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Comment on S1557 – A Bill to Expand Health Insurance Coverage

Senate Health, Human Services, and Senior Citizens Committee
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Chairman Vitale and members of the Committee, thank you for the opportunity to speak to you today.

I am a professor of public policy at Rutgers University and director of the Rutgers Center for State Health Policy. The mission of the Center is to "inform, support, and stimulate sound and creative state health policy in New Jersey and around the nation."

Today I will draw on an extensive body of research that the Center has conducted assessing public opinion on health reform in New Jersey and evaluating policy options for covering the uninsured. This work was supported by grants from the Robert Wood Johnson Foundation, the Commonwealth Fund, and the federal government.

As you know, the number of people without health insurance has been growing in New Jersey and across the nation for many years. According to the latest Census Bureau data, there are over 1.3 million individuals without coverage in New Jersey. This number includes roughly 12% of children and 19% of non-elderly adults in our state.[i] Most of the uninsured are poor or near-poor, and affordability is the primary barrier to coverage.

The proposed legislation under consideration today tackles the problem of affordability both directly, by extending subsidies to more low-income families, and indirectly through reform of insurance market regulations. My remarks will focus mainly on the market reforms, but I will begin with a few comments about coverage reform more broadly.

Public Support for Reform

The New Jersey public is deeply dissatisfied with the status quo in health care. A Center for State Health Policy poll conducted last summer makes it clear that the public has a deep desire for state government to address the dual problems of health care cost and coverage.[ii] In our poll, 92% of the public agreed that it is "extremely" or "very" important for "New Jersey's government leaders to address the cost of health care and health insurance this year." And nearly as many - 85% - reported feeling strongly that state government should address the "number of New Jerseyans without health insurance." It is rare in public opinion polls to see such broad consensus for government intervention.

The poll also asked about support for specific reforms, including those now under discussion. A large majority of the New Jersey public - 83% -voice support for expanding public programs such as "Medicaid or NJ FamilyCare". When asked about support for

program expansions “even if it meant higher taxes”, a 53% majority of respondents still voice support.

The poll also asked whether the public supports the idea of the State requiring “everyone to have health insurance” with government helping to “pay for those who can’t afford it.” Nearly three fourths of the New Jersey public favors this idea, with about half of those voicing “strong” support. This level of support is higher than reported in a recent national poll, where approximately 63% supported a so-called “individual mandate” (including 38% strongly favoring the proposal).[iii] Moreover, the individual mandate idea garners comparatively little opposition in New Jersey, with only 11% saying they were “strongly” opposed, versus about twice that level of strong opposition nationally.

Health Insurance Market Reform

The bill under discussion today would change the way private health insurance is regulated in New Jersey. The non-group (or individual) market, in particular, presents difficult policy challenges. Enrollment in standard non-group plans has been declining and premiums rising faster than other markets since the mid-1990s. Research at the Center, co-authored with UMDNJ professor Alan Monheit, shows that enrollment in standard non-group plans has become skewed to older, higher-risk individuals.[iv] The dynamics of the non-group market have contributed to the rising proportion of young adults in New Jersey without coverage. In fact, the uninsured rate among young adults has risen faster than other age groups and now approaches one in three.[v]

Current regulations require guaranteed issue and community rating for most plans in New Jersey’s non-group market. Premiums may not be based on health status, age, or other demographic factors. The proposal before you would introduce age rating, allowing rates for the youngest enrollees to be 3½ times below that of the oldest group.

Based on data from 2001 and 2002, my colleagues and I at the Center simulated the effect of age rating in the non-group market. We found that this change would make coverage for young adults much more affordable, but it would increase premiums for older enrollees. As a consequence of lower rates for young adults, enrollment would increase by thousands. For reasons I will discuss in a moment, I believe that our study should be seen as providing an “upper-bound” estimate of the effect of age rating on both enrollment of young people and premiums for older enrollees.

We estimated that age rating with 3½ to 1 rate bands would lead to a premium increase for older enrollees of about 13%, while premiums for young adults would decline by nearly *two thirds*. The enrollment impact of these price changes would be seen in increased enrollment of some 46,000 previously uninsured young adults. We believe that in addition to covering more young adults, age-rating has the potential to bring longer-term stability to the non-group market. Of course, these gains must be viewed in light of the tradeoff of an increased burden of already high premiums for adults in their 50s and 60s.

As I noted, I believe that the premium and enrollment impacts that we predicted should be seen as upper-bound estimates. Changes in the non-group market subsequent to our study likely already caused some of the impacts we predicted. In addition, provisions of the proposed legislation would partially mitigate the unwanted consequences of age rating.

Beginning in 2003 a new type of product has been permitted in the non-group market. This product, called Basic and Essential or "B&E" plans, is age-rated with 3½ to 1 bands and is allowed to have more limited benefits than other non-group plans. As a result of these features, B&E plans are seen as attractive for young persons. As of the second quarter this year, B&E plans had enrolled nearly 23,000 individuals,[vi] roughly half the number we predicted would enroll under age-rating reforms. In light of the introduction of B&E plans, it is likely that further enrollment impacts of market-wide age rating would be less than we predicted and consequent premium increases for older enrollees would also be moderated.

Provisions of the proposed legislation could also mitigate the impact of moving to age rating. The proposal would raise the share of premiums that insurance carriers are required to pay out in medical benefits, by increasing the so-called "minimum loss ratio" from 75% to 80%. This provision could soften the impact of age rating, at least for some carriers. Other provisions in the proposal would encourage a more competition among carriers and impose a temporary limit on annual premium increases for current enrollees.

I believe that the proposed plan would go a long way toward correcting problems in the non-group market. There are other policy ideas that have considerable merit as well. These involve merging the non-group and small-employer risk pools and adding a reinsurance program to these markets.

A study commissioned by the New Jersey Department of Banking and Insurance estimated that merging the non-group risk pool into our current small-employer coverage market would permit a move to age-based rating with no premium impact on older non-group enrollees. [vii] New Jersey's small-group market, while expensive, has remained robust with trends that compare favorably with national statistics. A merger would bring more stable and affordable premiums to non-group enrollees. However, such a merger would have a small impact on small-employer premiums, on the order of a 1% increase according to the Department Banking and Insurance.

Another option for bringing stability and improving affordability in our regulated health insurance markets is known as "reinsurance". Under a universal reinsurance program, a portion of the cost of care for high-cost individuals would be financed though a new pool. Such a program would not require anyone to change plans, but would stabilize or reduce premiums for those covered in the reinsured markets, including the great majority that does not have catastrophic expenses. Most analysts believe that to gain the full benefits of a reinsurance program, it should be financed broadly. While finding new state revenue to pay for a reinsurance program may not be an option this year, reinsurance is an attractive policy alternative that could be considered as part of comprehensive reform in the future.

Public Opinion on Market Reform

The Center's public opinion poll suggests that New Jerseyans have egalitarian instincts when it comes to regulating health insurance. For instance, less than 10% favors permitting insurance companies to charge more to older enrollees. And a large majority (80.5%) says that insurers should be prohibited from charging higher premiums to people buying insurance on their own compared to what small businesses are charged for the

same coverage. When viewed in light of these equity considerations, there is much for the public to favor in merging the non-group and small-employer risk pools.

Conclusion

In the early 1990s, New Jersey was on the cutting edge of health insurance market reform, embracing what were then bold ideas – guaranteeing that everyone have access to private coverage regardless of their health and seeking to establish robust markets with broad risk pools. Now, more than a decade later, we have learned much about which of these reforms have worked well and which have not.

Our greatest challenge today is improving affordability of coverage for everyone. The proposed legislation tackles this challenge by extending public subsidies to more families that could never afford private premiums and by modifying regulations to strengthen private health insurance markets. While there are tradeoffs to be made, on the whole, I believe that the reform package you are considering offers sound strategies for moving forward and our poll shows that the public is largely on-board.

Thank you for your time, and I would be happy to address any questions you may have.

NOTES

[i] For state-level estimates of the uninsured, see http://www.statehealthfacts.org/comparebar.jsp?ind=130&cat=3.

[ii] Cantor JC, SB Brownlee, C Zukin, and M Koller. *New Jersey Health Care Opinion Poll*, New Brunswick: Rutgers Center for State Health Policy, October 3, 2007. http://www.cshp.rutgers.edu/Downloads/7650.pdf.

[iii] For national data see, Kaiser-Harvard, *The Public's Health Care Agenda for the New Congress and Presidential Campaign*, 2006.

[iv] Monheit AC, JC Cantor, M Koller, and KS Fox, "Community Rating and Sustainable Individual Health Insurance Markets in New Jersey." *Health Affairs.* 23:4(July/August 2004)167-175.

[v] Belloff, D. *Field Report: New Jersey's Small Employer Health Benefits Program.* Presentation for the Rockefeller Institute for Government at SUNY-Albany. April 9, 2009. http://www.cshp.rutgers.edu/Downloads/7700.pdf.

[vi] Enrollment data available at http://www.state.nj.us/dobi/division_insurance/ihcseh/enroll/2q07historical.pdf .

[vii] Belloff, op. cit.