

Insight on the Issues

Experience Has Taught Us That High-Risk Pools Do Not Serve Consumers Well

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INTRODUCTION

Recent health reform proposals eliminate or weaken the Affordable Care Act's (ACA's) ban on preexisting condition exclusions, and instead turn to high-risk pools to provide health insurance coverage to people with preexisting conditions. This means that insurers in the individual (non-group) health insurance market would—once again—be able to consider a person's health when deciding whether and under what terms to offer coverage—a practice known as medical underwriting.¹ Because people tend to have more chronic health conditions as they age, a return to medical underwriting, coupled with a greater reliance on high-risk pools (described below), would severely undermine older adults' ability to access adequate and affordable individual coverage.²

STATE HIGH-RISK POOLS PROVIDED A WEAK SAFETY NET FOR PEOPLE WITH PREEXISTING CONDITIONS

Over a 25-year period between 1976 and 2009, 35 states established high-risk pools.³ People with preexisting health conditions who did not have access to coverage in the individual market were eligible to purchase health insurance through these state pools.⁴

To cover costs for people with preexisting conditions, state pools charged premiums up to 200 percent of rates in the individual market.^{5,6} In addition to higher premiums, potential enrollees faced other significant access barriers: waiting periods of up to 12 months for coverage related to a preexisting condition,⁷ annual deductibles as high as \$25,000, annual coverage limits

as low as \$75,000,⁸ lifetime limits on services as low as \$1 million to \$2 million,⁹ and limits on specific benefits such as prescription drug coverage and behavioral health services.¹⁰ For most people, the high costs and limited benefits associated with high-risk pool coverage resulted in delayed or forgone care, often causing adverse health outcomes.¹¹

Despite enrollees' high premiums, on average these payments covered only 53 percent of program costs. Consequently, state high-risk pools often operated at a loss.¹² States used various strategies to cover these losses—like assessments on insurers or hospitals, general revenue financing, and limited federal grants¹³—but most were not able to close funding gaps and were often forced to close or cap enrollment. At the end of 2011, state high-risk pools enrolled only about 226,000 people in total, which was a mere 0.6 percent of the total uninsured population in the states where they were operating.¹⁴ Faced with periods of ineligibility, high premiums, and skimpy coverage in high-risk pools, millions of consumers with preexisting conditions remained uninsured or underinsured—paying unaffordable premiums for substandard coverage.

TEMPORARY HIGH-RISK POOLS CREATED BY THE AFFORDABLE CARE ACT FACED SIMILAR CHALLENGES

Similar inadequacies were evident even in the temporary national high-risk pool established under the ACA. Called the Preexisting Condition Insurance Program (PCIP), the temporary high-risk pool was intended to help cover people with preexisting



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conditions until January 1, 2014, when the ACA's health insurance exchanges became operational and the rule barring insurance companies from discrimination based on health status became effective.^{15,16}

Enrollment in this national pool was limited to people who could not obtain coverage in the individual market because of a preexisting condition and who had been uninsured for at least six months.¹⁷ PCIP provided more generous coverage than most state high-risk pools: the program charged people standard market rates, there were no waiting periods for services for people with preexisting conditions, enrollees' out-of-pocket costs were capped at approximately \$6,000, and there were no annual or lifetime limits on covered services.¹⁸

Despite being more generous than state high-risk pools, PCIP had significant limitations. Enrollees did not enjoy the protections that today's ACA Marketplace (or health insurance exchange) plans provide. For example, PCIP plans could charge women more than men, while Marketplace plans cannot. In addition, older adults in PCIP were charged premiums that were four times greater than those imposed on younger people for the same coverage. Consequently, the annual PCIP premium could be very high. One report estimates that a 50-year-old person could face premiums as high as \$12,264 in 2011¹⁹—or more than the annual income of an individual at the poverty level that year (\$10,890). In comparison, plans sold in the ACA Marketplace must, by law, limit the amount they charge older adults to three times more in premiums than younger people for the same coverage.²⁰ This critical protection ensures older adults have access to affordable health insurance coverage.

Even though the federal government appropriated \$5 billion to states to help close the gap between collected premiums and claims, like state pools, PCIP did not have adequate financing to meet the needs of all who qualified for the program. Ultimately, the federal government suspended enrollment as funds fell short.²¹ PCIP enrollment peaked at 115,000 in early 2013.²² Overall, the program covered a tiny fraction (0.8 to 1.6 percent) of uninsured people with preexisting conditions.²³

RELYING ON HIGH-RISK POOLS AS A MAJOR SOURCE OF COVERAGE PUTS MILLIONS AT RISK

The ACA guarantees access to health insurance in the individual market and ended insurance practices that

left many people with preexisting conditions uninsured or with limited coverage before the implementation of the law.²⁴ Proposals to weaken the ACA's insurance protections could negatively affect millions of people with preexisting conditions. An estimated 52 million nonelderly adults²⁵ have a health condition that would make them uninsurable under medical underwriting practices that were common before the ACA. Of these, about 25 million are ages 50–64.²⁶

Current proposals to subsidize high-risk pools fall far short. For example, one recent health reform bill would establish state high-risk pools and allocate \$3 billion over three years to fund them.²⁷ Another recent proposal offered \$25 billion over 10 years to fund them.²⁸ These funding levels are severely inadequate to cover individuals with chronic conditions who were uninsured before the ACA. According to The Commonwealth Fund, it would cost at least \$178 billion a year to adequately fund high-risk pools today²⁹—which is unlikely in the current environment.

The ban on considering preexisting conditions protects people of all ages. It is a particularly important protection for older adults, because as people age, they tend to develop more chronic health conditions.

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