Colorado's Resource for Objective Health Information

ISSUE BRIEF

COLORADO'S HIGH-RISK POOL:

Small but important part of the health insurance market

In the individual market, many Coloradans lack access to health insurance because of a pre-existing medical condition. Carriers either reject these individuals outright or offer a limited set of benefits at premium rates that are unaffordable to all but a few. As a result, these individuals are deemed "uninsurable" in the individual health insurance market and make up an important segment of Colorado's 768,000 uninsured residents.

Thirty-three states, including Colorado, operate a high-risk pool for individuals underwritten out of the individual insurance market. High-risk pools are state-established, subsidized health insurance plans that serve a small niche of people who have no other insurance option. High-risk pools can stabilize the individual health insurance market by providing an alternative insurance source for people with extensive medical needs and expenses due to a chronic medical condition. In most states, a nonprofit organization or instrumentality of the state administers the high-risk pool.

Nationwide, approximately 180,000 people participate in high-risk pools. Enrollment ranges from almost 33,000 in Minnesota to just over 100 people in Iowa, with roughly 5,000 enrollees in Colorado's high-risk pool, CoverColorado.

Eligibility

Enrollees generally fall into one of three eligibility categories: (1) individuals who are uninsurable due to a pre-existing medical condition; (2) individuals who are guaranteed individual coverage under the federal Health Insurance Portability and Accountability Act (HIPAA); and (3) individuals who are enrolled in the Medicare program.

1. *Uninsurable individuals* constitute the largest percent of enrollees in most states. High-risk pool administrators require individuals to provide proof of rejection of health insurance coverage or proof that they can obtain coverage but only at a cost that exceeds the pool's premium rates. For this group, almost all states impose a waiting period that ranges from three to 12 months for pre-existing conditions depending on prior coverage.

   Individuals with permanent disabilities and who become eligible for Social Security Disability benefits (SSDI) are an important subset of the uninsurable population. SSDI beneficiaries have a waiting period of 29 months before they become eligible for Medicare coverage. By definition, these individuals are uninsurable in the individual insurance market. For SSDI beneficiaries, high-risk pools constitute one of only a few available options for health insurance until their Medicare coverage begins.
2. *HIPAA* guarantees individual coverage for individuals who lose group coverage and had health insurance for the previous 18 months without a significant gap. States use high-risk pools to meet the federal requirements under HIPAA and waive any waiting periods for HIPAA enrollees.
3. *Medicare beneficiaries* with predictable medical expenses often will purchase supplemental coverage (i.e., Medigap) to better manage their deductibles and co-payments under Medicare. In some cases, a state's high-risk pool is a Medigap option. CoverColorado does not currently provide a Medigap policy but is considering adding one to its policy options in the near future.

Funding mechanisms

High-risk pools are subsidized by the state because the individual premiums collected do not cover claims paid out. States with high-risk pools use a variety of funding mechanisms to cover the cost difference between paid claims and premiums charged. In general, states use three sources of funds to maintain solvency in a high-risk pool: (1) individual premiums, (2) state funds and/or (3) assessments on insurance carriers.

1. *Individual premiums* - Typically, premiums provide 50-60 percent of the revenue needed to pay claims and

administer a high-risk pool. Premiums are set above the individual market average and are capped, usually between 125-200 percent of the average individual market premium in the state. States with lower premiums have broader enrollment, but require greater subsidization. Even with a cap, high premiums are the biggest barrier to enrollment in a high-risk pool. As a result, a handful of states, including Colorado, offer subsidies to help low-income individuals offset the cost of high premiums. Currently, about 1,200 of Colorado's 5,300 enrollees receive a premium subsidy. An additional 1,500 individuals are slated to receive a low-income subsidy in 2007.

2. *State funds* - Most states provide general fund dollars or other earmarked funding sources available within the state budget. It has been suggested that earmarked funds provide a more stable source of funding than the general fund because they are less vulnerable to state revenue fluctuations.

3. *Assessments* - Most states with a high-risk pool impose an assessment on insurance carriers doing business in the state. The assessment typically is based on the carrier's annual share of premiums collected or the number of people covered. The federal Employee Retirement Income Security Act prohibits states from imposing a premium assessment on self-insured plans based on share of premiums. These self-insured plans typically account for a large proportion of a state's employer-sponsored insurance market. To deal with this restriction, some states impose an assessment based on covered lives rather than premiums collected. This approach allows states to include all insurers and stop-loss carriers that sell reinsurance policies to self-insured plans. States using this approach can spread the assessment over a larger base of insurers and thus decrease the amount levied against any one carrier.

4. States also use a variety of *cost-sharing mechanisms* such as co-payments, deductibles and out-of-pocket maximums to control premium costs. Co-payments vary according to whether enrollees use an in- or out-of-network provider associated with their selected health maintenance organization (HMO) or preferred provider organization (PPO). Deductibles range from $1,000-$10,000, while lifetime maximums generally vary from $500,000-$2 million.

Federal assistance

The 2002 federal Trade Adjustment Assistance Reform Act established federal funding for state high-risk pools to expand coverage to more uninsured individuals. Congress appropriated $20 million in FY2003 to help states establish new high-risk pools. In 2003 and 2004, Congress appropriated $40 million in grants each year for states with qualified high-risk pools. While the purpose of the grants was to expand coverage to a specific group of workers, the majority of states used the grants to pay claims and reduce the amount of subsidy needed to cover their losses. The grant program expired in 2004, but recently passed legislation extends the grants through 2010 and increases funding to $75 million per year, plus $15 million to help new states establish a high-risk pool.

The Trade Act also established the federal Health Coverage Tax Credit to provide health care premium assistance to certain displaced workers and individuals who participated in corporate pension funds but lost these benefits and now receive payments from the Pension Benefit Guaranty Corporation. The federal government pays 65 percent of the cost of their premiums in the form of a tax credit. Individuals can use the tax credit to pay for COBRA (an extension of workers' group health benefits for limited periods of time under certain circumstances), spousal coverage or, in states such as Colorado, state high-risk pool premiums.

Comparing state high-risk pools

The following table highlights certain elements and financing mechanisms of high-risk pools for select states compared to Colorado. While no two high-risk pools are alike, the chart illustrates how states have designed their high-risk pools to reflect their health insurance markets.

High-Risk Pools in Select States

Financing	Eligibility	Cost Sharing	Waiting Period/ Condition Period
COLORADO Enrollment: 5,300[1] – Premium Cap: 150%			
1. Premiums 2. Assessment of insurance carriers on a per-covered-life basis 3. Allocation from state Unclaimed Property Fund 4. Premium tax credit ($5 million limit per year)	1. Permanent resident for prior 6 months 2. Must have applied for insurance and: • *Application was rejected, or* • *Has one of 32 medical conditions* • *Application was accepted but with higher premium than high-risk plan, or* 3. HIPAA eligible or transferred from another pool and applied within 30 days; residency waived 4. Eligible according to federal Trade Act	• Variable co-pay • $1,000-$10,000 deductible • $1 million life-time maximum	6 months/ 6 months for individuals applying, found eligible, but who did not have coverage by a bona fide health plan for previous 90 days
MARYLAND Enrollment: 5,078 – Premium Cap: 150%			
1. Premiums 2. Assessment on hospitals (built into hospitals' charges)	1. Refusal of coverage due to a health condition or premiums higher than the risk pool due to a condition 2. HIPAA eligibility 3. Eligible for Trade Act coverage 4. Transfer from another high-risk pool	• 80/20 in-network, 60/40 out-of-network co-pay • $500-$1,000 individual, $1,000-$2,400 family • $2 million life-time maximum	None/None
MINNESOTA Enrollment: 32,959 – Premium Cap: 125%			
1. Premiums 2. Assessment on insurance company association members; no tax offset 3. Periodic state funding	1. Permanent resident for 6 months 2. Refused coverage or had benefits reduced within last 6 months due to health reasons 3. Treated for presumptive condition within last 3 years 4. 65 years or older and not eligible for Medicare 5. Eligible according to HIPAA 6. Eligible according to federal Trade Act 7. Two Medicare supplement plans: Basic and Extended Basic	• 20% copay in-network, 30% out-of-network with additional charges • $500-$10,000 deductible • $2.8 million life-time maximum	6 months/90 days
OREGON Enrollment: 9,885 – Premium Cap: 125% or 100% for HIPAA			
1. Premiums 2. Assessments on reinsurers and insurers on a per covered-life basis; no tax offset 3. Initial $150,000 assessment to reinsurers/insurers for start-up 4. Interest accrued on reserves	1. Permanent resident of Oregon; must apply for transfer credit from another risk pool within 63 days of prior coverage expiration 2. Refused coverage or had coverage terminated for health reasons 3. HIPAA eligibility: Covered under employer-provided plan for 180 days and ineligible for portability on this plan because of service area limitations; must have exhausted COBRA or moved to Oregon and previously insured for at least 18 months by group carrier	• 80/20 copay • $500-$1,000 medical, $100-$1,000 drug deductibles • $1 million life-time maximum	6 months/ 6 months

[1] As of 11/2006 per conversation with Barbara Brett, Executive Director, CoverColorado.

Financing	Eligibility	Cost Sharing	Waiting Period/ Condition Period
TEXAS Enrollment: 25,925 – Premium Cap: 200%			
1. Premiums 2. Assessments on insurance company association members; no tax offset	One or more of these criteria is necessary: 1. Legal resident under 65 and: • *Maintained coverage for 18 months prior to application with no gaps >63 days* • *Transferring from another state's HIPAA plan* 2. Legal resident of Texas for 30 days and citizen or permanent resident of United States for 3 continuous years, and: • *Rejected for coverage due to health reasons, or* • *Inability to get similar coverage due to health reasons, or* • *Offered insurance but condition has been excepted, or* • *Offered similar insurance with a higher premium, or* • *Diagnosed with qualifying condition*	• 80/20 copay • $500-$5,000 deductible • $1.5 million lifetime max	12 months/ 6 months
WISCONSIN Enrollment: 18,341 – Premium Cap: 200%			
1. Premiums (60%) Assessments on insurance companies in Wisconsin (20%) 2. Discounted payments to health care providers (20%) [60/20/20 required by law]	1. Be under 65 (some exceptions) and also: • *Covered by Medicare because of disability, or* • *Tested positive for HIV, or* • *Eligible according to HIPAA, or* • *Rejected or dropped by one or more insurers, or* • *Had coverage reduced, or* • *Had premiums raised by 50% or more (unless increase applies to "substantially all" insurer's policies), or* • *Notified that insurer applied to increase premiums, but increases not yet in effect* 2. Medicare Supplement Plan	• 80/20 of next $5,000, then 0% after that co-pay • $500-$2,500 deductible • $1 million lifetime max	6 months/ 6 months

Source: B. Abbee. 2005. *Comprehensive Health Insurance for High-Risk Individuals, 2004/2005*. Communicating for Agriculture.

Compiled by Colorado Health Institute, 2006.

Other sources:
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