Insurance Market Reforms

Issue Summary:

As an association of benefit specialists who help individuals and businesses purchase private health insurance coverage on a daily basis, we know that the vast majority of Americans are happy with their current health insurance coverage, particularly those who receive it through the employer-based system. But even though it works well for many people, current private health insurance market regulation is not without its gaps. Some market-reform improvements are definitely needed so that all Americans will have fair access to affordable coverage. However, when implementing market reforms on a national level, great care is needed so that coverage stays affordable. No matter how "fair" a market-reform idea might seem on its surface, it's not at all fair if it prices people out of the marketplace.

Action Needed:

One of the most important reform steps NAHU feels the federal government could take is to provide adequate incentives and consequences to ensure that Americans have continuous health insurance coverage. Having as many Americans as possible with uninterrupted access to medical care through the private health insurance system not only provides for a healthier nation, it also provides for a stable health insurance coverage pool, which lowers costs for everyone.

The Patient Protection and Affordable Care Act (PPACA) includes an individual responsibility provision which requires most Americans to either obtain health insurance coverage or enroll in a public health coverage assistance program by March 31, 2014 or pay a financial penalty.

Under the new law, it is our concern that millions of healthy individuals will likely find it more financially advantageous to forgo coverage until they are sick and then utilize the guarantee-issue protections to temporarily obtain coverage and then drop it again. This adverse selection will make coverage tremendously more expensive for all Americans, because the market reforms required by this measure will only work to reduce costs if all Americans participate continuously in the health coverage system, both when they are healthy and when they are sick.

To improve the effectiveness of the individual responsibility requirements we suggest a string of disincentives for healthy people who for financial reasons decide to forego coverage and simply pay the fine, and who subsequently obtain coverage if needed when sick or injured. These should include:

- Establishing financial penalties that are in line with the actual cost of coverage so that it would be more attractive to be insured than to pay the tax penalty for not being covered
- Imposing insurance-related consequences like an annual open open-enrollment period combined with a strict late-enrollment penalty

- Allowing for enrollments outside of the annual open enrollment for life change events only, using the qualifying even standard established by HIPAA
- Allowing pre-existing condition exclusions to be applied if coverage is not purchased during an open enrollment period
- Increasing in the role of employers in enrollment and coverage verification
- Asking for coverage verification when receiving state and local services at facilities like the state departments of motor vehicles, schools and hospitals, which have already been established as points of purchasing coverage through the exchanges

Other Market Reforms

Even with improved requirements and incentives to encourage individuals to maintain their health insurance benefits continuously, NAHU is concerned that other insurance market reforms in the new law will have a significant negative impact on health insurance premiums for many, and the result could be a huge adverse selection problem causing severe damage to the private market.

To improve the situation, NAHU suggests many market reform revisions to PPACA, including:

- Imposing a graduated shift to the modified community rating requirements in the new law, rather than imposing them all at once on January 1, 2014
- Expanding the age rating bands in the law from 3:1 to 7:1. This would allow rate variation for every 10 years of age, which is a much more natural breakdown according to most actuaries
- Allowing individual and group insurers to provide rating incentives for wellness program participation and allow wellness factors to be used as rating criteria in both markets
- Eliminating the $2,000/$4,000 deductible cap on small employer health plans, or failing that clarifying that this does not apply to high-deductible health plans offered in conjunction with either a HRA or HSA
- Raising the FSA contribution limit to $5,000 and tie future annual limit increases beyond 2013 to the rate of medical inflation
- Eliminating the ban on reimbursing over-the-counter drugs through FSA, HRA and HSA funds except with a doctor's prescription. Failing that, standardize documentation needed to make things simpler for health insurance consumers
- Reviewing the essential benefit and other coverage requirements to ensure that they allow individuals and employers the opportunity to buy affordable coverage.
- Eliminating the new national premium tax that is projected to add an average of $500 if costs to a typical family policy in 2014 and is slated to steadily increase each year