

## In the Spotlight: Health Care Reform and High Risk Pools

Health insurance “high risk” pools are programs that offer an alternative coverage option to individuals who fit certain health criteria, do not have access to group health insurance, and are unable to purchase individual coverage. High risk pools do not charge an “actuarially justified” premium—so additional funding is necessary to pay the difference between premium collected and the cost of paying claims and operating the plan.

Under the Patient Protection and Affordable Care Act (PPACA), the Secretary of the U.S. Department of Health and Human Services (HHS) was required to establish a federal temporary high risk pool program by June 23, 2010. The program will terminate on January 1, 2014 due to the enactment of full federal reforms, including health insurance exchanges. HHS is authorized to carry out the program directly or through “eligible entities” like state governments or a private “nonprofit.”

In a letter to all U.S. governors and insurance commissioners, HHS Secretary Kathleen Sebelius indicated that states could (1) operate new high risk pools alongside an existing high risk pool, (2) establish a new high risk pool for states that do not already have one, (3) build on other existing programs intended to cover high risk individuals, (4) contract with an insurance carrier to provide subsidized coverage for the eligible population, or (5) do nothing, in which case HHS would carry out a coverage program in the State. By July 1, officials representing all states had notified HHS whether they would operate the federal high risk pool in their state or preferred that HHS operate it.

To receive insurance through the temporary federal high risk pool program, individuals must (1) be a citizen or national of the United States or lawfully present in the United States (2) have a pre-existing condition and (3) not have been covered under creditable coverage for a six month period prior to the date on which the individual is applying. Federal high risk pool plans must (1) cover 65% of expected costs (actuarial value), (2) not exceed \$5,950 per year for the individual in out-of-pocket costs, (3) no preexisting condition exclusion, (4) cap premiums at 100% of the average cost for individuals at the same age, and (5) not have an age rating greater than a 4:1 ratio. The HHS Secretary has the discretion to set other specific coverage requirements. The federal government has allocated \$5 billion to help fund the interim high risk pools, to be distributed to states using a formula similar to that used to distribute State Children’s Health Insurance Program funds.

HHS on July 1, 2010 announced the opening of the “Pre-existing Conditions Insurance Plan”.

### High Risk Pool Coverage in North Carolina

North Carolina was the most recent of the 35 states to authorize a state high risk pool, doing so in 2007. The North Carolina Health Insurance Risk Pool (NCHIRP), a state-created quasi-public nonprofit entity, sells coverage under the name of Inclusive Health. Inclusive Health opened for enrollment in 2009. Like other state high risk pools, the North Carolina law governing the state high risk pool limits the premium that can be charged – to between 150 and 200 percent of the average cost for privately insured individuals in the individual insurance market; rates are currently at 150 percent. (Other states’ high risk pool laws cap premiums at levels ranging from 125 to 200 percent.) Most state pools fund the difference between expenses and premiums collected by assessing health insurers and HMOs but several states, including North Carolina, use a state-funded allocation. As of June 2010, about 3,500 individuals were active in the state-run plan. According to NCHIRP about 20% of the state pool’s enrollees would have met the federal risk pool eligibility requirement of being uninsured for at least 6 months.

North Carolina opted to contract with HHS. As of July 1, 2010 NCHIRP is operating a separate, federal temporary high risk pool as HHS’ contractor. NCHIRP expects that, based on current experience of the state risk pool and an anticipated \$145 million federal allocation can support up to 8,000 more North Carolina residents. The state and federal

programs are run side-by-side, as “Inclusive Health – State Option” and “Inclusive Health - Federal Option”. Information about both of North Carolina’s high risk pools can be found here: [www.NCHIRP.org](http://www.NCHIRP.org).

## What Other States are Doing

According to the HHS website, as of July 12, 2010, 29 states plus the District of Columbia have contracted to administer the federal interim high risk pools and 21 have elected to have HHS operate the program. (As of July 12, HHS had not yet announced the contractor that would administer the federal pools in the 21 states selecting the “federal fallback option”.) Several states have cited the lack of program rules or reliable funding as their reasons for allowing HHS to run the pools. However, the Solicitation for State Proposals to Operate Qualified High Risk Pools issued by HHS states that contractors are not responsible for costs incurred by the federal program.

## Changes in North Carolina

Two high risk pool options for qualified North Carolinians are now in operation. It is anticipated that the federal pool will provide a lower cost option than the state high risk pool program for those who qualify and enroll. The potential for lower premiums may prompt some who were previously insured under a private plan to forego enrolling in Inclusive Health State Option for immediate coverage, remaining uninsured for 6 months in order to qualify for the Federal Option. NCHIRP, as the administrator of both options, will be a one-stop resource for high risk individuals seeking insurance coverage.

### Differences between North Carolina’s Federal Pool and State Pools

<b>Inclusive Health – Federal Option</b>	<b>Inclusive Health – State Option</b>
6 months uninsured	Medically uninsurable, HIPAA and HCTC eligible
100% of Standard Risk Rate	150% of Standard Risk Rate
No pre-ex waiting period	12 month pre-ex waiting period for uninsured with greater than 62 day lapse in coverage
Age Rating Ratio 4:1	Age Rating Ratio 6.5:1

## What to Expect

The \$5 billion allocated nationally is expected to be grossly inadequate to support the 6.6 million to 11.4 million expected to be eligible. Many are predicting the money could run out within a single year – far sooner than the 3.5 years the federal government expects the interim federal pools to be in place. Such a scenario raises issues about who would be admitted for coverage. Despite premium caps, the plans may still be too expensive for many of the high risk population, prompting HHS Secretary Kathleen Sebelius to admit that the plans “may not be an effective strategy for many people.” (State high risk pools’ experience has been that their plans—sold at prices above standard market rates—have proven to be unaffordable to many who qualify to purchase their coverage.)

## BCBSNC Views

BCBSNC is supportive of the federal role in helping high risk individuals, who tend to have been 'priced out of the market' due to pre-existing conditions. We were an instrumental player when the North Carolina high risk pool was established in 2007. We regularly notify applicants who do not qualify for BCBSNC products about the alternative coverage offered by Inclusive Health.

## For More Information:

Inclusive Health: [www.NCHIRP.org](http://www.NCHIRP.org)

HHS Fact Sheet: [http://www.hhs.gov/ociio/initiative/hi\\_risk\\_pool\\_facts.html](http://www.hhs.gov/ociio/initiative/hi_risk_pool_facts.html)

HHS Press Release: <http://www.hhs.gov/news/press/2010pres/07/20100701a.html>

Federally-run Pre-existing Condition Plan website: <http://www.pcip.gov/>

State-run Pre-existing Condition Plan website: <http://www.pcip.gov/StatePlans.html>

This information has been prepared by Blue Cross and Blue Shield of North Carolina to assist our customers in understanding Health Care Reform. This publication is for information purposes only. It is not legal or tax advice. Please consult with your attorney or tax advisor for further advice. As regulations and other interpretive guidance are published, this information may change. We will continue to work with our customers going forward to provide updates and further assistance.