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Pitfalls of High Risk Pools

Policymakers at both the state and the national level are currently proposing expansions of high risk pools to increase health insurance coverage. Although they provide important last-resort coverage for some individuals who would otherwise be uninsurable, high risk pools are no substitute for strong market reforms such as requiring insurers to sell all people coverage, regardless of health status ("guaranteed issue"), and guaranteeing that insurers charge equal premiums to all consumers ("community rating").

Thirty-five states already run high risk pools, and the majority of them are flawed by unaffordable premiums, waiting periods for coverage of pre-existing conditions, high cost-sharing, restrictive eligibility rules, and insufficient funding. Given these problems, it's no surprise that in a country with 47 million uninsured residents, high risk pools currently only cover 207,000 people. This issue brief summarizes the most common problems with high risk pools, and links to other resources where advocates can get more detailed information.

Many families simply cannot afford the premiums for high risk pools. All high risk pools charge a higher premium than standard market rates. States place a cap on the premiums, usually at 125 to 200 percent of market rates. Although premiums vary widely across states and by individual characteristics such as age, the average premium for a high risk pool insurance policy is $600 per month for a product with a $1000 deductible. At the high end, some individuals pay more than $1000 in premiums per month. These premiums are often unaffordable for low-income and even moderate-income families seeking coverage.

Almost all high risk pools have long waiting periods for coverage of pre-existing conditions. Most states have a waiting period of between 6 and 12 months before they cover an enrollee's pre-existing condition, meaning that individuals cannot get coverage for up to a year for the very conditions that caused them to be uninsurable in the private individual market. During the waiting period, sick enrollees may have to forgo treatment for time-sensitive conditions such as cancer.

Best Practices Checklist for High Risk Pools*

Market reforms such as community rating and guaranteed issue are more effective than high risk pools at providing access to health care coverage for vulnerable populations. However, advocates in states where market reforms are politically infeasible can work to make their high risk pools as consumer-friendly as possible. Best practices for high risk pools include:

☑ Capping premiums at no higher than 125 percent of average private market rates

☑ Subsidizing premiums on a sliding-scale for low- and moderate-income individuals

☑ Eliminating any enrollment caps

☑ Allowing either denial of coverage *or* certain diagnoses to qualify an individual for high risk pool coverage

☑ Providing comprehensive benefit packages and eliminating benefit caps

*Source: Community Catalyst and Families USA's "Consumer Guide to State Health Reform"

The coverage offered through high risk pools requires substantial cost-sharing. Even if individuals are able to enroll and afford the premiums for high risk pools, they may still face significant barriers to accessing health care services. Most high-risk pool enrollees pay at least a $500 deductible plus 20 percent coinsurance. Many states have lifetime limits on benefits, which in some states can be as low as $500,000. Still other states have annual limits on coverage, which can be as low as $75,000. High cost-sharing and low benefit caps are particularly inappropriate for individuals with chronic conditions that require frequent doctor's visits and expensive prescription drugs – the very population these pools are intended to serve.

Not all individuals who are denied coverage in the private market qualify for their state high risk pool. States limit the enrollment in their high risk pools by adopting a range of restrictive eligibility criteria. For example, some states accept only applicants who have elected COBRA and exhausted it, or U.S. citizens, or individuals who have lived in the state for at least a year. With these eligibility criteria, too many vulnerable families fall through the cracks and find themselves with no coverage options at all.

High risk pools require substantial state funding. Since states impose caps on premiums in their high risk pools, medical costs for the enrollees exceed the revenue from premiums. As a result, states must finance that deficit, which usually amounts to roughly half of the pool's operating costs. States use a variety of financing mechanisms for high risk pools, including assessments on insurers, general funds, and tobacco taxes, but adequate funding can be difficult to sustain politically. For example, Florida legislators closed their state's high risk pool to further enrollment in 1991 due to the pool's financial difficulties. With only 313 members in a state with 3.8 million uninsured, the Florida high risk pool remains closed to further enrollment in 2008.

Conclusion

High risk pools cover only a tiny fraction of the U.S. population while millions of high-risk Americans remain uninsured. Although low public awareness of high risk pools may play a role in these low enrollment rates, poor visibility is not the entire problem. Millions of high risk uninsured Americans face insurmountable barriers to enrollment in their state high risk pools: unaffordable premiums, long waiting periods for coverage of pre-existing conditions, high cost-sharing, restrictive eligibility rules, and insufficient funding. High risk pools may play an important role as insurer of last resort for some people in our broken system, but they are no solution to our health care crisis.

For More Information

Are High Risk Pools the Answer?: In 2001, the Commonwealth Fund studied the premiums, funding, benefit designs and waiting periods of state high risk pools. This article also discusses the inadequacy of high risk pools. http://content.healthaffairs.org/cgi/content/full/hlthaff.w2.349v1/DC1

Families USA's High Risk Pools Issue Brief: This issue brief gives a broader background on high risk pools. It has a particularly helpful section on how high-risk pools are typically financed and how much they usually cost. http://familiesusa.org/assets/pdfs/High-Risk-Pools-May-2006.pdf

High Risk Pool Descriptions: This State Coverage Initiatives website describes enrollment levels and other characteristics of state high risk pools. http://www.statecoverage.net/matrix/highriskpools.htm

Other sources used for this issue brief: Kevin Sack, McCain Plan to Aid States on Health Could be Costly, New York Times, July 9 2008; National Association of State Comprehensive Health Insurance Plans website; Online transcript of Kaiser Family Foundation's July 15 2008 Ask the Expert debate on high risk pools; and the Kaiser Family Foundation's State Health Facts website on Managed Care and Health Insurance.

