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To Improve Health Insurance Access, Repeal Guaranteed Issue

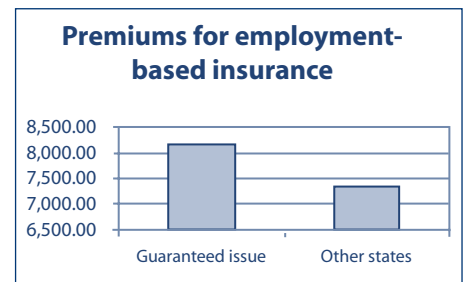
JOHN R. LA PLANTE

The Dirigo Health Plan is being advocated as a way to address the problems of uninsured Mainers. While the details of the plan are being worked out, a look at history of guaranteed issue will show that most government initiatives end up being counterproductive. If officials want to promote health insurance coverage in Maine, the first step may be to eliminate guaranteed issue.

Under a guaranteed issue mandate, an insurance company must underwrite a policy for all comers, regardless of health. This sounds compassionate, and a way to promote insurance coverage. But it turns the economic logic of insurance upside down in a way that hinders the goal of an insured population.

If you did not buy homeowners insurance until you noticed smoke coming from somewhere in your house, would you be able to get a last-minute policy? Of course not. But that's how health insurance works, thanks to Maine's guaranteed issue regulations.

Under guaranteed issue, healthy people have every incentive not to buy insurance until they see trouble coming. On the other hand, the people who are inclined to keep their insurance are the sickest. But when the people who have insurance are disproportionately sick, premiums must go up to cover the costs. This makes insurance even more unattractive, except for those with imminent health problems. The healthy then have an even stronger reason to wait to buy until the last minute. The result is what analysts call a "death spiral" in insurance, a phenomenon that has all but killed the market for traditional, individual insurance in Maine.¹ Repealing it is the first step in increasing private insurance coverage.



Source: Kaiser Family Foundation

GUARANTEED ISSUE AND DEATH SPIRALS

Guaranteed issue has been devastating in the states that have implemented it. It reduces consumer choice, such that in Maine, there is only one source for indemnity, individual insurance. In Washington, the guaranteed issue requirement drove so many companies out of the state that the legislature had to repeal many portions of that law. Kentucky and New Hampshire had similar results. Today, only Vermont, Massachusetts, New York and New Jersey join Maine in maintaining guaranteed issue.

Guarantee issue guarantees one thing: higher premiums. This is true in both the individual and the group market. The Kaiser Family Foundation conducted a nationwide survey of employer-sponsored insurance plans. The total cost of insurance (counting employer and employee contributions) was 11 percent higher in states with guaranteed issue requirements.²

“Guarantee issue guarantees one thing: higher premiums”

Guaranteed issue requirements work their damage in the individual insurance market as well. In Portland, a family plan with a \$500 deductible costs \$14,120 annually. By contrast, a similar plan can be found for much less in states without guaranteed issue: \$4,920 in Arlington, Virginia, \$5,124 in Indianapolis, and \$5,748 in Chicago.³ According to the Coalition Against Guaranteed Issue, it would be cheaper for a New Jersey resident to lease a late model Ferrari than to purchase the cheapest family plan sold there.⁴

Even by its own logic—promoting access to health insurance—guaranteed issue fails. Rather than promoting insurance, it actually destroys insurance markets. Because of that, more people are forced into the substandard Medicaid system. (If you doubt that Medicaid is substandard, ask your doctor: Would you like to depend on it for your health care insurance?) More people are on Medicaid in states with guaranteed issue (13 percent) than in states without it (10.2 percent.)⁵ In other words, guaranteed issue increases by 27 percent⁶ the population that depends on the whims of the political process for something as vital as health care.





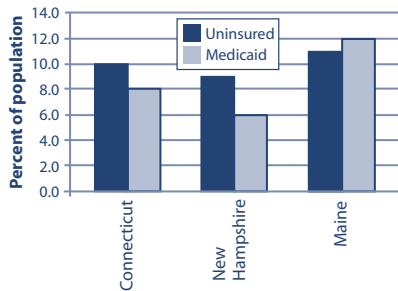
HIGH RISK POOLS CAN HELP

States have started to move away from guaranteed issue. So has the U.S. government. Currently, the HIPAA, a federal law, imposes a guaranteed issue mandate on the small group market. Last year, though, Congress considered, but rejected the idea of extending guaranteed issue for some markets. It is even currently considering legislation to remove the guaranteed issue portions of HIPAA. Maine should follow the federal government, and more importantly, other states, and start dismantling the guaranteed issue requirement.

There are, after all, better ways of promoting access to health insurance. Maine can, for example, reduce the number of mandated services.⁷ This would be one way of making insurance more affordable. It can also allow Mainers who are willing to buy insurance under the rules of another state the opportunity to do so. Let consumers decide who will serve as their regulator.

“In states with high risk pools, premiums for employer-based insurance are 11 percent lower”

Regulation and Insurance Coverage



Source: Kaiser Family Foundation

Maine can also, for the people with the most severe medical situations, establish a high risk pool. Currently, 32 states have such pools, including Connecticut and New Hampshire.⁸ Under a high risk pool, people who would otherwise be unable to obtain insurance can buy a policy at 25 to 50 percent above the average premium. That’s high, but not as high as the cost of guaranteed issue premiums. The chronically ill benefit, because they can get coverage. The rest of the population also benefits, because it can then buy insurance under normal market mechanisms. In states with high risk pools, premiums for employer-based insurance are 11 percent lower.⁹

By having a high risk pool and no guaranteed issue requirement, both Connecticut and New Hampshire have a more desirable situation than Maine. They have a lower percentage of the population that is uninsured (10 and 9 percent, respectively) than Maine does (11 percent). The percentage of people dependent on Medicaid is lower in those states (8 and 6 percent) than in Maine (12 percent). Maine, conversely, has fewer people (62 percent) with private insurance than does Connecticut (68 percent) or New Hampshire (71 percent).¹⁰

In Maine, the number that is should be high (percentage of population with private insurance) is low, and the numbers that should be low (percentage that is uninsured or on Medicaid) are high. It’s time to change this situation.

THE NEXT STEP

If Mainers are to move to a better health care financing system, they can embrace a wide, sweeping initiative that attempts to solve most problems at once. But they shouldn’t. The past record of insurance mandates and guaranteed issue shows that government regulations meant to help often do harm instead. In short, Maine doesn’t have to experiment, and wait for the Dirigo Health Plan, an idea without a track record. It can follow the proven record of other states by enacting a high risk pool and repealing guaranteed issue.

¹ See *Insurance Market in Critical Condition*, MPPI MainePoint, February 2003.

² See *State Health Facts Online: Average Annual Cost of Employment-Based Health Insurance, Family Coverage*. Kaiser Family Foundation, www.kff.org

³ “Pence Measure Would Repeal Guaranteed Issue Mandate,” *Health Care News*, October 2003.

⁴ The Council Against Guaranteed Issue, of which the Maine Public Policy Institute is a member, is at www.CAGIonline.org.

⁵ See the *State Health Facts Online: Health Coverage and the Uninsured*, Henry J. Kaiser Family Foundation, www.kff.org.

⁶ 13 is 27 percent higher than 10.2

⁷ See *Mandates Cause Uninsurance*, MainePoint, May 2003.

⁸ *States with High Risk Insurance Pools: September 2003*, Infectious Disease Society of America.

⁹ *State Health Facts Online: Average Annual Cost of Employment-Based Health Insurance, Family Coverage*

¹⁰ See the *State Health Facts Online: Health Coverage and the Uninsured*, Henry J. Kaiser Family Foundation, www.kff.org.

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