

Blue Perspective



**BlueCross BlueShield
Association**

An Association of Independent
Blue Cross and Blue Shield Plans

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BCBSA Position on Legislative and Regulatory Issues

BCBSA Supports Insurance Market Reforms Combined with a Personal Responsibility Requirement and Income-Based Subsidies

Issue: Congress is considering legislation that would require insurers to accept all applicants regardless of health status (guaranteed issue) and to prohibit varying premiums based on individuals' health status (adjusted community rating). The House and Senate HELP Committee would not allow insurers to vary premiums based on age by more than 2:1.

Position: The Blue Cross and Blue Shield Association (BCBSA) strongly believes everyone should have health insurance. BCBSA supports guaranteed issue and discontinuing varying rates based on health and gender (with age adjustments allowed at 5:1). This must be combined with an effective personal responsibility requirement and adequate subsidies to make private coverage available to everyone regardless of health status. With everyone having coverage, insurance will work as it should – spreading costs across a broad population and avoiding the risk only those needing health care will buy insurance.

Past state experience with guaranteed issue and community rating, without a personal responsibility requirement and adequate subsidies, has resulted in: (1) higher premiums and (2) fewer people buying individual market coverage.

The greatest challenge in today's voluntary individual market is maintaining a balance of younger and healthier people needed to subsidize care for older and sicker individuals. Because individuals generally must spend their own money on individual coverage, given there is no tax benefit or help from employers, the people most motivated to buy coverage are those who need care.

BCBSA supports a strong, effective personal responsibility requirement for obtaining and maintaining health coverage as the critical foundation for insurers to be able to provide coverage to everyone and not vary premiums based on health status. This personal responsibility requirement should be enforced through federal tax filing and other mechanisms. Federal subsidies will be required to ensure that coverage is affordable for lower and middle income individuals.

Young people's participation is key to ensuring that premiums are affordable for people of all ages. Young people ages 18-30 are more than twice as likely (28%) as people ages 55-64 (12%) to be uninsured. Therefore, BCBSA recommends allowing premiums to be adjusted based on age (5:1) in order to ensure younger people buy coverage.

New insurance rules should be carefully implemented to avoid premium spikes for consumers. During the transition, consumers should be able to keep their existing policies under current state rating and benefit rules, if they so choose. In addition, state-based reinsurance for newly-enrolled individuals with expected high costs, funded by broad-based sources, should be implemented to avoid premium spikes.

Several states that have enacted guaranteed issue and community rating reforms in a voluntary individual market experienced serious consequences. **Without an effective personal responsibility requirement and adequate subsidies, guaranteed issue and community rating will:**

Increase individual market premiums

Premiums in states with guaranteed issue and community rating are extremely high. For example in Albany, New York, the least expensive point-of-service plan for a family costs over \$30,000/year, and in Buffalo, New York, the cheapest policy for a 23 year old is almost \$12,000/year.

Why are premiums so high?

- *A minority of individuals drive health costs:* The addition of just a few sick individuals can dramatically increase premiums. 5% of the population accounts for almost 50% of health costs, and 20% of the population accounts for almost 80% of health costs.
- *Many healthy individuals are needed to subsidize care for high-risk individuals:* For example, an insurer would need 22 subscribers with no claims in order to have \$33,000 to pay for the treatment of a subscriber with ovarian cancer.
- *Adverse selection:* Simply put, unhealthy individuals are very motivated to purchase coverage – whereas young and healthy individuals are deterred by high premiums. Guaranteed issue assures individuals can wait until they are sick to buy insurance. Stable and affordable premiums depend on everyone participating in the insurance pool – healthy and sick.

Decrease the number of people with individual market coverage

Enactment of individual market reforms in a voluntary market has resulted in decreased coverage.

- Individual market enrollment in Maine dropped from 90,000 to 41,000 between 1993 and 2007 following the state's reforms.
- Individual market enrollment in New Jersey dropped from 157,000 people in 1993 to about 61,000 in 2007 after reforms.

Reduce choice for consumers

Guaranteed issue and community rating in states with voluntary health insurance markets have limited choice for consumers.

- *Washington:* More than 30 insurers left the state following reforms in the 1990s and by the end of the decade, the three largest insurers in the state stopped selling individual coverage. Reforms in 2001 helped bring stability back to the market. In 2007, seven insurers were selling coverage.
- *Kentucky:* By January 1998 (within 4 years of the 1994 reforms), more than 40 insurers had left Kentucky's individual market, and only two carriers remained. Subsequent reforms facilitated insurers re-entering into the market, with consumers having a choice of seven insurers today.

The Blue Cross and Blue Shield Association is a national federation of 39 independent, community-based and locally operated Blue Cross and Blue Shield companies that collectively provide healthcare coverage for more than 100 million individuals – nearly one-in-three of all Americans. For more information on the Blue Cross and Blue Shield Association and its member companies, please visit www.BCBS.com.