In the Spotlight: Health Care Reform and Pre-Existing Conditions Insurance Plans

Health insurance pre-existing conditions insurance plans, or “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. Pre-existing conditions insurance plans (PCIP) 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 Affordable Care Act (ACA), the Secretary of the U.S. Department of Health and Human Services (HHS) was required to establish a federal temporary PCIP 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 PCIP alongside an existing PCIP, (2) establish a new PCIP for states that do not already have one, (3) build on other existing programs intended to cover individuals with pre-existing conditions, (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 PCIP in their state or preferred that HHS operate it.

To receive insurance through the temporary federal PCIP, 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 PCIPs 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 pre-existing 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 PCIPs, 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 federal “Pre-existing Conditions Insurance Plan”.

Pre-existing Condition 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 PCIPs, the North Carolina law governing the state plan 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’ PCIP laws cap premiums at levels ranging from 125 to 200 percent.) Most state plans 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 PCIP 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 PCIPs can be found here: [www.NCHIRP.org](http://www.NCHIRP.org).
What Other States are Doing

According to the HHS website, 27 states have contracted to administer the federal interim PCIP and 23 plus the District of Columbia have elected to have HHS administer the program. 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 plan 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 individuals with pre-existing conditions seeking insurance coverage.

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<th>Differences between North Carolina’s Federal Pool and State Plans</th>
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<tr>
<td><strong>Inclusive Health – Federal Option</strong></td>
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<tr>
<td>6 months uninsured</td>
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<td>100% of Standard Risk Rate</td>
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<td>No pre-ex waiting period</td>
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<td>Age Rating Ratio 4:1</td>
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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 PCIPs 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 population with a pre-existing condition, prompting HHS Secretary Kathleen Sebelius to admit that the plans “may not be an effective strategy for many people.” (State PCIP’s 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.) As of October 2010, enrollment in the plans lagged in some parts of the country. Wisconsin, Texas, and California had all reportedly received a few hundred applications, while their eligible population is expected to be in the thousands for Wisconsin and tens of thousands for Texas and California.
BCBSNC is supportive of the federal role in helping individuals with pre-existing conditions, who tend to have been ‘priced out of the market’ due to pre-existing conditions. We were an instrumental player when the North Carolina PCIP 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
HHS Fact Sheet: http://www.hhs.gov/ociio/initiative/hi_risk_pool_facts.html
Federally-run Pre-existing Condition Plan website: http://www.pcip.gov/

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