

## Health Insurance Risk Pools

### Background

#### What are risk pools?

One problem with America's health care system is that some sick people who lose their health insurance find it impossible to purchase new coverage. Insurers may classify them as uninsurable, offer them a policy that excludes payment for medical services for their preexisting conditions, or set their risk-rated premium so high they cannot afford it.

To address this problem, 35 states—including Alabama—have created high-risk insurance pools to make subsidized insurance available to people who cannot purchase conventional coverage for a reasonable price. As of December 31, 2009, approximately 208,300 individuals—or about 1.8 percent of the individual health insurance market—were enrolled in these programs.<sup>i</sup>

#### How long do individuals usually stay in risk pools?

Relatively few people stay in risk pools for long periods of time. According to a 2010 report by the Employee Benefits Research Institute, most individuals who lose their insurance remain uninsured for a relatively short period of time. For example, some turn 65 and qualify for Medicare; some get married and become insured under a spouse's policy; some have their medical conditions improve and qualify for standard insurance again; and some change jobs and become insured by a new employer.<sup>ii</sup>

#### How are risk pools traditionally funded?

Traditionally, state-operated risk pools have been funded by participants paying significantly larger premiums than those paid by healthy individuals. However, even with higher premiums the pools usually lose money because

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their members are disproportionately high health care users, creating the need for an additional funding mechanism. To make up this shortfall, some states use general tax revenues or levy a tax on hospitals. In most states, insurers make up the deficit by paying assessments in proportion to their share of the market. To keep this burden from falling on insurers, several states that assess insurers allow insurance companies to subtract most or all of their assessments from the premium taxes that they pay to the state.

In Alabama, the state's risk pool is the Alabama Health Insurance Plan (AHIP). Its operating funds come from premium payments. If the plan incurs any deficit, it is recouped by assessments among participating insurers.<sup>iii</sup>

#### How will the new healthcare legislation affect existing risk pools?

With the passage of the Patient Protection and Affordable Care Act (PPACA) in 2010, state risk pools have been substantially changed. Effective June 21, 2010, the PPACA established a temporary, \$5 billion, national risk pool to provide access to insurance to

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Americans who have been uninsured because of a pre-existing condition for at least six months.

States have also been given the option to expand their current program—if one already exists—or to defer to the federal government to handle it. At present, 27 states have chosen to run their own PPACA pool, while 23 others—including Alabama—have deferred this arrangement to the federal government. This program is to remain in effect until January 1, 2014.<sup>iv</sup>

## Are there any problems with the new risk pool program?

There are at least two significant shortfalls with the federal risk pool program. First, to keep the program affordable, premiums in the new risk pool are designed to be up to 50 percent lower than current state rates, and copays and deductibles are also expected to be competitive. Unfortunately, citizens and legal residents who are already a part of state-based risk pool cannot participate unless they drop out of their existing plan and remain uninsured for six months, nor can states with preexisting risk pools reduce their efforts to cover those who are already a part of their own programs. It is highly unlikely that many already-ill individuals will choose to forgo medical insurance for six months to obtain a lower premium.<sup>v</sup> In fact, while it is estimated that as many as 375,000 persons might be eligible for the new program, only 18,300 had enrolled nationwide as of March 2011.<sup>vi</sup>

The second, and possibly the larger, problem with the new federal risk pool program is that the true costs of the program remain largely unknown. Some analysts, for example, believe it is possible for the \$5 billion set aside for the four-year program could be spent by the end of 2011. If this is the case, several unpleasant choices will remain: either the states will have to carry the rest of these costs until at least 2014; the patients themselves may see their premiums jump dramatically; or the number of patients who may be enrolled in the program may be limited.<sup>vii</sup>

## Further Reading

- National Conference of State Legislatures, “Coverage of Uninsurable Pre-existing Conditions: State and Federal High-Risk Pools.” June 4, 2011. Available at <http://tinyurl.com/2cn2wpx>. Access verified June 27, 2011.
- Paul Fronstin, “Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2010 Current Population Survey.” Employee Benefit Research Institute, *Issue Brief* No. 347, September 2010. Available at <http://tinyurl.com/3z7egep>. Access verified June 28, 2011.

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<sup>i</sup> National Conference of State Legislatures, “Coverage of Uninsurable Pre-existing Conditions: State and Federal High-Risk Pools.” June 4, 2011. Available at <http://tinyurl.com/2cn2wpx>. Access verified June 27, 2011.

<sup>ii</sup> Paul Fronstin, “Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2010 Current Population Survey.” Employee Benefit Research Institute, *Issue Brief* No. 347, September 2010. Available at <http://tinyurl.com/3z7egep>. Access verified June 28, 2011.

<sup>iii</sup> “Alabama Risk Pool – Insurance for the Uninsurable.” Health Insurance Finders (web). 2011. Available at <http://tinyurl.com/mnegrj>. Access verified October 24, 2011.

<sup>iv</sup> *Ibid.*

<sup>v</sup> Kathryn Nix, “Side Effects: The Catch-22 of Obamacare Risk Pools.” The Heritage Foundation, *The Foundry* (blog), April 22, 2010. Available at <http://tinyurl.com/3886ke5>. Access verified June 28, 2011.

<sup>vi</sup> Fronstin, “Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2010 Current Population Survey.”

<sup>vii</sup> “Obamacare Premiums for New ‘High Risk’ Pool May be Steep.” Associated Press (web), July 1, 2010. Available at <http://tinyurl.com/44nlvqk>. Access verified June 28, 2011.