

BRIEF ANALYSIS

No. 251

For immediate release:

Monday, January 12, 1998

Explaining the Growing Number of Uninsured

The number of people without health insurance continues to grow. The most recent U.S. Census Bureau estimate places the number at 41.4 million people, or 17.7 percent of the nonelderly population — up from 35.7 million, or 16.6 percent in 1990.

After several years of relatively low growth in health care costs — and, as a result, relatively low growth in the percentage of uninsured — some policy analysts fear that health insurance premiums may grow by 8 to 10 percent in 1998.

Why is the number of uninsured growing at a time when unemployment is at its lowest level in decades and national income is growing? Blame government policies.

Source of the Problem: Government. Many believe that government has not yet done enough to ensure universal access to health insurance at affordable prices. The truth is that the growth in health care costs and the uninsured is a direct result of government intervention at the federal and state levels. For example:

- A standard family health insurance policy in New Jersey purchased by the family itself (i.e., not employer-provided) costs about \$18,000 a year.
- 45 of Kentucky's insurers have left the state, leaving only Anthem Blue Cross, which lost \$60 million in 1996, and Kentucky Kare, the state-run program which lost more than \$30 million between August 1995 and March 1997.
- The General Accounting Office (GAO) reports that the Kassebaum-Kennedy health insurance reform bill that passed in 1996 is driving up premiums for some people by 125 percent.

One wonders how much more government help people can afford.

The common denominator among the health care policy failures is a government that tries to make health insurance available to anyone regardless of their health, a practice known as "guaranteed issue."

Guaranteed Issue in the Kassebaum-Kennedy Health Insurance Reform Bill. The Kassebaum-Kennedy bill created guaranteed issue for small businesses. Thus small employers who might have been denied a group health insurance policy because one or more employees had a costly medical condition must be accepted. In addition, those with group health insurance who leave their jobs and need to purchase individual health insurance cannot be denied coverage.

During the debate over the bill, the American Academy of Actuaries suggested that premiums might rise between 2 and 5 percent. Proponents of the legislation quickly seized on the lower number to suggest that Kassebaum-Kennedy benefits outweighed its costs. However, those who closely examined the Academy's analysis found it showed that some premiums would eventually increase between 125 and 167 percent. The recent GAO study mentioned above verifies the prediction.

Guaranteed Issue in New York. The New York legislature passed a bill in 1993 that required both guaranteed issue and "community rating," in which everyone is charged the same premium. To achieve a level premium for everyone, healthy people have to be charged more so that sick people can be charged less. And because most people are healthy, most people see their premiums rise.

Consider the impact on policies sold by Mutual of Omaha, one of the largest sellers of individual health insurance policies in the state:

- Before community rating was instituted in New York, a 25-year-old male on Long Island paid \$81.64 a month for health insurance, and a 55-year-old paid \$179.60.
- After community rating, both paid \$135.95, a 67 percent increase for the 25-year-old and a 25 percent decrease for the 55-year-old.
- Because young, healthy people began cancelling policies, by 1994 both paid \$183.79 — more than the 55-year-old was paying *before* community rating was implemented — and by 1997 that community-rated premium had risen to \$217.59 a month.

Could You Afford These Health Insurance Premiums?*

(New Jersey, 1997)

	Monthly	Annual
Time Ins. Co.	\$2,930	\$35,160
Time Ins. Co. (PPO)	\$2,344	\$28,128
Metropolitan Life Ins. Co.	\$1,969	\$23,628
Connecticut General Life Ins. Co.	\$1,869	\$22,428
Average**	\$1,559	\$18,708
Oxford Health Ins. Co.	\$1,434	\$17,208
Aetna Ins. C. & Health Plans of NJ	\$1,351	\$16,212
Blue Cross Blue Shield of NJ	\$1,101	\$13,212
PFL Life Ins. Co.	\$830	\$9,960

* Family major medical policy, \$500 deductible, 80/20 percent copayment.

** Average of 17 companies offering similar coverage in New Jersey.

Source: Individual Health Coverage Program Board of New Jersey.

BRIEF ANALYSIS

No. 251

Page 2

As a result of the departure of thousands, the uninsured population in New York City grew from 20.9 percent in 1990 to 24.8 percent in 1995, according to one report, while the national rate grew from 16.6 percent to 17.4 percent over that same period.

Guaranteed Issue in New Jersey. The most astonishing case is that of New Jersey, which publishes its health insurance rates. As a result of New Jersey's guaranteed issue and community rating law:

- A standard family health insurance policy (\$500 deductible, 20 percent copayment) averages \$1,559 per month, or \$18,708 a year, as of June 1997 — with the lowest rate being \$830 and the highest \$2,930 per month, or \$35,160 a year. [See the table.]
- In April 1995 that same plan cost on average about \$750 per month — less than half the current amount.
- Even the state's most restrictive HMOs cost more than \$700 a month for family coverage — nearly twice the national average.

By contrast, neighboring Pennsylvania, which has not implemented guaranteed issue and community rating, has relatively low premiums — about \$300 per month for a 37-year-old head of family in Reading, Pa. — for a policy similar to that in New Jersey.

As a result of New Jersey's intervention in the health insurance marketplace, coverage in the individual health insurance market has declined by about 15 percent since the end of 1994.

Guaranteed Issue in New Hampshire. New Hampshire passed guaranteed issue in 1995. Now Blue Cross Blue-Shield of New Hampshire, the state's largest provider of individual policies, is pulling out after millions of dollars in losses. And the five remaining insurers are losing money as people transfer from their Blue Cross policies to the other insurers. According to a recent statement by the state's insurance commissioner, "individual health insurance is not readily available in New Hampshire."

To halt the deterioration of the individual health insurance market, health insurers in the group market will be assessed \$2.16 per covered person. Of course, that action will raise the cost of group insurance and may lead some employers to cancel their policies immediately or as the assessment grows.

Why Only Individual and Small Group Markets Are Affected. Because of the way the health insurance

marketplace has evolved, a relatively small percentage of people bear the brunt of these increases. Companies that self-insure under the federal Employee Retirement Income Security Act (ERISA) are exempt from state laws creating guaranteed issue and community rating, as well as many other state laws and taxes, and so avoid the health insurance price increases that small groups and individuals experience. Thus the latter must pick up all of the costs of guaranteed issue. And these are the people most likely to cancel their coverage if the costs become prohibitive.

For example, in 1996:

- Only 5.2 percent of New Jersey's population and 4.5 percent of New York's had individually purchased private health insurance.
- In Philadelphia, 7.3 percent of the population had individual coverage.

More Uninsured in the Future? Worse yet, the Patient Access to Responsible Care Act (PARCA), sponsored by Sen. Alfonso D'Amato (R-N.Y.) and Rep. Charles Norwood (R-Ga.) and cosponsored by more than 200 members of Congress, has a guaranteed issue provision. As a result, PARCA could impose guaranteed issue nationwide, even on ERISA companies.

How to Decrease the Number of Uninsured. If Congress really wants to address the problem of the uninsured, it should:

- Change the tax system so that it encourages everyone to obtain a basic health insurance policy.
- Avoid imposing mandates that make health insurance and managed care more expensive.
- Expand the availability of Medical Savings Accounts.

Each of these reforms would reduce the cost of health insurance and health care and encourage more people to become insured.

Conclusion. There is no mystery as to why the number of uninsured as well as health care costs are growing: Congress and several state legislatures keep trying to make health insurance more accessible and affordable. If they would quit trying to help, the growth in health insurance premiums would decline — as they did in the early '90s when national health care reform failed — and so would the number of uninsured.

This Brief Analysis was prepared by NCPA vice president of domestic policy Merrill Matthews Jr.