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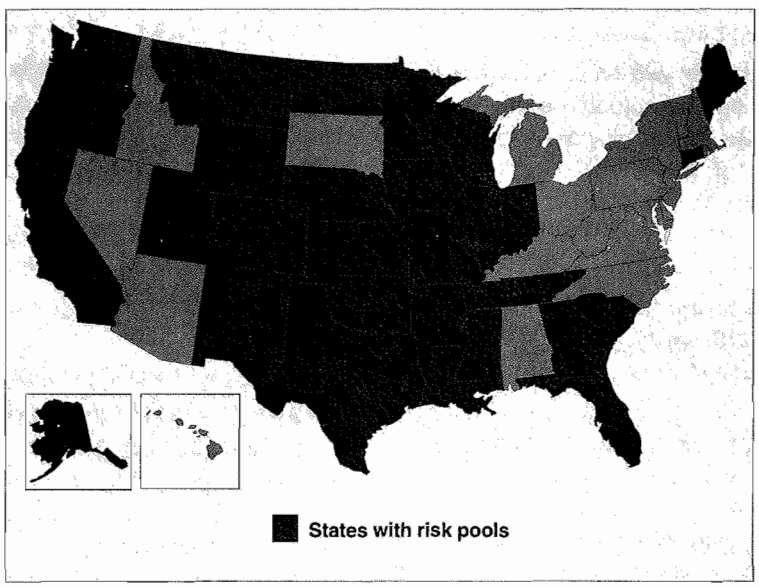
Solving the Problem of Health Insurance Portability

When employees change jobs, they may be unable to obtain coverage through their new company if they have a medical condition. In addition, employees who leave jobs in which they had group coverage and try to purchase an individual policy — perhaps because they are becoming self-employed or are no longer able to work — also may find themselves uninsurable.

How serious is this problem? Opinion polls show that as many as one-third of employees fear that if they switch jobs they will be unable to obtain new health insurance. However, a government-sponsored survey showed that less than 1 percent of the population had been denied health insurance due to a preexisting condition.



In an effort to solve the problem of the 1 percent, some health insurance reform proposals would impose mandates and restrictions creating even greater problems for the other 99 percent. Such is the case with the Health Insurance Reform Act introduced by Senators Nancy Kassebaum (R-KS) and Edward Kennedy (D-MA).

However, this problem can be resolved without costing the federal government additional money or distorting the health insurance market for other customers.

Creating Portability Among Employer Plans. The current employer-based health insurance system is largely a creation of federal tax law, because the government provides tax breaks for employer-purchased health insurance. Thus a federal policy is needed to protect job switchers in an increasingly mobile labor market. Group-to-group portability exists when individuals can freely move from one employer plan to another. To achieve this goal, employers should be required to admit to their health plans new employees who have had continuous coverage through another employer — without imposing a preexisting condition exclusion period on those employees. Most portability bills being discussed in Congress include this provision, and it has widespread bipartisan support.

Creating Portability in the Individual Market. Group-to-individual portability exists if people can obtain an individual policy after they cease being covered by an employer plan. However, requiring insurers to accept previously insured people applying for individual coverage would distort the health insurance market by making the individual insurer the insurer of last resort. Terminally ill employees who eventually became unable to work would go to the individual market for coverage near the end of their lives. Although the premiums they paid when they were healthy had gone to employers' plans, other insurers would have to pick up the costs as their health worsened. This would raise costs, and therefore premiums — some say by as much as 300 percent — with perverse social consequences. The 39 million (mostly healthy) Americans who are currently uninsured are potential buyers in the market for individual policies. Rising premiums would encourage them to remain uninsured and encourage others to drop their coverage.

Reform Options. There are three possible solutions. First, we could allow people to continue their coverage in group plans, even after they leave employment. Some small group insurers already guarantee that any worker who leaves the group can continue the same coverage at the same premium. Large employers object to making this option legally mandatory, though, since the health costs of geographically dispersed former employees would be hard to manage.

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Second, we could require that insurers sell individual policies to previously insured employees and that the former employees first exhaust their COBRA benefits. Under the 1985 Consolidated Omnibus Budget Reconciliation Act (COBRA), employers with 20 or more employees must allow departing employees to retain their health insurance for up to 18 months by paying 102 percent of the premium. Requiring individuals to exhaust their COBRA benefits means the insurance pools that received premiums when employees were healthy would have to cover more of the costs of care after the individual became sick and left the firm.

To make this proposal fully workable, COBRA provisions would have to be extended to all employers, not just those with more than 20 employees. Instead of requiring the employer to provide COBRA coverage, the law could ease the burden on small firms by requiring that the insurer do so . Florida already has implemented this tactic and Illinois will do so soon.

Finally, instead of requiring private insurers to sell individual policies to all who apply, we could encourage states to provide risk pools for otherwise uninsurable individuals.

Risk Pools. Some 29 states already have passed legislation creating high-risk pools that sell health insurance to approximately 100,000 individuals with preexisting conditions. [See the figure.] In a recent report, the American Academy of Actuaries wrote of the states with high-risk pools, "The uninsurable population in these states already has access to health insurance, in most cases at premium rates at or below what those insurers would charge for individuals with high expected health care costs."

However, state experiences with risk pools are mixed. Some work well, others do not. For example, Nebraska's high-risk pool provides coverage for about 0.2 percent of the state's population (about 3,300 people) with a standard Blue Cross health insurance policy priced at 135 percent of a standard major medical policy for a healthy person. By contrast, Texas created a high-risk pool but never funded it.

Risk pools are a cost-effective way to solve the problem of the uninsurable population. One 1989 study found that extending risk pool insurance nationwide would have cost less than one-tenth of one percent of the total national health care bill that year.

Some states have trouble finding even the relatively small amount of money risk pools need. For that reason, states should be allowed to use money from a Medicaid block grant to fund their risk pools. In return, the states should be required to provide risk pool coverage to individuals without imposing a preexisting condition exclusion period.

To keep risk pools from becoming dumping grounds for employees who develop medical conditions, states should be permitted to require that individuals exhaust their COBRA benefits before entering the risk pool.

Creating Medical Savings Accounts. Most individuals remain uninsured for relatively short periods. Half of them regain health insurance within six months, with only about 18 percent remaining uninsured for more than two years. To help people make their private insurance or COBRA payments during job transitions, Congress should pass Medical Savings Account legislation, allowing workers to set aside pretax dollars for this purpose.

Creating New Opportunities for Small Groups. About 85 percent of the uninsured are in families with at least one employed worker, but many of these workers are with very small firms burdened by high health insurance costs. One way to address this problem is to give small employers access to the lower premiums paid by large groups and self-insured organizations. Following Washington State's example, other states should permit associations, small business alliances or purchasing cooperatives to provide insurance to small companies.

In addition, small employers should be able to purchase insurance free of costly, state-imposed mandates to cover wide-ranging medical services. Extending the Employee Retirement Income Security Act (ERISA) downward would allow the smallest companies to reap the same benefits of self-insurance as large companies.

These reforms would be relatively easy to enact. And they would solve the problem of portability while allowing the insurance industry to continue doing what it does best — price and manage risk.

This Brief Analysis was prepared by NCPA Health Policy Director Merrill Matthews Jr., Ph.D.