

# National Patient Advocate Foundation

## State High-Risk Pool Primer\*

### Introduction

State high-risk pools are nonprofit associations created by individual states to provide health insurance to people who are unable to acquire health insurance on their own, usually due to preexisting health conditions.<sup>i</sup> This health insurance comes in the form of state-subsidized coverage, with the **premium rates capped between 125 to 200 percent of the average, standard market rate**. Currently, 33 states have high-risk pools and together they extend coverage to 184,000 individuals. Meanwhile, 46 million additional people are uninsured nationwide.

High-risk pools were created for the purpose of aiding individuals who are locked out of health insurance due to preexisting conditions. However, high-risk pools currently have look-back and waiting periods, which limit and/or delay enrollment. The average look-back and waiting periods are six months. Waiting periods for coverage of preexisting conditions allow life-threatening situations to develop, particularly for those individuals who are chronically ill. Moreover, a six month look-back period permitting preexisting condition exclusions may be inappropriately long for people with chronic conditions.

### Background

Typically, individuals who qualify for insurance through a state's high-risk pool are unemployed, early retirees or are no longer covered by their parents' insurance, employed at a small business that does not provide insurance, or are self-employed. Individuals qualify for placement in high-risk pools if they:

- Have a preexisting condition and therefore have been locked out of, or are restricted from portions of, the private health insurance market;
- Have a condition that is identified by the state as being high-cost; or
- Have been determined to be entitled to portability under the Health Insurance Portability and Accountability Act (HIPAA).

Without high-risk pools, many individuals might not receive any form of coverage and/or would be subject to health insurance premiums that are multiple times the average standard market rate – often pricing them out of the market entirely. However, even for those enrolled in a high-risk pool, individuals may have to pay almost twice the average standard market rate to purchase insurance leaving them burdened by the costs associated with the high-risk pool. For these reasons, high-risk pools are not exclusively dedicated to individuals who are financially dependent on the government.

### Do These Pools Make Health Insurance Affordable?

High-risk pools were created to help individuals, who are unable to afford private health insurance due to high premiums or preexisting conditions, to purchase insurance with the assistance of government subsidies. However, the average high-risk pool premium is, as of 2001, \$3,083 per year, an amount that has continued to rise. The highest pool premium is in Missouri, where the yearly premium is equivalent to more than 12 percent of the median family income (\$41,000 per year). In addition, each state is not required to offer the same premium to everyone enrolled in the high-risk pool. Underwriting practices that are used by private health

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insurance companies also play a role in state high-risk pool operations, such as general demographic information, as long as health status is not taken into account.

### **What Type of Coverage Do High-Risk Pools Provide?**

Fee-for-service is the most common type of high-risk pool plan among the participating states. A fee-for-service Preferred Provider Organization (PPO) plan can have a deductible as high as \$10,000 per year, as in Alaska. Coinsurance usually is applicable to these plans and averages around 20 percent after the deductible is met. Only four states with high-risk pools do not have state-capped out-of-pocket limits; all other states with high-risk pools do cap out-of-pocket expenses and in some cases this amount can be as high as \$20,000 per year, as in Arkansas. Many states have a co-payment requirement for hospital stays and general physician office visits. Through reduced cost-sharing and premium requirements, several states offer special programs specifically aimed at individuals who are in lower-income brackets to help them afford insurance within the high-risk pool.<sup>ii</sup>

### **How Comprehensive are Risk Pools' Benefits?**

These benefits are fairly comprehensive, with few limitations. Twenty-four states have no restrictions on maternity benefits, whereas 10 states do have restrictions, ranging from no coverage to a doubling of the maternity coverage deductible. Connecticut's high-risk pool is the only one that does not cover outpatient prescription drugs. Almost every pool limits the coverage available for mental health treatment, whether this limit is in the form of higher co-payments or simply limited coverage for certain mental health conditions. Louisiana currently is the only high-risk pool that does not provide any form of coverage for mental health treatment. Data show that individuals who utilize mental health services are more likely to drop out of the high-risk pool sooner than those not using the services.

### **How Costly are These Pools for the States and How Do They Pay for Them?**

The average cost per enrollee differs dramatically by state. The state with the lowest annual cost per enrollee is Arkansas at \$3,610, ranging up to \$11,000 per enrollee in Iowa. States help fund their high-risk pools through taxes on tobacco, designated funding, and general state revenue. Three states finance their high-risk pools through designated earmarked funds. However, the most common source of funding is through an assessment on health insurance companies. This is assessed in a manner in which the amount of revenue from premiums and business of a health insurer is weighted in proportion to its contribution to the high-risk pool. The assessment is levied to help cover the individuals to whom these companies deny coverage and who then are placed into the high-risk pool. In a few states where the health insurers are permitted to offset the assessment against their income tax liability, the state ends up funding the high-risk pool due to a loss from those taxes.

### **Do States Usually Complement Their High-Risk Pools With Other Private Insurance Market Reforms?**

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Some states that do not offer high-risk pools have instituted other reforms to help alleviate the need for a high-risk pool. Some limit the variance in premiums allowed by health insurance providers, others require an open-enrollment period or guaranteed issue, while others disallow the use of an individual's health status when determining premium rates. A small number of states have an "insurer of last resort" through which they allow health insurers to deny individuals coverage but have a designated insurer that will insure these individuals and limit their premiums.<sup>iii</sup>

### Recent Congressional Action

In December of 2005, the State High-Risk Pool Funding Extension Act of 2005 became law (P.L. 104-191). It amends the Public Health Service Act to provide funding for operational costs and supplemental benefits along with seed grants for the costs of establishing new high-risk pools, an amount up to \$1 million per state. In addition, the law allows for grants to be awarded to states with already established high-risk pools to help compensate for state losses due to the funding of these pools. It authorizes appropriations for Fiscal Year 2006 through Fiscal Year 2010.

### National Patient Advocate Foundation Concerns About State High-Risk Pools

- High-risk pools do not universally accept every individual with a preexisting condition, nor do they address the millions of Americans who are unable to afford health insurance, even if accepted into a high-risk pool.
- State high-risk pools do not provide an inexpensive option, nor viable solution, for people with preexisting conditions who are locked out of the insurance market.
- Look-back and waiting periods, both averaging six months, encumber the ability of those with preexisting conditions to receive immediate health care coverage for those conditions.
- Although state high-risk pools provide health coverage for some individuals locked out of the health insurance market due to preexisting conditions, they are not immediate solutions for individuals with chronic conditions.
- State high-risk pools provide no relief for individuals if benefits are needed for the preexisting condition during the waiting period.

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<sup>i</sup> The Robert Wood Johnson Foundation - *State Coverage Initiatives*, 2004

<sup>ii</sup> The Commonwealth Fund - *Insuring the Uninsurable: An Overview of State High-Risk Health Insurance Pools*, 2001

<sup>iii</sup> The Commonwealth Fund - *Insuring the Uninsurable: An Overview of State High-Risk Health Insurance Pools*, 2001