

Covering the Uninsured – Government Reinsurance to Increase Access to Private Health Insurance

Katherine Swartz, Ph.D.

Harvard School of Public Health

Center for State Health Policy, Rutgers University

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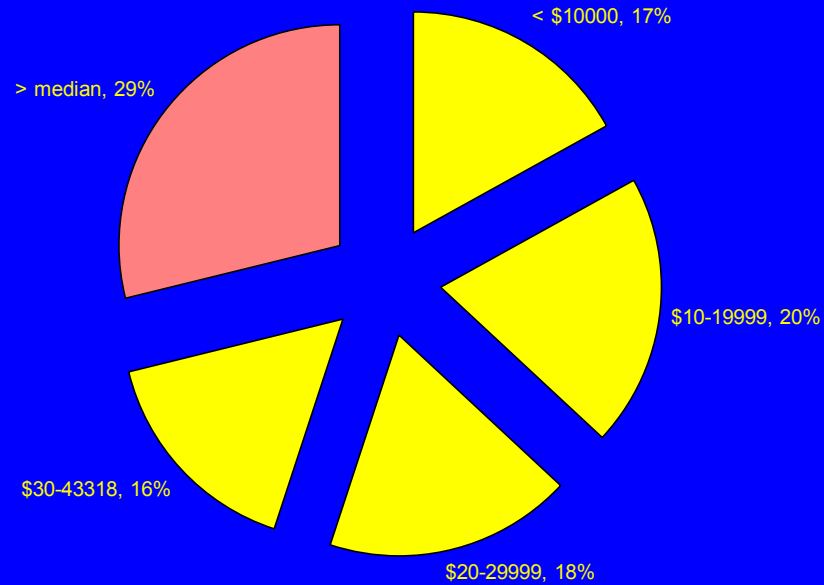
Outline of Presentation

- **Changes in who lacks health insurance in the US – why being uninsured is a middle-class problem**
- **How health insurance markets work – how insurers compete**
- **Proposal that government act as reinsurer**

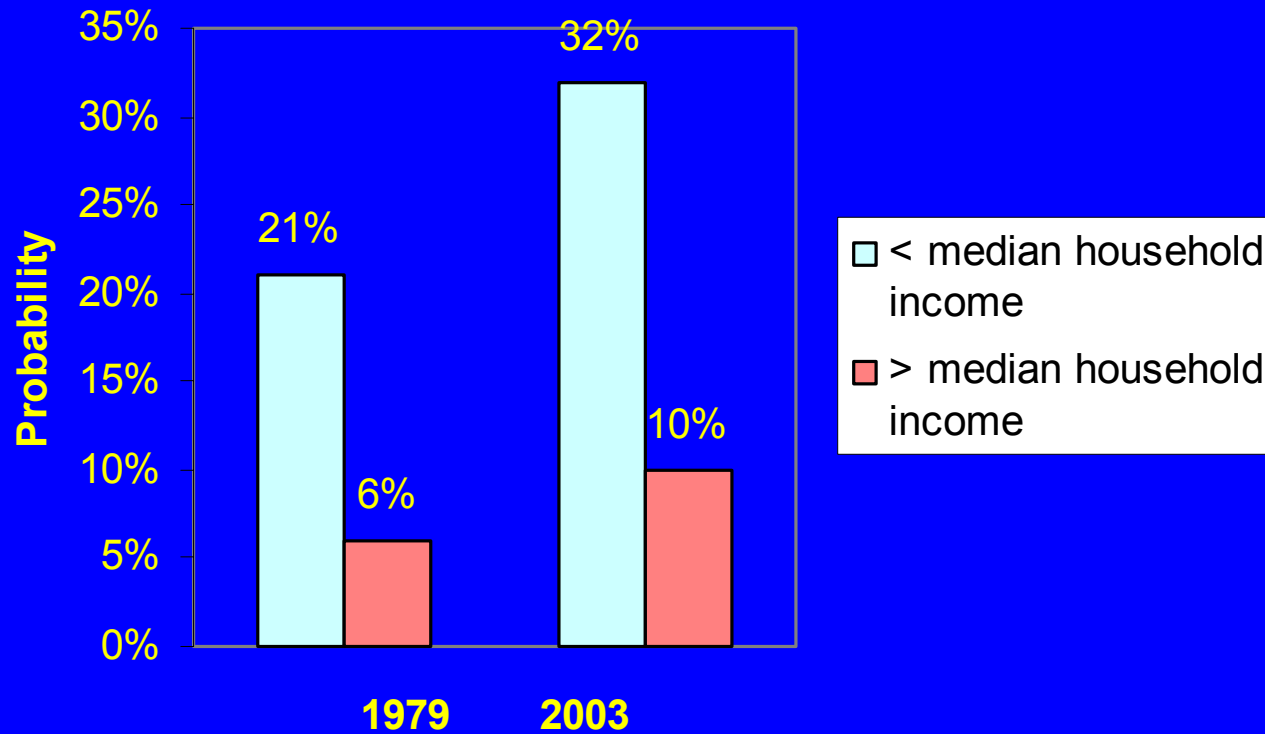
Who Lacks Health Insurance?

- **45 million Americans in 2003 – 1.4 million more than year before, almost all of whom lost employer-based coverage**
- **13 million (30%) had middle-class incomes**
- **Poor and near-poor need government help; focus today on middle-class**

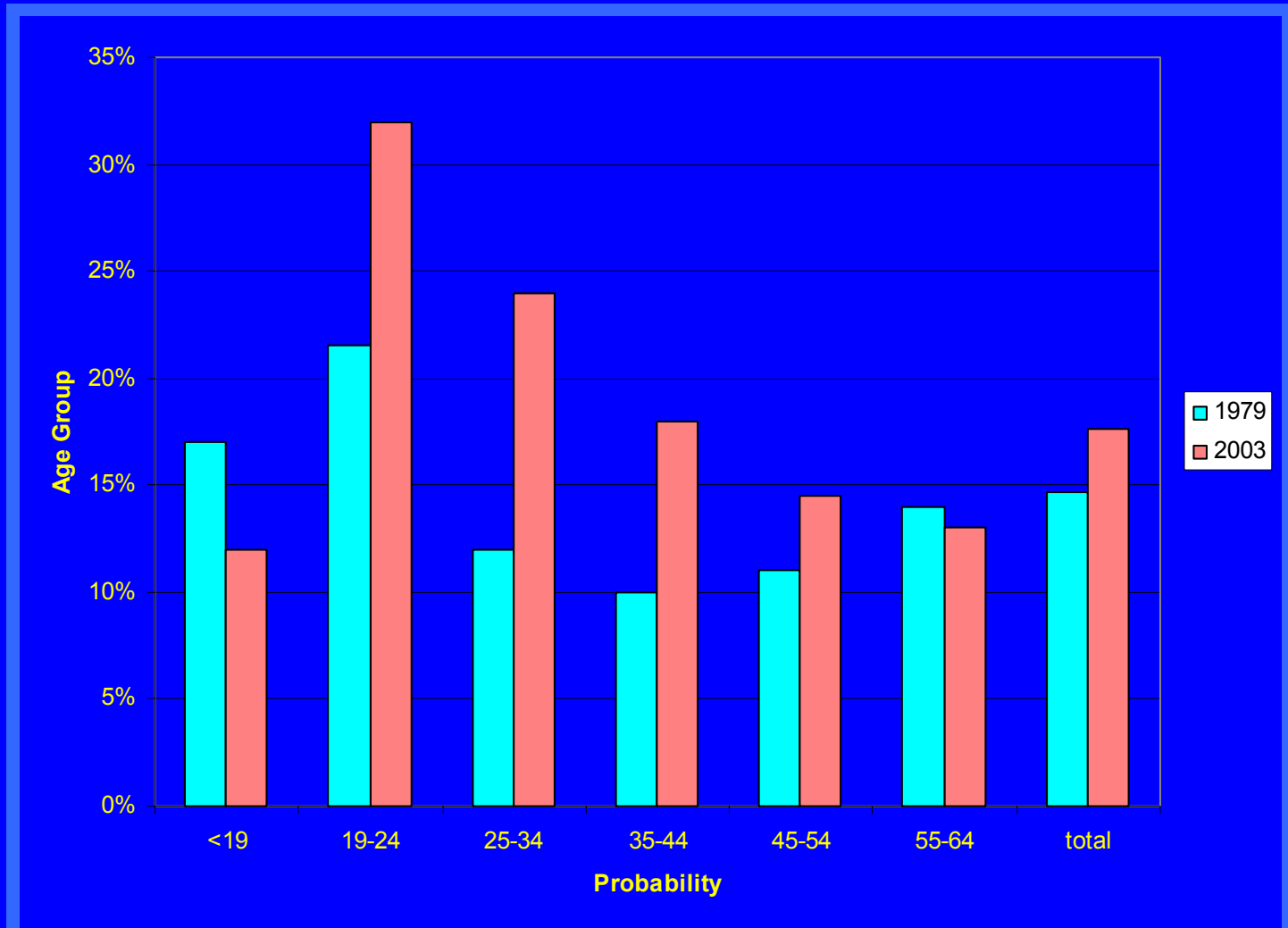
Income of Uninsured, 2003



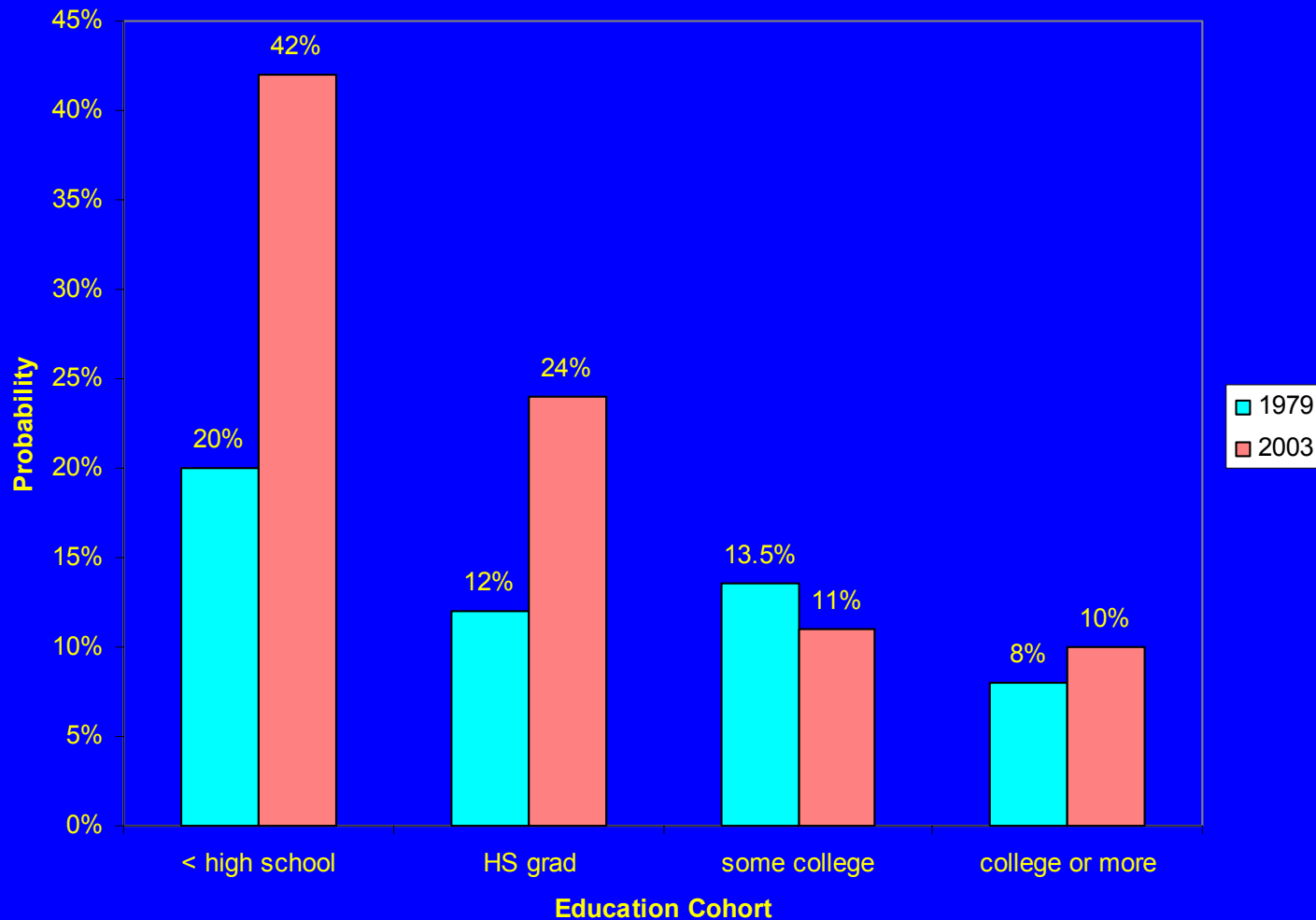
Probability of Being Uninsured by Middle-Class Income for Adults, 1979 and 2003



Probability of Being Uninsured by Age, 1979-2003



Probability of Being Uninsured by Education, 1979-2003



Changes in Economy

- **Manufacturing to service jobs – manufacturing dropped from 22% of all jobs to 11% since 1979**
- **% of private sector workers in firms with < 50 employees increased from 37% to 43% between 1979 and 2002**
- **Changes in employer-employee relationships – cost of health care an incentive**

Rising Costs of Health Care

- **More alternatives for treating illnesses and conditions now compared to 25 yrs ago**
- **Per capita health care expenditures rose from \$1,067 in 1980 to \$5,440 in 2002**
- **Health insurance costs an incentive to use more temporary and contract workers**

Implications of Changes

- **Increasingly a middle-class problem due to changes in economy and employer-employee relationships**
- **We're not going back to old economy**
- **Need to increase access to small group and individual insurance markets**

Access: Affordability and Availability

- **Higher premiums per person
(\$200/month - > \$1,000/month)**
- **Denials of coverage or exclusions for services**

Premiums Higher in Small Group and Individual Markets

- **Premium = expected costs + loading fee**
- **Loading fee = administrative, marketing costs + payment for bearing risk**
- **Economies of scale in administrative and marketing activities**
- **Risk of extreme expenses is greater than in large groups**

Competition in Small Group and Individual Markets

- **Lack of perfect information causes insurers to fear 2nd risk: adverse selection**
- **Competition in terms of how best to avoid risk or to charge higher premiums for expected higher risk**

Forms of Competition

- **Market segmentation**
 - Companies specialize
- **Selection mechanisms**
 - Medical underwriting
 - Refusal to issue a policy
 - Exclusion of coverage for pre-existing conditions
 - Many policies with different covered benefits

Policy Options

- **Low-Income:** Provide expanded Medicaid and SCHIP type programs– they cannot afford to buy private coverage
- **Middle-class:** Address insurers' concerns with risk

How to Address Risk Concerns

- **Compensate insurers for covering people with extremely-high costs – keep insurers in market**
- **Shift burden of extremely-high-costs from insurers' low-cost enrollees to broad population base**

Government-Sponsored Reinsurance

Reinsurance Basics:

- Insurance for insurers
- Sold as layers of coverage
- Cost-sharing between reinsurer and originating insurer → originating insurer retains portion of risk
- Excess-of-loss reinsurance aligns incentives to reduce selection

Government as Reinsurer for Very-High-Cost People

- **Less incentive for carriers to risk select since ex post determination of who is very-high-cost**
- **Broader population base pays for costs of very-high-cost people**
- **Incentive for management of care of high-cost people**
- **Premiums decline → implicit subsidy**

Concentration of Expenditures, 1996 MEPS

<u>Percent of Pop Ranked by Exp Threshold</u>	<u>% of Aggregate Expenditures</u>	<u>Expenditure</u>
Top 1%	27.9%	\$27,620
Top 2%	38.6	\$18,568
Top 5%	55.9	\$ 8,169
Top 10%	69.7	\$ 4,225
Top 20%	83.5	\$ 1,920

Source: Monheit, Medical Care, July 2003, Table 1

Precedence for Government Assumption of Risk of Very High Costs

- **Catastrophe insurance and reinsurance – National Flood Insurance Program; FEMA; Terrorism Risk Insurance Act of 2002**
- **Secondary mortgage market**
- **Earlier attempts to have federal reinsurance for health insurance: 1954, 1979**

Healthy New York Relies on Reinsurance

- HNY for low-income workers and small firms with low-wage workers
- Reinsurance “layer” lowered; state pays 90%
- More than 66,000 enrollees in Aug 2004; more than 100,000 since 2001
- Premiums less than half of nongroup

Summary and Policy Implications

- **Many low-income uninsured but changes in economy have caused increasing number of middle-class to be uninsured**
- **Insurance markets not fully accessible due to adverse selection fears**
- **Government as reinsurer will permit private insurance to continue as base of insurance system**