Problems with Health Insurance High-Risk Pools

Higher Premiums, More Government Spending without Improved Care

for People with Preexisting Conditions

High-risk pools have been suggested by some members of Congress as a "replacement" for the individual mandate in the Affordable Care Act (ACA). Advocates of this option purportedly assume that high-risk pools would lower the cost of health insurance for the healthy population such that the individual mandate would no longer be necessary to ensure that everyone purchases health insurance. Based on decades of the experience of states and the federal government with high-risk plans, there is no validity to this assumption. It is widely recognized that high-risk pools, by themselves, failed to achieve affordable health insurance for anyone. It was only the Affordable Care Act – and the law's individual mandate and various consumer protections – that successfully brought enough healthy lives into the health insurance system to lower the cost of health insurance for all. High-risk pools are not a substitute for the individual mandate and consumer protections incorporated into the Affordable Care Act.

Before the Affordable Care Act, insurance companies often refused to provide health insurance coverage to individuals with pre-existing conditions or charged premiums that were so excessive as to make the coverage unaffordable for most individuals and families in that situation. The net result of these practices was that sick people and their families did not have access to health insurance. In an attempt to address this crisis, 35 states created so-called high-risk pools to provide access to health insurance coverage for their sickest residents. During the three years prior to 2014, the federal government also administered a high-risk pool known as the "Pre-existing Condition Insurance Program."

The experience of the 35 states and the Pre-existing Condition Insurance Program uniformly demonstrate why high-risk pools are not a viable solution to the costs of health insurance in New York or any other state. Prior history has demonstrated that high-risk pools:

- **Limit Enrollment and Impose Unfair Waiting Periods.** Even at their peak enrollment levels, state high-risk pools only covered about 230,000 individuals nationwide. Cost, eligibility requirements, and state action to freeze enrollment all contributed to high-risk pools covering only a fraction of the number of people with preexisting conditions. In an attempt to keep costs to the state low, high risk-pools typically had a waiting period before coverage for services associated with a preexisting condition would begin. This meant that coverage for an individual's preexisting conditions – the ailments that required an individual to rely on the high-risk pool – would be unnecessarily delayed.
- **Charge Higher Premiums.** The premiums charged by high-risk pools for insurance coverage were significantly higher than the rates charged in the commercial market. Although states often capped premiums in the pools, the caps were often set at double (or more) of the comparable commercial rates, making the coverage unaffordable for too many people.
- **Operate at a Loss.** Practically all high-risk pools lose money. State high-risk pools operated at loss ratios averaging 181%, meaning that pools paid out $1.81 for every $1 of premiums paid in.

In its final year of operation, the loss ratio of the Pre-existing Condition Insurance Program was 600%, meaning the program was paying out $6 for every $1 of premiums paid. These operating losses compare to the commercial insurance market, where loss ratios are typically around 85%.

- **Require Significant Government Spending or Industry Assessments.** The operating losses experienced by the high-risk pools are typically covered by government spending or assessments on insurers. Assessments on insurers get passed through to an insurer's commercial customers – the same population that is supposed to benefit from the high-risk pools therefore pay for the high-risk pools. When the operating losses are financed by government spending, taxpayers assume responsibility for paying for the coverage.

In summary, high-risk pools are not an acceptable alternative to affordable comprehensive health insurance coverage. After the Affordable Care Act was enacted, states began closing their high-risk funds; the Pre-existing Condition Insurance Program ceased operations as well. The migration of sick insureds from the high-risk funds to the exchanges, state health insurance marketplaces established by the Affordable Care Act, has resulted in better and more affordable coverage for people who are sick, savings for the states who no longer need to prop up high-risk pools with public expenditure, and the elimination of assessments on insurance companies and providers which were necessary to cover pool operating losses. A return to high-risk pools would undo all of these gains and would require a return to coverage denials and discriminatory pricing for individuals with pre-existing conditions.