

BRIEF ANALYSIS

No. 249

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Can We Afford Consumer Protection?

An Analysis of the PARCA Bill

Despite a new government study showing that the rising cost of premiums is the main reason a growing number of people don't have health insurance, more than 200 members of Congress have cosponsored legislation that would make health insurance even more expensive.

"The Patient Access to Responsible Care Act" (PARCA), introduced by Sen. Alfonse D'Amato (R-NY) and Rep. Charlie Norwood (R-GA), claims to be a consumer protection bill. It is supposed to improve the access to and quality of American health care, while making health plans, health insurers and self-insured employers more accountable and responsible. But a new analysis by the actuarial firm Milliman & Robertson demonstrates that PARCA will make health insurance more expensive — for some people, prohibitively expensive. Based on many prior studies we know that as premiums increase so will the number of uninsured.

What PARCA Is Supposed to Do. PARCA is intended to address some of the problems patients say they encounter under managed care. Milliman & Robertson analyzed seven of the provisions, as well as other elements of the bill. According to the sponsors, PARCA would:

- (1) Assure access to emergency room and urgent care services.
- (2) Permit greater access to specialists.
- (3) Prohibit direct and indirect payments that might

induce a health care provider or group to deliver fewer services.

(4) Require health maintenance organizations (HMOs) to offer patients the option of going to physicians who are not part of the HMO's network, known as a "point-of-service" option.

(5) Reimburse all providers at the same rate. (To discourage the use of unapproved doctors, HMOs often pay them less or require health plan members to pay higher deductibles and copayments when they use out-of-network providers).

(6) Speed up administrative responses to ensure "timely access" to health care services.

(7) Allow patients greater access to non-traditional providers such as chiropractors and acupuncturists.

The Milliman & Robertson study analyzed the impact of these, as well as such other provisions as adverse selection (the phenomenon in which healthy people drop coverage so a health plan is skewed toward sicker people) and guaranteed issue (which prohibits insurers from denying coverage on the basis of age, gender or health status).

Milliman & Robertson did not evaluate one of the most costly provisions in the legislation, which relates to malpractice suits. Currently, when patients receive inappropriate care, health care providers such as physicians and hospitals may be sued for malpractice. Under PARCA, the legal liability could be extended to health plans, insurers and even employers.

How Much Would PARCA Cost? That answer could depend on the type of insurance a person has and where the person lives. For example, since most of PARCA's reforms are targeted at managed care plans,

PARCA Provision	Nationwide Average Premium Increase	
	Best Estimate Midpoint	Best Estimate Range
Provision of Emergency Room and Urgent Care Services with Limits on Prior Authorization	0.5%	0.5%
Elimination of Prior Authorization for Specialty Referrals	0.2%	0.2%
No Inducement to Reduce Services*	9.5%	2% - 17%
Mandatory Point-of-Service Option	0.3%	0.3%
Equivalent Reimbursement Rates In and Out of Network	5.5%	0% - 11%
Administrative Requirements*	2%	1% - 3%
Elimination of Limits on Certain Benefits*	5.5%	1% - 10%
Adverse Selection against Rate Increases	4.5%	4.5%
Composite Effect**	23%	7% - 39%

* Depends heavily on interpretation of PARCA.
** This effect is not additive or multiplicative due to the overlap of PARCA's various provisions.

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people who have traditional fee-for-service policies might see little or no increase. In addition, many state legislatures and managed care organizations have already implemented some of PARCA's provisions, which might reduce the impact for some people.

As a result of these variables, Milliman & Robertson provides a "best estimate" for the nationwide average increase in health insurance premiums (see Table I) and a range of premium increases an individual enrollee might face (see Table II). The actual increases could vary depending on how the legislative language is interpreted and the assumptions used to make the analysis.

According to the study, health insurance premiums likely would increase an average of 23 percent nationally. Though the Milliman & Robertson analysis estimates only percentage increases, not dollar amounts, the National Center for Policy Analysis has calculated that since the average cost for a family HMO membership was \$5,304 in 1996, PARCA could drive up the cost to about \$6,524 a year. For an individual policy, the increase would be from \$1,848 to \$2,273.

Of course, some premium increases would be higher than the average and some would be lower. The study estimates the lower-range increase would be 7 percent, while the high-end increase would be about 39 percent, which the NCPA has determined would increase the cost of a family's HMO to \$7,373. Thus an employer of 25 employees with the standard mix of individual and family policies could pay an additional \$30,000 per year to keep them insured.

While Table I estimates the percentage increase in premiums nationwide, Table II looks at PARCA's im-

pact on individual policies, which could be even greater. Individuals could experience a premium increase of 3 to 90 percent. Thus the NCPA has estimated that a family HMO premium could rise from \$5,304 to \$10,078.

Increasing the Number of Uninsured. As employers and people with individual policies began to face such high premium increases, many likely would cancel their coverage. Some employers simply could not sustain the cost, while healthy people would conclude that their premium was higher than their risk of illness.

According to a recent analysis by the Congressional Budget Office (CBO), a 1 percent increase in the cost of health insurance increases the number of uninsured people by 200,000. Thus, using Milliman & Robertson's estimates of a 23 percent premium increase nationwide, the NCPA has concluded that PARCA would lead to an additional 4.6 million uninsured people — an increase of more than 10 percent in the uninsured population. If the study's upper-range estimate proves more accurate, nearly 8 million people would be-

come uninsured — about a 20 percent increase.

Conclusion. If Congress is really concerned about protecting consumers from the practices of managed care, it should not try to micromanage health plans. Rather, it should consider reforms that would reduce government control and oversight and increase consumers' choices. One way to achieve this goal would be to let workers dissatisfied with their employers' health insurance purchase whatever they want without losing their tax benefit.

When quality is a concern, consumer choice, not consumer protection, is almost always the best solution.

This Brief Analysis was prepared by NCPA Vice President of Domestic Policy Merrill Matthews Jr.

PARCA Provision	Range of Premium Increase To Enrollee
Provision of Emergency Room and Urgent Care Services with Limits on Prior Authorization	0% - 4%
Elimination of Prior Authorization for Specialty Referrals	0% - 3%
No Inducement to Reduce Services	0% - 50%
Mandatory Point-of-Service Option	0% - 3%
Equivalent Reimbursement Rates In and Out of Network	0% - 35%
Onerous Administrative Requirements	1% - 5%
Elimination of Limits on Certain Benefits	1% - 10%
Adverse Selection against Rate Increases	1% - 20%
Composite Effect*	3% - 90%

* This effect is not additive or multiplicative due to the overlap of PARCA's various provisions.