



Maine Public Policy Institute

Contact:

Betsy P.
Chapman
Founder/Chair

27 State Street
Suite 68
Bangor, Maine
04401

207.944.3264

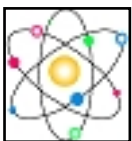
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Insurance Market in Critical Condition

John R. La Plante

Self-employed and other people without group insurance struggle to afford the premiums charged in the traditional (indemnity) individual insurance market. If trends continue, they may face an even more serious problem: there will not be any insurance to buy. To help these people—and indeed, all of us—Maine's legislature should make fundamental reforms to insurance laws.

Insurance premiums have soared, with the rates for individual health insurance offered by Anthem Health Plans of Maine doubling between 1993 and January 2000, followed by increases of 23 percent and 13 percent for 2001 and 2002. As premiums increase, fewer people buy insurance, which only makes coverage more expensive for those who remain—and who are most likely to need it. Worse, yet, companies are leaving the state, or refusing to write business to new customers, since they are unable to make money when they left with the most costly part of the population as customers.

Just how bad is the situation? In 1994, five companies offered traditional (fee-for-service) coverage to people needing individual coverage. By the beginning of 2000, only two companies remained. Today, only one company is left, Anthem Health Plans of Maine (formerly Blue Cross Blue Shield of Maine). The

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individual market has been a classic case of a "death spiral," in which premiums increase, healthy people drop their policies, and premiums increase even more. Even HMOs, which were supposed to be the future of health insurance, are in trouble; a report by the Bureau of Insurance concludes that the market for individual HMO coverage is "in a death spiral." The Bureau concludes, "the future viability of the individual health insurance market in Maine is at serious risk."

Government Solutions, Government Problems

State policy makers cannot do much about many of the factors, such as an aging population, that contribute to rising insurance premiums and the decline of the individual market. But they can deal with one factor—state government regulation. Three of the most pernicious regulations are guaranteed issue, community rating, and mandated benefits.

Thanks to reforms enacted in 1993, the guaranteed issue provision requires insurance companies wishing to write individual policies in Maine to accept all applicants, regardless of their health status. The result, predictably, is that healthy people, who would contribute financial stability to an insurance pool, have an incentive to forgo buying insurance until they are sick, knowing they can buy in once the need arises. A study cited by the Bureau of Insurance blames guaranteed issue as the primary reason for the limited availability of individual indemnity insurance.

A severe form of guaranteed issue was the key contributor to the collapse of the individual insurance market in Washington state. Many states allow a "pre-existing condition" clause in policies. That is, companies may deny claims for a certain time (usually a year), relating to medical problems that a new customer had before buying insurance. The intent is to give people an incentive to buy insurance before they need it.

But in 1993, Washington reduced this waiting period to a mere three months, so short as to be no incentive at all. Citing huge losses as a result of this change, companies started leaving the state. In 36 of 39 counties, individual insurance could not be found at

any price. The legislature finally increased the three-month period to nine months, and companies started returning to the counties.

Another regulation affecting the cost, and therefore, availability of insurance, is community rating. Maine enacted community rating in 1993, and it limits insurers from using age and other factors to set insurance rates. Since younger people, on the whole, have fewer health claims than older people do, younger people ought to get a break on premiums.

With their ability to get this break limited by law, it is no surprise that younger—and healthier—people have a disincentive to buy insurance. This is especially true if, thanks to guaranteed issue, they can get insurance later on.

In a third regulation that inflates health insurance costs, the state stipulates what must be included in a health insurance plan. The more treatments—and the more expensive those treatments—an insurance plan must, by law, offer, the more expensive the premiums will be. Requirements that insurance policies cover chemical dependency treatment, for example, increase premiums by 9 percent on average, for example. A study by the General Accounting Office found that insurance costs are consistently highest in states with the largest number of mandates, while PriceWaterhouseCoopers estimated that 15 percent of overall premium increases from 2001 to 2002 were caused by government mandates and regulations.

The result of rising premiums, unfortunately, is decreased coverage. State-imposed mandates nationally may account for as many as one in four Americans who are uninsured. As of January 2001, 13 percent of Mainers were uninsured. Given the economic downturn, that number is probably higher now.

Despite the link between insurance regulations and the cost—and even availability—of insurance, state government continues to pile on requirements. Legislative Document 1703 of 2001, for example, now requires insurance carriers to offer health insurance to domestic partners of health plan members as spousal equivalents.

What to Do

Instead of increasing regulations—often to deal with the unintended consequences of previous regulations—it is time for policy makers to promote a healthy market for insurance of all kinds, including individual insurance. The first step is to realize that past reforms have been a large part of the problem. As the Bureau of Insurance notes, "While the number of carriers offering individual health insurance has decreased nationwide, the decline has been most marked in states adopting reforms similar to Maine's."

Maine's government needs to do what it can to make it more attractive for healthier people to buy insurance, which will bring down rates for all, and bring companies back to the market. It should repeal the community rating and guaranteed issue, for starters. Mandated services should be reviewed for repeal as well, and insurers should also be encouraged to create more incentives for healthy living, such as discounts for not smoking. By making these changes, legislators can return the incentive for the healthy to buy insurance, and make it cheaper for them to do so

Due to administrative efficiencies of the group market and the advantages employer-sponsored health plans carry under the federal tax code, the private insurance market will probably always be more expensive than group plans. Individual insurance is, however, the choice that work would best for some—if Maine changes its laws before all the carriers away.

John R. La Plante is an adjunct scholar with the Maine Public Policy Institute.

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