ANALYSIS OF HOUSE BILL 2362

Increasing access to individual and small group health insurance.

SPONSORS: Representatives Cody and Kastama

BACKGROUND: Most people in Washington who receive their health insurance through the private market do so through their employer in what is referred to as the group market. However, those who are self-employed, or who are not provided coverage by their employers, must get insurance in the individual market. Approximately 200,000 - 250,000 state residents are currently insured through the individual market. There are also approximately 600,000 people without health insurance in the state for whom the individual market could potentially be a source of insurance.

Health plans in the individual market are governed by a set of state standards, many of which have been placed in statute or adopted in administrative rule since 1992. Among these are laws which: (1) prohibit a person from being denied enrollment in any individual health plan, regardless of his or her health status; (2) allow carriers to impose no more than a three-month waiting period for the coverage of any preexisting condition; (3) require that, under certain conditions, these waiting periods be waived for persons moving between plans; and (4) guarantee that once a person enrolls in a plan, that plan, or one with similar benefits, will be available to them on an on-going basis.

Health carriers are also required by law to include certain benefits in any health plan that is sold. In general, maternity services and prescription drug benefits are not among those items which state law mandates be covered. However, any carrier which offers coverage in the individual market must offer at least one plan modeled after the state's basic health plan. This plan does include maternity services and prescription drug benefits.

The premiums charged for individual health plans are also governed by state law. In general, it provides that the benefits be reasonable in relation to the amount charged.– In applying this standard to health maintenance organizations and health care service contractors, the Insurance Commissioner reviews requests for rate increases and disapproves those where the rate is based on a loss ratio– (the percentage of premiums paid out in medical claims) of less than 80 percent. For disability insurers, the loss ratio standard is 60 percent. Rate denials may be appealed, but such appeals are handled through an internal appeals process, not by the Office of Administrative Hearings.

Between 1993 and 1995, enrollment in the individual market expanded by 40 percent. At the end of this period, however, carriers began reporting significant losses in the individual market, and individual market rates, which were relatively flat initially, began increasing. In September, 1999 the three major carriers that remained announced they would no longer offer individual health insurance in thirty-one of Washington's thirty-nine counties.

The Washington State Health Insurance Pool (WSHIP) was created in 1988 to provide a fee-for-service health

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insurance product at 150 percent of average rates for individuals who had been denied substantially equivalent– coverage by a carrier, usually because of serious medical conditions. In 1997, WSHIP was directed to develop a managed care product to be available at 125 percent of average. However, because coverage can no longer be denied by carriers, WSHIP has been essentially dormant since 1993. It now provides coverage to approximately 800 people, most of whom receive a Medicare supplement policy. Any new entrants into the pool are subject to a three-month preexisting condition waiting period.

WSHIP is administered by a private insurer according to state specifications and is partially subsidized through an assessment on insurers. A board of directors, comprised mainly of insurance carriers, oversees its operation.

The Washington Basic Health Plan (BHP) is a state-sponsored health insurance program for any Washington resident who is not eligible for Medicare and not institutionalized at the time of enrollment. Every enrollee pays a monthly premium based on income, age, family size, and the health plan they choose. The state helps pay part of the premium for members who meet income guidelines.

The BHP is administered by the state Health Care Authority (HCA). It solicits bids from private health carriers to cover both subsidized and non-subsidized enrollees. Currently, there are about 127,500 persons whose enrollment in the BHP is subsidized, and 8,400 persons whose enrollment is not.

The enabling statute directs the BHP to provide coverage though contracts with managed care health systems,– defined to include organizations that provide health care services on a prepaid capitated basis. The HCA is not authorized to self-insure the BHP.

SUMMARY: The standards governing health benefit plans in the individual market are changed as follows:

New individual enrollees must be meet a six-month preexisting condition waiting period.

Individuals moving between group care plans have full portability, with credit against preexisting conditions waiting periods for prior creditable coverage with more than a ninety-day gap in coverage.

Individuals moving between individual care plans have full portability, with credit against preexisting conditions waiting periods for eighteen months of prior creditable coverage with more than a ninety-day gap in coverage for eligible individuals– as defined in federal law.

Once enrolled in a health plan, a person must be allowed to renew coverage in that plan, or, if that plan is discontinued, in the standard health plan most comparable to the discontinued product.

The requirement that health carriers in the individual market offer the BHP model plan is removed.

For purposes of establishing rates, a loss ratio standard of 80 percent is set in statute. Carriers are allowed to charge rates in the individual market as long as they are targeted to this loss ratio. If, in the following year, it is determined that the carrier's actual loss ratio was lower than the loss ratio standard, the carrier must refund the difference, plus interest, to policy holders.

The Washington State Health Insurance Pool will develop five standard health plans for the individual health insurance market. After July, 2001 every health carrier offering individual health insurance plans will offer all five standard health insurance plans.

Every health carrier will offer all standard health plans and be eligible for subsidies for losses, not offer the standard health plans and pay assessments to fund subsidies to other carriers, or offer the five standard plans,

not seek subsidies, and not be subject to assessments.

Premiums for the five standard health plans will be 100 percent of the average rate for that standard plan in the private market. Discounts to the rate charged by the pool are provided to individuals over age 55 with a family income below 300 percent of the federal poverty level.

In addition to health carriers, stop loss insurers are added as members of the pool against whom assessments are made to cover the pool's losses.

The pool board of directors is reconfigured to include a total of 11 members, six of whom are appointed by the Governor and five of whom are appointed by the carriers. The insurance commissioner is a nonvoting member.

The requirement that the BHP be delivered on a prepaid capitated basis is removed.

The BHP is to continue to give priority to prepaid managed care as the preferred method of assuring access. The use of a self insured, self funded option is limited to the subsidized BHP enrollees and only if: (1) it is necessary to meet accessed needs; (2) funding is available in the BHP self insurance reserve account; and (3) other options to address access needs of subsidized enrollees are not feasible.

The Health Care Authority is explicitly authorized to self-insure the Basic Health Plan. A Basic Health Plan self insurance reserve account is created and rules governing its operation are established.

The Joint Legislative Audit and Review Committee will submit recommendations to the Legislature on or before October, 2002 on the need for the pool to continue providing individual health insurance coverage for individuals in Washington.