CPPP Center for Public Policy Priorities | Comments

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RECOMMENDATIONS FOR HEALTHY TEXAS

The Center for Public Policy Priorities (CPPP) appreciates this opportunity to comment on the Texas Department of Insurance's Healthy Texas Phase I Report. With nearly 6 million Texans lacking health insurance coverage and the cost of coverage growing ten times faster than incomes, Texas needs to take bold steps to confront issues with access to health coverage. Healthy Texas has the potential to put private health insurance coverage within reach of many uninsured Texans by addressing the primary barrier to coverage—the high cost of premiums—using public-private partnerships. The overall goals of Healthy Texas are commendable, but the ultimate value of the program will depend upon key policy decisions discussed below, many that have yet to be made.

Healthy Texas

Senate Bill 10 from the 2007 Texas Legislative Session directed the Texas Department of Insurance (TDI) to design Healthy Texas, a program through which small business could access health coverage if eligible. TDI has proposed to create a new public/private health insurance program to offer lower-cost coverage to uninsured small employers and their employees. Premiums in Healthy Texas will be reduced through the use of *public reinsurance*. Public reinsurance uses public funds to pay high-cost claims for private health insurance companies. This public investment reduces the risk faced by private health insurance companies. Unlike premium assistance programs where subsidies directly reduce premiums paid by individuals, public reinsurance subsidizes insurers by paying much of the expense of high-cost claims. Consumers benefit from the subsidy indirectly through premiums that are reduced to reflect insurer's decreased risk.

The average cost of family health insurance coverage is about $12,000 a year. Even if an employer makes a contribution toward coverage, many low- and moderate-income employees simply cannot afford to purchase coverage. Public reinsurance is one of the ways the state can invest public funding to make health coverage more affordable. Because public reinsurance is a direct payment of taxpayers' public funds to private insurance companies, however, Healthy Texas will need to be designed and overseen in a careful manner that ensures consumers benefit from the program, and not just insurers.

Community Rated Premiums

One of the most important decisions in the design of Healthy Texas is how to price premiums. It is critical that premiums not be based on a person's health status (i.e. no medical underwriting), and that only minimal, if any, premium variation be allowed for other factors like age and gender. Reaching the target average premium of $150-$200 per month will be an important step toward affordability, but the average premium will be meaningless if some people are charged $300, $400, or more each month because they do not qualify for the average rate. We applaud TDI's recognition that limits in rate variation including banning medical underwriting are essential for Healthy Texas to succeed.

TDI should consider recommending that Healthy Texas use pure community rating, in which everyone within a community or geographic area is charged the same premium. This is the pricing structure used by Healthy New York, the model for Healthy Texas. Alternately, Healthy Texas could use adjusted community rating, which allows premium variation within limits based on other factors like age and gender. All rate variation allowed under adjusted community rating, however, should be limited so that the highest premium costs no more than twice the lowest one.

The commercial small employer health insurance market uses rate bands to limit variation in premiums somewhat, but data from TDI show clearly that enormous variations in pricing still exist. Some small employers are charged over $25,000 a year per person compared to the average premium paid by some more fortunate employers of less than $4,000 a year per person. If this type of variation in premiums were allowed in Healthy Texas, it would be impossible to determine what premium savings are achieved in the program. Setting premiums using pure or modified community rating would have the following benefits:

- Employers could use a simple rate chart to easily determine what premiums they would have to pay for coverage. This is a significant improvement over the current process, which is complicated, time-consuming, and often cited by small employers as a barrier to obtaining coverage.
- Small employers who are currently priced out of the market because they have higher-risk employees like women of childbearing age, older employees, or employees with health conditions would have access to a more affordable health insurance option.
- The program will be simpler and less costly to administer.
- Clear premium savings achieved through the investment of public reinsurance could be determined.

Because the commercial market allows medical underwriting and large premium variations, there will be a concern that if Healthy Texas does not, it will experience adverse selection. While this is a legitimate concern, adverse selection can be limited through the design of other program features such as eligibility criteria, open enrollment periods, the benefit package, and a requirement that employers be uninsured for a period of time before entering Healthy Texas.

Rate Oversight

Without appropriate rate oversight by TDI, the state will have no way to know if public, taxpayer money given to health insurance companies translates into reduced premiums rather than a windfall for insurers. Because of the infusion of public funding, it is imperative that rate oversight in Healthy Texas be more stringent than in the unregulated commercial market. Initial rates should be required to be approved by TDI to ensure that they are adequate, not excessive, and that they appropriately reflect the reduced risk to insurers. Rate increases should be limited to once a year and approved in advance by TDI to ensure that increases are justified by the experience trend in the full Healthy Texas pool. TDI should recommend that the Legislature set a minimum medical loss ratio of at least 80 percent for Healthy Texas plans.

The level of oversight described above should be the minimum considered for a program in which taxpayer money is invested in private health insurance companies, but depending on the extent of the public investment, more extensive oversight may be called for. TDI should note that in Texas Medicaid and CHIP, programs funded entirely by public money but with coverage provided primarily (in Medicaid) or entirely (in CHIP) by private health plans, the state limits profit margins earned on the taxpayers' tab. Oversight may not need to be this aggressive in Healthy Texas because taxpayers will fund a smaller share of the program, but TDI should provide oversight adequate to ensure that taxpayers do not foot the bill for unreasonable insurance company profit margins.

Eligibility

Like Healthy New York, Healthy Texas should be targeted so that the benefits of public reinsurance reach low- and moderate- income Texans who have the most difficulty affording health insurance premiums. Healthy Texas should not be structured in a way that allows public money to subsidize coverage for people with high incomes. To do this, Healthy Texas must be targeted at lower-income individuals and small employers with low- and moderate-income employees. Alternately, it may be possible to structure the program to allow premiums and levels of public reinsurance to vary by income so that the lowest-income enrollees receive the most assistance with costs.

Crowd-out will be limited in Healthy Texas if the program is targeted to low income individuals and small business with low wage earners because they are far less likely to have current private coverage. If additional crowd-out protections are needed, employer groups and individuals should not have to go uninsured for more than 6 months before being eligible for the program. The six-month period is a standard best practice used by a variety of state programs using taxpayer dollars to make coverage affordable to low and moderate-income Americans.

Small employers, sole proprietors, and individuals should all be eligible for Healthy Texas. Small businesses and their employees face many obstacles when trying to obtain health insurance coverage, and few small businesses offer health insurance, chiefly because of the cost. But individuals and sole proprietors face many more obstacles trying to buy health insurance in the individual market. Unlike small employers, individuals and sole proprietors can be turned down for insurance because of their health status, offered a policy that permanently excludes pre-existing conditions, and charged premiums not bound by the rate bands in the small employer market. As difficult as the small employer health insurance market is to navigate, it has more consumer protections than the individual health insurance market. Because of this, Healthy Texas should be open to sole proprietors and individuals. If Healthy Texas is initially open only to small employers, the goal should be to expand the program to include individuals and sole proprietors once the program has been operational for a year or two.

Healthy Texas should be implemented statewide. If funding or other programmatic issues require that Healthy Texas start small and grow over time, eligibility should initially be restricted to the smallest groups (2-10 employees or 2-25 employees) rather than creating the program as a geographic pilot. The rationale for this last recommendation is to avoid a geographical inequity in allocating public funds in favor of one which targets the most disadvantaged groups in the current marketplace first.

Benefit Plan

It is important that Healthy Texas offer a standardized plan (or plans) and not allow insurers to sell any plan that meets minimum standards. When surveyed by TDI, employers express a preference for standardized plans that allow for apples-to-apples comparisons. The infinite variability in health insurance policies on the market makes it impossible for employers and individuals to make effective comparisons. Not only will a standardized plan make health coverage easier for employers, it will make the program easier for TDI to administer. Determining premium savings and reinsurance pricing will be dependent on the benefit plan structure, thus a standardized plan or plans will make the program easier and cheaper to administer.

Offering different levels of standardized health coverage to choose from (for example, a basic plan and an expanded plan) arguably helps to meet different people's needs, but it also segments the risk pool. Community rating will allow the risk and cost of illness to be spread broadly across the Healthy Texas pool. Broadly spreading risk is one of the most fundamental principles of insurance and helps ensure that coverage is available both when you are healthy and after you get sick. Offering multiple plans will allow people to segment themselves by risk (the highest risk people will choose the most generous plan and the lowest risk people will choose the most basic plan), and limits the ability to spread risk. We recommend that TDI offer just one comprehensive, standardized plan through Healthy Texas. If TDI determines that multiple plans are preferable, no more than two plans should be offered.

Healthy Texas should not make coverage more affordable by offering a benefit package that is too skimpy to meet most people's needs. Healthy Texas should have comprehensive coverage that includes primary and preventive health care, prescription drugs, hospital coverage, in-network and out-of-network emergency services, and behavioral health care. We are pleased to see the draft benefit plan includes an annual out-of-pocket maximum of $2,000 (including the $500 deductible). Our particular concerns with the draft benefit plan are below.

- The 30 percent coinsurance requirement for brand name drugs could prove too expensive and discourage the use of necessary medicines to treat chronic conditions. This is especially true for maintenance drugs that have no generic equivalent. Setting a coinsurance requirement as high as 30 percent for prescriptions would be acceptable and affordable as long as the $2,000 annual out-of-pocket maximum includes these out of pocket costs for prescription drugs.
- The total exclusion of durable medical equipment should be re-evaluated. A limited durable medical equipment benefit may be more appropriate.
- In order to encourage enrollees to seek preventive care, the draft benefit plan exempts the first two medical office visits from the deductible with only a $25 co-pay due. Subsequent office visits are subject to the deductible and coinsurance requirements. This benefit structure does not tie the $25 co-pay visits to preventive care and may not be the best way to encourage preventive care. TDI should seek input on how to best encourage cost-effective, preventive care through the Healthy Texas benefit package.

HOP Coverage

Low-income individuals who qualify for coverage through the proposed Health Opportunity Pool (HOP) will benefit more if HOP funding and Healthy Texas are combined. Healthy Texas will reduce premiums and thus the amount that small employers must contribute toward coverage, helping small businesses offer coverage. For qualified employees, HOP funding will help cover the employee's share of the premium. Together, these two programs could help achieve the goal of offering affordable employer-sponsored coverage to low-income individuals without large sacrifices in the benefits covered.

Conclusion

Texas' high uninsured rate inflates the cost and undermines the quality of every Texan's health care. CPPP is committed to a vision of affordable health care for every Texan, and believes that Healthy Texas could help achieve that goal for significant numbers if it is designed and overseen the right way. Thank you for the opportunity to provide input.