GUIDE TO THE ISSUES

ALABAMA POLICY INSTITUTE

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.[i]

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.[ii]

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 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.[iii]

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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