Health Insurance: Partial Reform or Total Change?

BY JANE H. WHITE

The politics of healthcare reform call for compromise. Everyone agrees that reform is necessary; however, the specifics of which special interest group will compromise on what position are just beginning to unfold. The health insurance industry is one group that has ceded part of its position—on regulation of the small-group portion of its market.

"It is remarkable for any industry to invite such heavy regulation of itself," notes Mark A. Hall, professor of law at Arizona State University in Tempe.[1] Hall recently researched the reform issue while a Robert Wood Johnson Foundation Health Finance Fellow at the Health Insurance Association of America (HIAA). "It is even more surprising, given the wide divergence of opinion among various interest groups on how best to carry out other aspects of health financing reform, that the basic structure of small-group market reform has broad political support in states and in federal policy circles," he continues.

Political leaders have jumped at the chance to legislate health insurance reform for the nation's smallest employers because it keeps the cost of healthcare reform in the private sector. Such an "off-budget" reform measure has enormous appeal, especially during an election year, when candidates do not have the political will to raise taxes.

But will policymakers enact this partial reform relatively soon or continue to work toward more fundamental reform? Will small-group insurance reform help or hinder systemwide changes in the longer term? This column examines the political interest and growing concerns surrounding this segment of the healthcare reform debate.

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Why Reform Small-Group Insurance?

"The cost and availability of health insurance is the number one problem facing the nation's small business community," testified John Motley of the National Federation of Independent Business (NFIB) at a February 20 hearing before the Senate Finance Committee. In a 1986 survey of NFIB's members, health insurance emerged as the most pressing of 75 potential problems for small businesses.[2] A 1992 follow-up NFIB study found that healthcare is "now twice as critical as number two, which is 'federal taxes on business income,'" said Motley.

Data from HIAA, the trade association for commercial insurers, show that of businesses with fewer than 25 employees, only 36 percent offered health insurance in 1990, while 87 percent to 99 percent of larger firms offered such insurance.[3] High cost was the reason cited by 54 percent of small businesses surveyed in 1991 by Harvard researchers Jennifer N. Edwards and Robert Blendon and their colleagues at Louis Harris and Associates and the Institute for the Future.[4] Other reasons for not offering insurance were "(1) employees are generally covered under a spouse's or parent's policy (23 percent); (2) the business cannot qualify for a policy (3 percent); (3) employee turnover is too high (3 percent); or (4) the business has no trouble hiring without offering benefits (2 percent)."

Small employers' health insurance premium costs are rising out of control, according to 62 percent of the Harvard survey respondents. In addition, 30 percent of small employers said they were likely to eliminate insurance benefits in the future because rising costs are outpacing their ability to pay.

Some reasons that cost increases have hit small businesses so hard are adverse risk selection (where insurers with more liberal enrollment practices attract sicker enrollees), changes in insurance underwriting practices, and changes in the law to allow very large businesses to pull out of the insurance market and "self-insure," thus decreasing the size of the pool over which to spread the risk.

"Our experience has taught us that the idea of spreading risk and distributing costs broadly has completely broken down in the small group and individual (nongroup) insurance markets," testi-

fied Judith Waxman of Families USA, a not-for-profit advocacy organization, at the February hearing. "In a desperate attempt to offer lower premiums, insurers now compete to avoid risk and to reduce benefits, rather than to spread risk and offer comprehensive coverage."

In the past, insurers for small businesses used a form of "community rating," which spreads the risk of high-cost medical claims more broadly. The move toward "experience rating," where each business's rates are set according to its own claims experience, emerged first as an option for larger groups as the insurance industry became more competitive. Those large groups with a low risk of expensive healthcare costs switched to the lower-cost experience-rated plans. Recently experience-rating practices have extended to smaller firms. Although experience rating may work for large groups, it can wreak havoc on small groups that have one or more seriously ill employees, but have too few employees to absorb the risk. Recent legislative proposals would regulate underwriting and other insurance practices pertaining to small groups.

The Politically "Easy" Route

Some legislators find small-group insurance market reform politically appealing. "Now small-group insurance reform is viewed as the 'easy' part of reforming our healthcare system," said Sen. Jay Rockefeller, D-WV, at the February hearing. "One of the obvious reasons is that it represents action we can take without costing the federal treasury. But the more serious reason is that the market has deteriorated so badly, so fast, that even the insurance companies realize that government intervention is needed to clean up the market."

Representatives and senators on both sides of the aisle recently introduced small-group reform bills. Bill sponsors include Senate Finance Committee Chair Lloyd Bentsen, D-TX (S. 1872); Sen. John Chafee, R-RI, who chairs the Senate Republican Health Care Task Force (S. 1936); House Ways and Means Committee Chair Dan Rostenkowski, D-IL (H.R. 3626); Ways and Means Subcommittee on Health Chair Fortney H. "Pete" Stark, D-CA (H.R. 2121); and Rep. Nancy Johnson, R-CT (H.R. 1565).

The Bush administration added its voice with a bill submitted to Congress by Department of Health and Human Services Secretary Louis Sullivan, MD, on May 8, 1992. This proposal was then put forth by Senate Minority Leader Robert Dole, R-KS, and Chafee as S. 2732 on May 14. The House Republican leaders released their own version in June.

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The early bipartisan support for small-group insurance reform was evident in the Pepper Commission, which included such reform as a primary element of its plan. Rockefeller noted at the February hearing, "In fact, the final vote of 8-7 on [the Pepper Commission plan] completely masked the unanimous support within the commission, expressed over and over again by all 15 members, for reforming the small-group market."

In March 1992 Bentsen's version for reform passed the Senate and was added to its tax bill by a vote of 50-47. After compromise with the House, however, the measure was deleted from the tax bill. Nevertheless, congressional leaders vowed to push the reforms as stand-alone legislation at a later date.

At the state level, nearly half the states have passed partial small-group market reform, and many more are considering such reform. Indeed, the insurance industry prefers state-level action.

"Insurers have a deep-seated opposition to federal intervention in all spheres of insurance," explains Hall.[5] "They are comfortable with the known scheme of state regulation; they believe state regulators are more responsive to varying local market conditions; and they fear that federal oversight will result in a second layer of regulation rather than displacement of state authority," he continues.

Pricing Concerns

Despite the apparent broad bipartisan support for small-group reform, differences begin to emerge as one examines the various proposals more closely. A variety of technical and broader philosophical concerns could slow the momentum for these insurance reforms.

A key set of concerns revolve around price. As Gary Kushner of National Small Business United testified, "Too much insurance reform in the wrong direction will dramatically raise premiums, forcing many small businesses to drop their insurance; it could also drive insurers out of the small-group market altogether." Kushner spoke at a March 12 Ways and Means Subcommittee on Health hearing that examined some of the more technical concerns with small-group insurance reform.

To find out how the Senate's reform proposal that was attached to the tax bill would actually affect employers' premium costs, Families USA contracted with Washington, DC–based actuary Gordon Trapnell. They found that "to make substantial reductions in the premiums of groups containing persons with existing medical condi-

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tions, insurers would raise the premiums of other groups. Without concurrent measures to contain skyrocketing health costs, most small groups would experience significant increases in their premiums."[6] Indeed, the group found there would be "three to four times as many 'losers'—who would pay considerably higher premiums—as there would be 'winners.'" Families USA reminded Congress of the Medicare Catastrophic Health Care Plan's lesson concerning shifting the cost of reform from one group to another. An outcry against premium increases by the small-group "losers" could "deter future efforts to enact more fundamental reform," notes the report.

In addition, recent research has shown that the price of health insurance would need to drop significantly to interest small businesses not already covered. Even with premium reductions of 25 percent to 50 percent, the percentage of previously uninsured small businesses that enrolled in insurance plans under a recent Robert Wood Johnson Foundation demonstration ranged from a mere 2 percent to 17 percent of the market.[7] Thus what most uninsured small businesses would consider "affordable" health insurance would need to be deeply subsidized.

Reformers Versus Incrementalists

Beyond price and technical rating issues, the broader question such reform raises is whether it is an appropriate first step or whether it diverts attention from more fundamental healthcare reform.

"If you let a little steam off in this way, does it take pressure off the growing pressure for reform?" queries Catholic Health Association (CHA) lobbyist Jack Bresch. CHA's position is that "in the context of a larger reform package, we absolutely have to address these kinds of issues," says Bresch. On its own, however, small-group reform ignores the broader problems of access, cost containment, and the governmental role in healthcare reform.

With an election at stake, the rhetoric is hot. In introducing his bill on May 14, Dole said, "One would think we could agree on the details and move these bills this year, but unfortunately it appears election-year politics may prevent even this limited progress from being made. There are those who want to hold out for everything—and who may ultimately get nothing."

This debate pits broad reformer against incrementalist. The struggle between the two is now unfolding as the two camps debate the value of taking a first step to show that their leaders can "do something," versus sweating out the politically unsavory details (such as financing) to achieve more fundamental healthcare reform. □

NOTES

1. Mark A. Hall, "The Political Economics of Health Insurance Market Reform," *Health Affairs*, Summer 1992, pp. 108-124.
2. National Federation of Independent Business, *Problems and Priorities*, Washington, DC, 1986.
3. Cynthia B. Sullivan and Thomas Rice, "The Health Insurance Picture in 1990," *Health Affairs*, Summer 1991, pp. 104-115.
4. Jennifer N. Edwards et al., "Small Business and the National Health Care Reform Debate," *Health Affairs*, Spring 1992, pp. 164-173.
5. Hall.
6. Families USA, "The Senate's Small Group Insurance Reform: A Catastrophic Health Care Debacle in the Making?" Washington, DC, 1992.
7. Catherine G. McLaughlin and Wendy K. Zellers, "The Shortcomings of Voluntarism in the Small-Group Insurance Market," *Health Affairs*, Summer 1992, pp. 28-40; W. David Helms, Anne K. Gauthier, and Daniel M. Campion, "Mending the Flaws in the Small-Group Market," *Health Affairs*, Summer 1992, pp. 7-27.