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# The Numbers Aren't Adding Up: A High-Risk Pool for North Carolina

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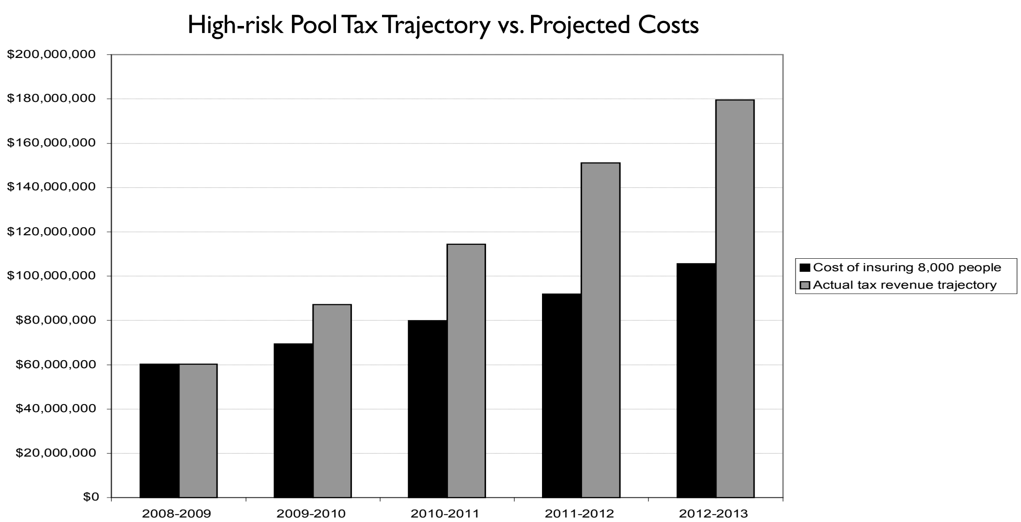
House Bill 265, sponsored by Representatives Verla Insko (D-Orange), Hugh Holliman (D-Davidson), Bob England (D-Rutherford) and Alice Underhill (D-Craven), would create a state-sponsored high-risk pool (HRP) for people with serious health conditions that make it difficult to purchase health insurance on the open market. In order to be eligible for the pool a person must not only have a health condition that is difficult to insure, but also be unable to purchase a plan that is below 175 percent of the prevailing market cost. While 34 other states have high-risk pools, the legislation currently being considered differs from many of these plans and could prove very costly to North Carolina taxpayers, as well as the people who enroll in the HRP.




**1. A Tax Increase of $180 Million**

• Under HB265, the cost of the high-risk pool would be paid by a tax on insurance premiums, a minimal federal contribution (which averages $35 per enrollee per month), and premiums paid by the members of the pool.
• The proposed legislation stipulates that the tax on insurance premiums (ostensibly paid by the insurance providers themselves) would start at 70 cents per covered individual for 2008 and 2009 and would increase to $2 per covered individual by 2013 "and all years thereafter." Thus the tax would increase the cost of health insurance per person by $8.40 per year in 2008, rising to $24 per year in 2013. For a family of four, the additional cost would reach almost $100.
• As of 2005, 7.2 million individuals had health insurance in North Carolina. At 70 cents per person, the assessment tax would yield $60.6 million. Assuming current population trends, the assessment tax of $2 a person would yield $179.6 million by 2013.
• Advocates of a high-risk pool do not seem to be willing to acknowledge what the total tax bill for the HRP would be. On November 29, 2006, Representative Hugh Holliman reported to the House Select Committee on Health Care that a high-risk pool for 8,000 people would cost taxpayers $125 million.
• Why, then, does HB265 envision a tax increase as high as $180 million? Is this inconsistency an attempt to conceal the true price, or do HRP backers not know what their proposal is going to cost taxpayers?

**2. Costs Are Too High**

• While the use of an assessment tax to help fund a high-risk pool is not unusual, the levy being proposed by HB265 is unusually high, given the small number of people who would participate in the pool.

• Nationwide, the average state contribution to a high-risk pool is 30 percent of the total cost. This 30 percent, in effect, is a subsidy that helps make insurance more affordable for high-risk persons, who are still responsible for paying for the majority of the cost of their own insurance.
• Thus, under the proposed legislation, North Carolina's HRP would be different from other HRPs, which generally ask enrollees to pay 70 percent of the cost of their own premiums. Also, the long-term trend nationally has been toward asking enrollees to pay a higher premium share, not a smaller one as North Carolina's HRP backers appear to be aiming for.
• Under HB265, the state seems to be anticipating that taxpayers would cover, not 30 percent, but 100 percent of the cost to insure HRP enrollees. This, at least, would explain why the assessment is set so high. The bill's sponsors estimate an enrollment of 8,000 people. If the assessment brings in $60.6 million, then $7,575 would be available to cover the premiums for each enrollee.
• Let us presume that the average cost for each high-risk pool enrollee is $6,500 per year. According to these calculations, the state would have more than enough money to cover the entire cost of enrollment per person — with more than $1,000 per person left over. Jumping ahead to 2013, the tax assessment would bring in $22,446 per person — far more than the average cost per enrollee.

**3. Premium Costs on the Private Market Would Not See a Significant Drop**
• It is absurd to claim that a high-risk pool would substantially lower the price of insurance premiums. The very reason why the HRP is apparently needed is because high-risk consumers cannot buy insurance. If this is the case, then these people are already without insurance and outside the health insurance market.
• The only way the HRP would bring down the cost of premiums is if private employers terminated coverage for high-risk employees. But HB265 apparently does not anticipate such a response — again because the stated assumption is that most of these people can't afford to buy their own insurance.
• In addition, the insurance market in North Carolina is designed to give Blue Cross/Blue Shield a virtual monopoly. Assuming the HRP allows Blue Cross to lower its costs, what incentive does it have to pass this savings on to consumers?

**4. A High-risk Pool Could Hurt High-risk Patients**
• Costs for state-run high-risk pools have increased an average of 12-18 percent per year nationally, which translates into as much as $31 million per year under the plan proposed by HB265. After 2013, it would be both economically and politically impossible to increase the assessment tax at rates that would keep pace with these costs.
• Hence, at some point high-risk enrollees are going to have to start paying their own share. Given the rising cost of heath care, HRP enrollees would then be stuck in an ever-increasing cost spiral. Rather than providing relief, the HRP could become a trap for people with high health care costs. At the very least, the HRP would price out people who still need high-risk insurance but who do not meet the state's criteria for entry into the HRP.

**5. A High-risk Pool May Increase the Rate of Uninsured**
• Contrary to common opinion, states with high-risk pools have higher rates of uninsured individuals than states that don't have HRPs. Health insurance data (2005) from the Census Bureau shows that states with high-risk pools have, on average, 15.1 percent uninsured, while states without a high-risk pool average 13.4 percent uninsured.
• The HRP contributes to a higher rate of uninsured because it encourages employers to either dump high-risk employees from health coverage, or not offer such coverage at all. Small businesses are especially vulnerable in this regard. Smaller businessmen are already fighting an uphill cost battle to provide affordable health plans for their employees. If they think they can cut costs by not offering insurance to certain high-risk employees, they would probably do so.
• The real problem is that businesses are likely to apply a wider definition of "high health risk" than that used by the state. There is no guarantee that the state would be able or willing to cover every person that an employer deems "high-risk." The end result could very well be more people with no coverage at all.
• In addition, as mentioned above, the state's HRP plan would tend to squeeze out whatever private market is left for high-risk consumers. Those who are not covered by the state and cannot obtain coverage through their employer would literally have no where else to go.
• To make matters worse, if the state tries to mitigate the increase in costs for HRP enrollees by raising premium taxes on everyone, the result could be that people who are insured today would have to drop coverage tomorrow. Health insurance is costly as it is. Even an extra $100 in taxes could push many hardworking families over the edge, leaving them with no coverage at all.

**6. Another Step Toward Offering Government Benefits to Illegal Immigrants?**
• Nothing in HB265 prevents illegal immigrants from being enrolled in the high-risk pool.

**7. The Numbers Don't Add Up**
• As proposed in this bill, the HRP enrollment threshold of 175 percent is higher than the usual 125 percent or 150 percent threshold used by most other states.
• Reimbursement rates for health providers would be set at the Medicaid level (except for services paid by Medicare).

Medicaid is already under cost containment restrictions.

• Under HB265, however, high-risk consumers — and taxpayers — would arguably be better off if the state paid all of the medical expenses for people with serious health problems. The average North Carolinian consumes health care valued at an estimated $5,500 per year (personal health expenditures per capita). It is likely that high-risk consumers would need 25 percent to 50 percent more health care than the average household. Even if high-risk enrollees consumed twice as much health care as the average North Carolinian, the state would only have to dole out $88 million per year for the 8,000 members of the HRP. This is to be compared to the $179.6 million HB265 would ultimately assess in premium taxes.

• Is this just a tax bill hiding as a health care measure or is something else going on?

• The rapid phase-in of the premium assessment tax clearly presupposes coverage for a much larger population than 8,000 people.

**8. A High-risk Pool is the Next Step Toward Universal Health Care**

Representative Holliman is open about the fact that he thinks this bill is a major step toward universal health care.

During the February 27 hearing on HB265 before the House Health Committee Holliman told fellow legislators: "We still have 1.4 million uninsured people in this state and the first step to having any kind of comprehensive program to insuring our people is this bill."

Likewise, as reported by Mark Binker of the Greensboro *News & Record*: "Holliman says that the high risk pool is a first step toward universal coverage in the state. There are lots of schemes that could be used to make sure all 8 million-plus North Carolinians have some sort of health insurance. But the first step, according to Holliman, is dealing with this uninsurable group."

Needless to say, Representative Insko is also an outspoken advocate of universal health care. Insko has spoken openly about the need to use a piecemeal approach to impose a universal health care system on the state. She has similarly gone on record supporting the "creation of a high-risk insurance pool as a first step toward universal health care for North Carolinians."

**9. Alternatives to a High-risk Pool**

• A better way to help people with serious health risks is to allow them to buy health insurance nationally. Because of the state's complex and costly set of coverage mandates, consumers in North Carolina cannot buy insurance from providers based in other states. By relaxing the state's coverage mandates for high-risk consumers, North Carolina would open the market to competition from other providers, thus driving prices down for high-risk health plans.

• Another option would be the creation of a state-sponsored "connector" or "market place" that would enable high-risk consumers to buy plans guaranteed by either North Carolina or other states. Such a plan would allow high-risk individuals to pool together with other high-risk buyers to gain leverage.

• Finally, by allowing small businesses to shop for insurance plans offered nationwide, the state could help more business owners offer affordable insurance plans to their employees. Thanks to ERISA (Employee Retirement Income Security Act), large corporations are exempt from state coverage mandates. It is only fair that small businesses be granted the same exemption. This would let them provide better coverage for all their employees, including those with serious health conditions.

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