather than an insurance company. When employees changed jobs, they could have kept their alliance-based health insurance.

Managed competition proposals, however, failed to adequately address situations in which employees moved out of their alliance or lived in one alliance and worked in another.

The Heritage Solution. Another proposal, promoted by the Heritage Foundation in 1994 and recently reintroduced by Rep. Cliff Stearns (R-FL), would have replaced employer-based health insurance with individual insurance. Instead of providing health insurance, employers would have paid higher wages and individuals would have purchased their own insurance and received a tax credit to help offset the cost. The shift to individually owned policies would have made health insurance like other types of insurance such as automobile and home-owners policies. People own those insurance policies, and they don't lose them when they change or lose their jobs.

This proposal would have drastically restructured the way people purchase and companies sell health insurance. Almost 90 percent of all private health insurance is employer-based, primarily because of the tax law that permits the exclusion of employer-paid health insurance premiums from employees' taxable income. While there is much to be said for shifting to individually owned polices, Congress is not inclined to change the current system significantly.

Since it appears that we will keep an employer-based system for the foreseeable future, adoption of the following four reforms would make the current system stronger and fairer.

Expand COBRA. Currently, companies with 20 or more employees that provide health insurance are required by the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) to permit employees leaving the company to continue their health insurance policy for 18 months. Congress could easily expand COBRA to cover even the smallest companies and

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lengthen the time during which it applies. This would allow workers to continue their health insurance during periods of job transition.

The rationale is this: Since the federal government is providing a tax subsidy for employer-provided insurance, the government should make it easier for taxpaying employees to continue their insurance when they lose or change jobs.

Adopt Medical Savings Accounts. The reason why many do not take advantage of COBRA is the cost. Employees often pay little or none of their health insurance premium, but if they elect to keep their insurance under COBRA, they must pay the entire premium, which can amount to several hundred dollars a month. Even so, it may be a bargain if the employee or a family member has a serious health condition.

There is an answer. Medical Savings Accounts (MSAs) would make it easier for employees to pay premiums during unemployment or job transition. Personal, tax-preferred savings accounts, MSAs would permit people to set money aside for routine medical care or health insurance premiums. MSAs already exist in the private sector, but contributions to them are taxed. If deposits were tax free, many more employees likely would establish them. As a result, people would have money they set aside while they were working to help pay for health insurance premiums when they were not.

Make insurance guaranteed for insured job-switchers. One of the most popular health insurance reform ideas on Capitol Hill is to prohibit the insurance companies from refusing applicants with preexisting medical conditions. However, were Congress to prohibit insurance companies from denying coverage for any preexisting medical condition, people would have an incentive to buy health insurance only when they needed medical care. If they could buy health insurance when they were sick, why would healthy people buy it?

A more reasonable solution would be to prohibit preexisting condition exclusion periods only for those who lose their insurance due to a change of jobs. If an employee with health insurance leaves one company for another, the new employer's insurance company could not refuse or postpone coverage. But if a person has willfully let a health insurance policy lapse, the new protection would not apply.

The justification is this: Since government policy has created an employer-based system, public policy should ensure that people who have continuously paid into the system cannot lose coverage because of a job change. This approach not only would protect people who switch jobs, it also would encourage them to remain continuously covered.

Encourage state-based high risk pools. Currently, 28 states have passed legislation creating high risk pools that sell health insurance to approximately 100,000 individuals with preexisting conditions. To join a risk pool, individuals must prove they have been rejected by at least one of the state's insurers. In most states, the premium for risk pool insurance is from 25 to 50 percent higher than for comparable policies a healthy person can buy. Some states can require people to pay more if the program's losses warrant it.

The amount of money needed to fully fund state risk pools is almost trivial in the context of a one trillion dollar health care system. For example, in 1992 risk pool subsidies nationwide totaled only $170 million. One study found that extending risk pool insurance nationwide would cost less than one-tenth of 1 percent of the nation's annual health care bill.

We live in a society in which many people change jobs frequently. The lack of portable health insurance hinders that mobility. While these four proposals do not make health insurance truly portable, they do provide a politically acceptable means for helping people retain their health insurance coverage during job transitions.