



Center for Health Transformation
Better health, lower cost

Insuring All Georgians By Improving Cost and Access to Individual Health Policies

Center for Health Transformation

David Merritt
Project Director

Ronald E. Bachman FSA, MAAA
Senior Fellow

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Summary

1. The 2004 Kaiser Family Foundation study found the dollar cost for the United States to be \$125 billion for 2004 with 44 million citizens uninsured.
2. About sixteen (16%) of the Georgia population is uninsured at any point in time.
3. Effective 1/1/04, there is a new and immediate potential for Georgia to address the uninsured through expanded and affordable individual HSA eligible HDHPs. HSAs are ideal for individual health policies. Amounts contributed to HSAs are (1) not taxable income, (2) accumulate tax free, and (3) spent tax free when used for qualified medical expenses.
4. There is a national movement underway to create individual portable health insurance as an alternative to traditional employer-based healthcare. President Bush's proposals for affordable healthcare reflect this movement by relying heavily on Health Savings Accounts (HSAs), federal subsidies and tax credits of up to \$3000 per family, and a more competitive marketplace for products and services from more insurers.
5. Georgia can prepare to follow the lead of an aggressive national proposal by President Bush. The challenge for Georgia is readiness and supportive policies and programs to take advantage for the President's plan for affordable health care.
6. Individual health insurance can be made more affordable, portable so that it transcends the traditional employer-based system, and valuable with significant coverage that provides security needed to protect a family's financial status. For Georgia this would mean lowering the uninsured from 16% to about 3%.
7. Forty-three percent (43%) of those without coverage cite cost as the reason for being uninsured. Another seventeen percent (17%) state that they are uninsured by choice or inaction. An additional twenty percent (20%) cite employment issues for being uninsured. These segments represent 80% of the uninsured.
8. Only 2.4% of the uninsured state that they do not qualify for insurance due to health problems. The remaining population are uninsured due to citizenship (7.4%) and unspecified other (10%).
9. Governor Perdue should create a task force with a goal to make Georgia the first 100% insured state. Goals would also include Georgia as the

best state for buying insurance in an interstate model and maximizing the federal contribution to improve Georgian's health.

It is important to act now to prepare for the 2005 legislative session. Georgia can make the initial steps to improve the individual health market and get ahead of the developing future so that the citizens of the state gain first mover advantages

I. Introduction

The issues and debate over the number and characteristics of the uninsured have been front page press for many years. The 2004 Kaiser Family Foundation study found the dollar cost for the United States to be \$125 billion for 2004 with 44 million citizens uninsured. Regardless of how one views the issue, the cost to society is high. Without insurance protection - the health, lives, and financial security of families are at extreme risk. Addressing the uninsured is about saving lives and saving money. Without insurance, needed care is less likely to be sought on a timely basis, complications are more likely to exacerbate, and costs increase. Society suffers the loss of productivity, increased absenteeism, and more disability claims.

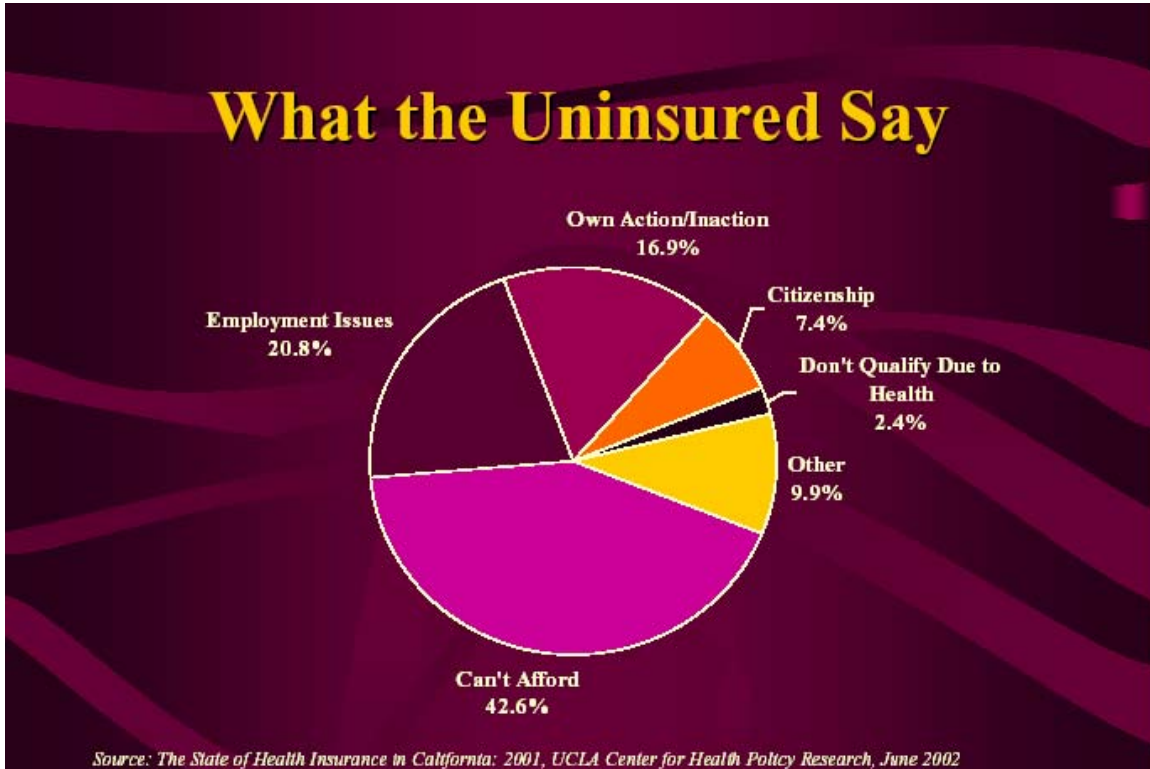
As a state and nation, we provide government programs and monetary support in many ways to finance care for those who require treatment and show up at a hospital or provider setting for services without insurance or other forms of coverage. But these uncoordinated national, state, county, city, and community programs are the most expensive and least effective clinical ways to deal with the situation after a medical condition arises. Today, we are all potentially a pink slip away from being uninsured. The fear of losing one's job and associated insurance protection is stressful. Whatever numbers one accepts as valid on the cost and extent of the uninsured, the issue has huge implications.

About sixteen (16%) of the Georgia population is uninsured at any point in time. The characteristics of the uninsured are as varied and diverse as the State itself. Similarly, the solutions for dealing with the uninsured in Georgia must be multi-faceted. Within the uninsured population, some are working, some are not; some are temporarily unemployed and have access to COBRA, some do not; some are insurable, some are not; some are uninsured by choice, and some are not. Regardless of their circumstances, there are too many in the State of Georgia who are uninsured (1.2 million lives). Many of those want to be and could be covered, but find the cost of insurance prohibitive. This paper will look at how to address major portions of the uninsured population in Georgia by improving cost and access to individual health policies.

Cost, cost, and cost are the three most critical issues to provide affordable coverage for many of the uninsured. Forty-three percent (43%) of those without coverage cite cost as the reason for being uninsured. Another seventeen percent (17%) state that they are uninsured by choice or inaction. Thus, sixty percent (60%) can be insured if they want to be covered and are made aware of and offered more cost effective options than available today. An additional twenty percent (20%) cite employment issues for being uninsured. This group may be working for employers without insurance, they may be between jobs, in a

waiting period, or other circumstances. They also represent a potential segment to benefit from affordable individual health policies.

Only 2.4% of the uninsured state that they do not qualify for insurance due to health problems. The remaining population are uninsured due to citizenship (7.4%) and unspecified other (10%). This paper will look at how to make individual health insurance more affordable, portable so that it transcends the traditional employer-based system, and valuable with significant coverage that provides security needed to protect a family's financial status.



Income Matters

Uninsured Rate by Family Income



Source: Employee Benefits Research Institute (EBRI), December 2001

Age Matters

Uninsured Rate by Age



Source: Employee Benefits Research Institute (EBRI), December 2001

II. National Movement to Ownership of Health Insurance

There is a national movement underway to create individual portable health insurance as an alternative to traditional employer-based healthcare. We are at the very beginning of that emerging development. The trend to individual health ownership, personal responsibility, self-help, and self-care can be seen in the recent consumer-driven healthcare (CDHC) developments. President Bush's proposals for affordable healthcare reflect this movement by relying heavily on Health Savings Accounts (HSAs) and a more competitive marketplace for products and services from more insurers.

HSAs are ideal for individual health policies. Under the Medicare Modernization Act (MMA) of 2003, HSAs were codified as a triple tax advantaged savings account that can be established if health coverage is provided under a legally defined high deductible health plan (HDHP). Amounts contributed to HSAs are (1) not taxable income, (2) accumulate tax free, and (3) spent tax free when used for qualified medical expenses. With the MMA effective 1/1/06, there is a new and immediate potential for Georgia to address the uninsured through expanded and affordable individual HSA eligible HDHP.

III. What President Bush Proposes

The President submitted in his 2005 budget an expanded use of the HSA eligible HDHP model. Georgia can prepare to follow the lead of this aggressive national proposal. The challenge for Georgia is readiness and supportive policies and programs to take advantage for the President's plan for affordable health care. The following are key elements of the national proposal that would affect affordability, access to, and the expansion of individual health insurance.

- 1. Top-line deductibility of HDHP premiums.** The President has proposed allowing individuals who set up HSAs to deduct from their adjusted gross income (AGI) the premiums they pay for their major medical policies, thus reducing the net cost of those policies.
- 2. HSA subsidy for Low-Income Families.** To extend the benefits of HSAs to low-income families, the President proposes giving low income families a \$1,000 contribution made directly to their HSA.
- 3. Premium Tax Credit for Low-Income Families.** In addition to the \$1,000 contribution to their HSA, the same low-income family of four will be able to get a \$2,000 refundable tax credit to help them buy an insurance policy that covers them for major medical.

A family of four making \$25,000 or less will be able to get \$1,000 from the Federal government to put into their HSA. These families can use the money to pay for doctor visits, medicines, and other routine medical expenses. What the family does not spend in a year can be saved in the account and carried over into the next year, earning interest tax-free. Each year that the family remains eligible, the government will deposit another \$1,000 into their HSA. The family – not the government and not the employer – owns the HSA and keeps it whether a family member changes jobs or increases his or her earnings.

- 4. HSA subsidy for Low-Income Individuals.** To extend the benefits of HSAs to low-income individuals, the President proposes giving low income individuals a \$300 contribution made directly to their HSA.
- 5. Premium Tax Credit for Low-Income Individuals.** In addition to the \$300 contribution to their HSA, the same low-income individual will be able to get a \$700 refundable tax credit to help them buy an insurance policy that covers them for major medical.
- 6. Non-HSA Premium subsidy for Families.** For those families who elect not to set up an HSA may use the refundable \$3,000 tax credit to buy standard medical coverage instead.
- 7. Non-HSA Premium subsidy for Individuals.** For those individuals who elect not to set up an HSA may use the refundable \$1,000 tax credit to buy standard medical coverage instead.
- 8. Low-income families will not have to wait until tax time to get their tax credits.** The low income health care credits will be advanceable and available immediately to qualifying families.
- 9. Provide a tax credit for contributions to the HSAs of small business employees.** To help individuals and families who work for small businesses fund their HSAs, President Bush proposes giving small business owners a tax credit on HSA contributions for the first \$500 per worker with family coverage and the first \$200 per worker with individual coverage.
- 10. \$4 billion in grants to encourage states to create state run insurance pools to make sure low-income Americans get the most out of the credit.** These purchasing pools – or HealthPools – will provide people an easier, faster way to shop for coverage. States could make it easier to sign up for coverage through toll-free numbers and websites, and by

making applications available at state government offices, motor vehicle administrations, and private workplaces. HealthPools will use the purchasing power of thousands of individual families to help reduce the cost of health insurance premiums for all eligible families.

- 11. Allow individuals to buy the best coverage they can find anywhere in the country.** Creating a competitive marketplace across state lines can increase the availability of health care coverage and help drive down the costs for everyone. This will allow people the freedom to shop for the best buy on the health coverage that best meets their individual needs. This proposal will help individuals save on health insurance, and includes provisions to prevent fraud and abuse.
- 12. Extend Association Health Plans to civic groups and other community organizations.** Community, civic, and religious groups may want to offer health plans to their members. This proposal allows local groups to band together through their regional or national organizations to negotiate low-priced coverage for their members.
- 13. Medical Liability Reform.** President Bush has proposed Medical Liability Reform.
- 14. Electronic Health Records.** The federal government will support new investments in Health Information Technology to help lower costs.

Each of these fourteen items has enormous implications for the uninsured in Georgia. By starting with these proposals from the national level, the State of Georgia can take actions to support these initiatives, position the State legislation and regulations to optimize these changes, benefit from their adoption, and initiate complementary State initiatives.

IV. Parallel Action Steps for the State of Georgia

If the above proposals are passed, there are a number of parallel steps that the State of Georgia can adopt to support and facilitate the national initiatives. Below are comments regarding how the state could take action now for optimum impact to reduce the uninsured in Georgia.

- 1. Top-line deductibility of HDHP premiums.** Georgia can assure that its income tax schedules reflect a consistent approach to this deduction. Georgia could pass this feature as an extra deduction in advance of a federal bill passing.

2-5. HSA subsidy and Premium Tax Credit for Low-Income Families. Georgia can provide some nominal level of support for both an HSA subsidy and an above the line tax credit for HSA/HDHP premiums prior to passage at the federal level.

6-7. Non-HSA subsidy. Georgia can provide an above the line tax credit for health premiums prior to passage at the federal level.

8. Low-income families will not have to wait until tax time to get their tax credits. Unclear if the level of State of Georgia credits warrant this advance funding approach.

9. Provide a tax credit for contributions to the HSAs of small business employees. Georgia can provide a tax credit for small businesses adopting HSAs to passage at the federal level.

10. The President has also proposed \$4 billion in grants to encourage states to create state run insurance pools to make sure low-income Americans get the most out of the credit. Georgia should review its high risk pool arrangement, financial condition, premiums, industry subsidies, administration, and governance. There should be a study of the impact of this proposal for the State of Georgia.

11. Allow individuals to buy the best coverage they can find anywhere in the country. This item could be the blockbuster that dramatically transforms the individual health insurance market. Clearly, existing payers would find this both controversial and challenging to their markets, and a potential for rapid national expansion.

States with high costs from premium taxes, state mandates, or other impediments to cost effective care would in essence be trumped. The citizens of that state would be able to purchase a policy from an insurer located in another state where the policy mandates and requirements are more consistent with the needs of the purchaser. Georgia will need to be an early mover in this area to create national advantages for its present domiciled companies and to encourage new market entrants to locate in Georgia. At present, it is not believed that Georgia would rank as a “most favored” state from which to sell health policies nationally.

12. Extend Association Health Plans (AHPs) to civic groups and other community organizations. On the surface AHPs seem rational and reasonable; however, this is a controversial proposal for those who experienced the multiple employer welfare arrangements (MEWAs)

horrors of the 1960-70's. Georgia needs to look closely at the details for AHPs, especially for small group employer coverage, to assure that the anti-selection death spirals and marketing distortions and misrepresentations of the previous era are not repeated.

13. Medical Liability Reform. This is an annual debate with acrimony. The State of Georgia needs to move forward on this issue as has occurred in Mississippi and other states to limit malpractice litigation.

14. Electronic Health Records (EHR) and e-Prescribing. The federal government is likely to spend billions on the development and deployment of EHRs. Georgia needs to be positioned with the Georgia provider community to support the implementation and expansion of EHRs. The State Merit System program could be used as a force of critical mass to encourage adoption of EHRs and e-prescribing by physicians, hospitals, and other providers of care.

V. Expanded Actions Steps for the State of Georgia

1. Remove Existing HSA Conflicts. Remove contradictory state insurance laws and regulations that otherwise prevent the development and sales of individual and small group HSA eligible HDHPs. For example, remove Georgia regulatory plan design limitations that limit coinsurance, especially for out-of-network coverage.

2. Remove Insurance Premium Tax. The State of Georgia taxes insured premiums up to 2% or more. The premium tax is collected from insurers, but paid by the policyholders. Insurers simply build this excess cost into their premiums. This is a form of "sales tax" that makes insurance for individuals that less affordable. As with food and other items of critical value to the citizens of Georgia, insurance should not be burdened with this tax. In addition, large self-insured groups avoid the premium tax, so only smaller fully insured and individual policyholders incur this added expense.

3. Cover Those Falling Through the Gaps. In the current model of individual health insurance, the desire to have the lowest premiums can create limited plan designs and a lack of coverage for certain populations and/or conditions. Pooling of risks is the key to insurance. Certain powerless patients have had their medical conditions severely limited or excluded from coverage. Some conditions that can affect anyone, as nevertheless, excluded or limited as "unlikely to happen to me." It is only

after lightning strikes that policyholders realize they are not covered and the impact of being uninsured is felt.

The State of Georgia should consider the impact on the uninsured from lack of or limited coverage for diagnoses of mental illness, substance abuse, new born children, HIV, maternity complications, and obesity. In addition, many individuals whose COBRA coverage expires are left uninsured.

4. Public Disclosure of Undiscounted Hospital/Physician Fee Schedules. Provider fee schedules have little meaning to most insured lives, who are under negotiated carrier networks. These undiscounted fees are typically many multiples of actual costs and negotiated reimbursements. Uninsured individuals and self-pay patients are at a significant disadvantage to negotiate lower fees as a single member or after the service is provided. A patient's right to know the fee schedule and charges should be considered as good public policy. The State of Georgia should require all providers to post fee schedules in a prominent office/building location and/or submit undiscounted fees to the State for wider public disclosure.

5. Educate Young Adults and Working Poor. For the young (20s-30s) who avoid purchasing health insurance, education is needed on the affordability of HSAs and the value of accumulating assets under a health plan. This is a new day with HSAs that never existed prior to 1/1/04. The working poor may not appreciate the affordability, security, and value of an HDHP. The education process needs to more of a campaign. That is, continuous reinforcement through multiple media sources for an extended period of time.

6. Seek Models for Success in Other States. Other states are struggling with the same issue of affordability of healthcare. Many good examples of programs and approaches may be available that do not get much publicity.

For example, The Tennessee Rural Health Association (TRH) may be an appropriate model to study for effective development and distribution of low cost individual health policies. Tennessee Rural Health was founded in 1947 as an associate of the Tennessee Farm Bureau Federation. Tennessee Rural Health is a fraternal organization comprised of local chapters which promote the health of rural people in Tennessee. Special state laws and regulations have been passed in Tennessee that allows them to operate without state premium taxes, without mandates, and

without premium filing requirements. BCBS of Tennessee administers the claims and provides the provider network discounts. With the unique legal and regulatory structure of TRH, they are able to offer individual health plans that are up to 30% less expensive than even BCBS of Tennessee.

VI. Issues to be Resolved

1. Details of Cross-State Purchasing Proposal. The viability of a nationally effective individual health market is reliant on transforming the current well-intended but burdensome state legislation and regulation that has piled up over the years. Allowing the purchase of insurance from another state is a major paradigm shift with ramifications that needs full consideration. Without this or a similar transformational model that creates competition among carriers and states, consumers are likely to be left without the most cost effective choices. State legislated coverages and cost implications would continue to be set by special interests groups unrestrained by customer interests or other normal market forces.

2. Stability of Premiums.

Premium increases at renewal may be attributed to the following six broad causes:

1. aging of the policyholder,
2. rising medical care costs,
3. changes in the regulatory environment,
4. changes in utilization of health care services,
5. wear-off of underwriting, and
6. self-selection at renewal (Cumulative anti-selection, or CAST).

Without transparency and a new model for pricing of health policies, we are likely to see premium increases of substantial proportions over the next few years. The public does not understand the reasons for higher than trend increases and the arcane actuarial nuances of individual health pricing techniques. If we are not careful in addressing these issues, public expectations and acceptance of individual portable health policies will ultimately be extremely negative. This may lead to a demand for more governmental involvement and support for a movement to national healthcare.

a. Multi-year Pricing and Renewal Strategy. Individual policies are typically priced over an expected lifetime of coverage for a block of business. This approach to pricing is different from the one-year (or less) pricing of group contracts. The period of pricing

for individual policies and historically high lapse rates have several inherent actuarial problems that make it more difficult than group insurance to stabilize the cost of coverage. Initial premium rates and renewal strategies are not either easily apparent to the purchaser or guaranteed in the contract.

b. Aging. With group insurance new hires at younger than the average age of the group, help to stabilize the average age as the continuing work force ages. Pricing based on individual age will tend to increase more rapidly than a composite rating based on group averages. Initial entry age pricing rather than attained age pricing is an arcane distinction not understood by most consumers. Multi-year pricing considerations will likely create public confusion from misconceptions and misrepresentations of industry definitions of guaranteed renewable, renewal for stated reasons only, collectively renewable, and renewable at the option of the company.

c. High Deductible Trend. HDHP will experience higher trends than lower deductible plans. If the trend for medical care is 10% (cost, technology, utilization, etc.), the trend impact on a HDHP may be 20% or more.

d. Underwriting Wear-off. If initial pricing reflects current year underwriting, subsequent premium increase will be larger than would otherwise occur. Depending upon the underwriting standards used by the insurer, underwriting wear-off may reflect 10-30% increases during the first three years.

e. Anti-selection. If the risk pool to which an individual belongs deteriorates for whatever reason and the associated premiums are increased to reflect that deterioration, a healthy individual may terminate coverage from the original pool and seek coverage in another risk pool. As individuals move about from pool to pool seek to keep their own premiums consistent with their personal risk, anti-selection develops in the deteriorating pool. Without extended multi-year requirements for participation, the pricing and coverage problems of the MEWA's is likely to be revisited.

f. The Closed Block Problem. Items d and e are a part of what is referred to as the "closed block problem." The positive effects of underwriting wears off and individuals begin to self-select on renewal based upon their ability to get less expensive coverage

elsewhere. This policy premium effect is exacerbated, as some companies have a pricing and profit strategy that reflects a 3-5 year sales cycle. Once the block begins to age and underwriting effects diminish, the block is closed to new business and an upward pricing cycle begins. Lapsing policies can create a source of insurance company profits as reserves can be released and future high mortality is avoided. These “lapse supported” profit strategies are easily misrepresented to the public and can even inadvertently develop from inaccurate initial product pricing and renewal strategy.

VII. Conclusion

The State of Georgia can move to rapidly utilize the new federal laws and regulations that offer the promise of affordable tax advantaged HSA eligible HDHPs. The State of Georgia can simultaneously, align its legal, regulatory, tax, and administrative policies to complement the President’s proposals to support the private market’s capability to provide cost effective affordable health insurance. There are substantial financial and access benefits to the State of Georgia under the President’s proposals. It is important to act now to prepare for the 2005 legislative session. Georgia can make the initial steps to improve the individual health market and get ahead of the developing future so that the citizens of the state gain first mover advantages.

About the Center for Health Transformation (CHT)

The Center for Health Transformation, founded by former House Speaker Newt Gingrich, is a unique collaboration of leaders dedicated to accelerating the adoption of transformational solutions, policies and technologies in order to create a 21st Century Intelligent Health and Healthcare System characterized by better outcomes and more choices at lower cost. The Center accomplishes this by: acting as a catalyst to accelerate transformational change; identifying better solutions that provide more choices, better health and lower cost; sharing those solutions with the widest array of opinion leaders and decision-makers across all sectors and levels to accelerate their adoption by the system; and helping to create, advance and improve the public policies (state and federal) that will accelerate health transformation.

For more information, please visit www.healthtransformation.net.