

## Small Business Prescription for National Healthcare Reform

### Insurance Reform

For many people, insurance reform is at the heart of comprehensive healthcare reform. In the current system, affordable coverage is not available to everyone, especially small businesses and individuals who aren't affiliated with an employer group. Specific problems include:

- In most states, insurers are allowed to deny coverage to individuals based on their health status. As a result, many of the nation's 21 million sole proprietors—whose only option is the individual health insurance market—can't get coverage at all because they have significant medical conditions.
- Many health insurance policies exclude coverage for preexisting conditions.
- In many states, insurance premiums may take into account the health status or claims experience of small groups. As a result, premiums for some small employers are very high and volatile.

### Our proposal for insurance reform

There are three key elements of insurance reform in the context of comprehensive healthcare reform:

- *Insurers will not be allowed to deny coverage based on medical screening, i.e., there will be **guaranteed issue** of health coverage.*
- ***Everyone will be required to obtain health insurance.***
- ***Financial assistance*** will be provided to low-income people using a sliding scale formula that gradually reduces the subsidy as income rises up to 400% of the Federal poverty level. There will be a limit of 10% of income that a person or family must pay for health coverage.

Other elements include the following:

- *No exclusion of coverage for preexisting health conditions*
- *Health insurance rating rules that prohibit adjustments for health status or claims experience. Adjustments will be allowed only for age (2:1 maximum ratio), family composition, geography, and actuarial value. In the long run, age variations should be gradually phased out.*
- *In the individual and small group market, a limit on the benefit plans offered to three to four standardized benefit plans; a requirement for all insurers to offer all of these benefit plans, and rating rules to ensure that premiums are based on the actuarial differences between the benefit plan options rather than the experience of the separate pools*
- *A mechanism for risk equalization to protect insurers from adverse selection*
- *A transition plan to lessen the rate shocks that might occur if the new insurance rating and benefit regulations were implemented immediately*
  - *The merging of the markets for individuals and "micro-groups" (ten or fewer employees)—i.e., the implementation of common insurance regulations—will take*

*effect within two years of enactment of the legislation. The application of common insurance regulations for larger groups (11-50) will take effect one year later.*

- *Note: Application of some of the new insurance regulations to larger groups (51+) will be considered in future years.*
- *People with current health coverage in the individual and small group market may keep their current plans for two years after this legislation is enacted.*
- *New rating rules will be phased in over two years, e.g., gradually compressing the rate bands to reduce the differences in premiums between young and old enrollees.*
- *The secretary of the Department of Health and Human Services may grant time-limited exceptions to the implementation schedule in cases of individual hardship, such as lack of affordable health plan options for low-income people (below 150% of federal poverty guidelines) or to avoid a forced change of health plans during the course of treatment for a serious acute health condition.*

## Rationale

The foundation of insurance reform is **guaranteed issue**, i.e., the elimination of medical screening for coverage. If this element is not included, reform efforts will fall short of the goal of offering coverage for all Americans. Implementing guaranteed issue, however, is not as simple as it might seem. In the current market, people have the option of buying or not buying coverage, i.e., it is a voluntary market. While this sounds appealing, the combination of guaranteed issue and voluntary participation creates serious problems. In this situation, many healthy people will choose not to buy coverage; as a result, the remaining insured pool will be relatively sick (and expensive) compared to the general population. This will drive up the rates, causing more healthy people to drop coverage, thereby making the insured pool even less healthy and more expensive in comparison. This is the classic “death spiral” created by adverse selection.<sup>1</sup> There are many examples of this in recent history, including experiments with guaranteed issue with a voluntary individual market in Massachusetts and Washington.

In order to prevent the problem of an adverse selection death spiral, a second element of insurance reform is a **requirement for everyone to obtain health insurance**. In other words, people will not be able to opt out of the system. This requirement is needed to ensure that the pool of insured people has a balanced risk profile. The pool will include healthy as well as sick people, it will not “deteriorate” (i.e., become more and more expensive) over time, and the costs will be more predictable. In addition, a requirement for everyone to obtain health insurance is consistent with the principle of shared responsibility among everyone—employers, insurers, providers and government—to step up to solving our nation’s healthcare problem.

Creating this requirement, however, causes additional challenges and problems:

- First, the requirement must be effectively enforced. Allowing too many people to avoid the requirement would create a semi-voluntary system that would lead to the adverse selection death spiral described above. A variety of enforcement mechanisms have been proposed<sup>2</sup> and would probably be reasonably effective.
- While it seems appealing to expect everyone to buy insurance, this would be a severe financial burden for many people. While Medicaid covers many who are very poor (generally below 100% of the federal poverty level), there are many more low- and moderate-income people who are not eligible for Medicaid.

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<sup>1</sup> *The Impact of Guaranteed Issue and Community Rating Reforms on Individual Insurance Markets*, Milliman, Inc. (August 2007).

<sup>2</sup> Sherry A. Glied, Jacob Hartz, and Genessa Giorgi, “Consider It Done? The Likely Efficacy Of Mandates For Health Insurance”, *Health Affairs* 26, no. 6 (2007): 1612–1621; 10.1377/hlthaff.26.6.1612.

The affordability problem leads to the third essential part of insurance reform: **financial assistance for low-income people**. Part of this can be accomplished by expanding eligibility for Medicaid, but more needs to be done to provide support for other low-income people. If public funds are not sufficient to provide adequate subsidies to meet this goal, it will be necessary to allow financial hardship exemptions from the requirement to get health insurance.

The **transition** to the new system and structure must be managed to minimize rate shocks and other disruptions. States currently have a wide variety of insurance regulations (rating, benefit design, medical screening, etc.), resulting in very different markets in different states. In addition, the insurance regulations for individuals and small groups within a state are usually different. (For example, most states allow medical screening and age rating in the individual market but not in the group market.) In these states, applying the same insurance rules—in effect, merging the individual and small group markets in the exchange—would create major disruptions. Some kind of transitioning makes sense, but small businesses and individuals face serious problems now, and they need relief as soon as possible.

### **The impact on small businesses**

Small Business Majority believes that insurance reform is an essential element of comprehensive healthcare reform and will provide significant benefits for small businesses.

- Guaranteed issue will enable the self-employed to get coverage, even if they have significant medical conditions.
- A requirement for everyone to have insurance may increase costs for those who currently choose not to buy coverage, but it will benefit the entire market by creating a stable insurance pool.
- Financial assistance will enable low-income small business employees and self-employed people to buy insurance coverage.
- Other rating and benefit rules will keep premiums affordable and reduce the volatility of rate increases.