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GUEST EDITORIAL

Community Rating: How To Shrink A Safety Net

By MERRILL MATTHEWS JR.

New York lawmakers decided four years ago to impose their idea of fairness on the health insurance market. Now their state is reaping the result: A bumper crop of uninsured patients.

According to one recent news report, the uninsured population in New York City has grown from 20.9% in 1990 to 24.8% in 1995, while the national uninsured rate has grown at a much slower rate, rising from 15.8% to 17.4%.

In the past, hospitals were able to make up some of the losses for uncompensated care by "cost shifting" — overcharging paying patients in order to subsidize uncompensated care. However, managed care, Medicare and Medicaid have been cutting their reimbursement rates to the point that there will be little room for cost shifting in the future.

This news has led to the usual finger pointing at the usual suspects: greedy employers who cancel insurance policies, cold-hearted insurance companies that won't write policies except to the healthiest and the failure of Congress, to pass universal health insurance.

But the finger pointers are wrong. The culprit is the health insurance reform law passed by the New York Legislature in 1993 — legislation that critics warned would drive up the cost of health insurance and force many people out of the market.

This legislation required insurers to

accept all applicants regardless of health status ("guaranteed issue") and charge everyone the same premium for health insurance ("community rating"). To achieve a level premium for everyone, healthy people had to be charged more so that sick people could be charged less. And, because most people are healthy, most people saw their premiums rise — just as predicted.

In the first year of community rating, almost 10% of the insured people experienced premium increases ranging from 20% to 59%. Rates for a 30-year-old single male increased by 170%. According to an early report from the New York Insurance Department, 43,666 individual policyholders canceled their policies after the first year.

Consider the example of Mutual of Omaha, one of the largest sellers of individual health insurance policies in the state. Before community rating was instituted in New York, Mutual of Omaha charged a 25-year-old male on Long Island \$81.64 a month for health insurance. In contrast, a 55-year-old paid \$179.60.

At the start of community rating in 1993, both paid \$135.95, a 67% increase for the 25-year-old and a 24% decrease for the 55-year-old.

Roughly a year later, however, both were paying \$183.79 — more than the 55-year-old paid before community rating went into effect. This year, their community-rated premium will be \$217.59 a month.

These increases come as no surprise to a number of health policy analysts. Their predictions were largely ignored in 1993, and they are largely ignored

now.

And because they have been ignored, other states have taken a similar path. New Jersey, Maine, Vermont and Kentucky are all experiencing problems with their community rating laws as premiums rise, people cancel policies or insurers pull out of the state.

Kentucky, which in 1994 passed reforms similar to New York's, has seen somewhat different results: Health insurers have simply decided to leave. Forty-five insurers that were selling policies in the individual and small-group markets no longer sell policies in the state.

The only remaining insurers are Anthem Blue Cross Blue Shield, which effectively avoids writing new coverage, and KentuckyKare, a state-run health insurance agency. And the number of uninsured in Kentucky is higher than before the reform.

Unless New York repeals or revises its 1993 legislation, the situation there can only get worse. As premiums increase, young, healthy (and usually lower-income) people will drop out of the market when they no longer believe they can afford the premiums — especially in light of their good health status.

In passing the 1993 law, legislators meant to relieve the burden on the health-care safety net by getting more people insured. In reality, they have strained the safety net to the breaking point.

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