Quarantining the Sick in High-Risk Pools is Not a Replacement for the ACA

By Thomas Huelskoetter February 16, 2017

The Affordable Care Act, or ACA, banned insurers from the previously common practice of denying coverage to people with pre-existing medical conditions, charging them higher premiums, or excluding these conditions from their coverage. Given the popularity of this provision, congressional Republicans often express support for keeping it.

However, the specific alternative proposals that House Speaker Paul Ryan (R-WI) and other conservatives have put forward fall far short of the ACA's protections. Rather than fully retain the pre-existing conditions protection, they often propose limiting it to people who are able to maintain continuous coverage for a certain period of time, while establishing high-risk pools for people who cannot maintain continuous coverage or otherwise cannot afford premiums.[1] Instead of developing a market that is accessible and affordable for everyone, this approach would simply quarantine less healthy people in separate markets.

High-risk pools are a perennial conservative proposal for covering people with pre-existing medical conditions without guaranteeing them access to the regular insurance market.[2] Adding to this concern, the health insurance lobby is secretly working with congressional Republicans to cut a deal that could push their highest-cost customers off of marketplace plans and into high-risk pools.[3] High-risk pools have consistently failed in the past and are not a serious alternative to the ACA.

Quarantining sick people

Conceptually, insurance works by spreading risk across a broad population. High-risk pools take the opposite approach: They quarantine many of the sickest patients into a separate, smaller market in the hopes of making insurance cheaper in the regular insurance market.

Yet, high-risk pools do not change the basic fact that less healthy people are more expensive to cover; the underlying costs of these people's care do not magically go away. A high-risk pool approach simply shifts these costs to a separate market that generally lacks healthy people to balance out risk. Consequently, average per-person costs in the separate pool are extremely high compared with regular insurance markets.

As a result, the high-risk pool inevitably pays out far more in medical claims than it collects in premiums, creating a massive shortfall that requires huge, ongoing government subsidies to avert a market collapse. If insurers priced their premiums at the actual level needed to cover expenses in this smaller market, then premiums would be so high that few consumers would be able to stay in the market at all.

High-risk pools have failed in the past

States that ran high-risk pools prior to the ACA found it virtually impossible to actually finance them sustainably while covering significant numbers of people. These financial realities are why many states took steps to limit the ability of people with pre-existing conditions to actually enroll or to use their coverage, even though offering coverage to such people was the high-risk pools' nominal reason for existence. High-risk pool enrollees faced substantially higher premiums than people in the normal individual market, often by as much as 150 percent to 200 percent, although some pools did offer subsidies to low-income enrollees.[4]

Furthermore, many high-risk pools imposed lifetime limits or annual limits on coverage, which are no longer permitted on essential benefits for new plans under the ACA. Many high-risk pool plans also had high deductibles along with their already high premiums.[5]

And stunningly, the overwhelming majority of state high-risk pools actually refused to pay for services associated with a patient's pre-existing conditions in the first months of their enrollment. These coverage exclusions generally lasted for six to 12 months.[6] In other words, despite being marketed today as a solution for people with pre-existing conditions, high-risk pools in the past were explicitly structured to discourage people from signing up specifically to receive treatment for their pre-existing conditions, primarily because these pools lacked sufficient funding to accommodate such treatment.

For example, California's high-risk pool imposed a shorter-than-average, three-month waiting period before enrollees could receive treatment for pre-existing conditions—but also imposed a $75,000 annual limit on benefits along with a $750,000 lifetime limit.[7] In addition, the state capped enrollment, resulting in long waiting lists of people unable to enroll; at the same time, the pool's high premiums proved difficult for enrollees to afford, leading some to drop out.[8] Meanwhile, Florida had such difficulty financing its high-risk pool sustainably that the state froze new enrollment for the pool in 1991; enrollment remained frozen almost two decades later as the debate over the ACA began.[9]

The performance of these past high-risk pools gives little reason for optimism that they are capable of covering large numbers of people effectively and affordably. Prior to full implementation of the ACA in 2011, high-risk pools in 35 states had net losses of $1.2 billion for the year while covering only about 226,600 people.[10]

In addition, the ACA established a temporary high-risk pool called the Pre-Existing Condition Insurance Plan, or PCIP. It provided coverage options for uninsured people who met certain requirements, in advance of the ACA's coverage expansion and consumer protections going into full effect in 2014. However, the PCIP had only $5 billion in funding and saw low enrollment, covering only about 115,000 people at its peak.[11] Notably, the $5 billion proved to be too little to handle even this low rate of enrollment, forcing the federal government to take steps to limit enrollment and shift costs to enrollees, including a suspension of new enrollment in 2013.[12]

These enrollment numbers are a fraction of the eligible population. Overall, the Kaiser Family Foundation estimates that 52 million Americans, or one in four nonelderly adults, have a pre-existing condition that insurers could have used to deny them coverage if they were applying on the individual market prior to the ACA.[13] Many of these 52 million people already have coverage through their employers or through public programs, such as Medicaid, but others are uninsured or covered through the individual market. The Government Accountability Office estimates that, prior to the ACA, insurers on average denied about one in five individual market applications.[14] And the Kaiser Family Foundation estimate only includes those people whose pre-existing conditions would have made them "uninsurable" from the perspective of insurers. It does not include many other Americans who have types of pre-existing conditions that would leave them exposed to discrimination through higher premiums or coverage exclusions in the individual market if the ACA's protections were repealed.[15]

Congressional proposals are inadequate and underfunded

Speaker Ryan's health care proposal outline would provide $25 billion in funding over 10 years, or $2.5 billion per year, to support high-risk pools in the states.[16] However, the Congressional Budget Office has previously estimated that a package of proposals including roughly this level of funding for high-risk pools would only be sufficient to cover 3 million people.[17] Since this estimate also included the effects of several other proposals, the specific impact of $25 billion for high-risk pools would actually be even smaller. Underfunding high-risk pools in this manner would shift costs to states, which would be forced to make up the difference or, more likely, restrict coverage or enrollment for people with pre-existing conditions.

For comparison, conservative experts James Capretta and Tom Miller have estimated that $15 billion to $20 billion per year, or $150 billion to $200 billion over 10 years, would be needed to fully finance high-risk pools even if they covered only 2 million to 4 million people.[18] Notably, their estimates were based on the financial costs of state high-risk pools, which generally maintained restrictive measures such as coverage exclusions in the initial months after enrollment, high premiums and deductibles, and lifetime and/or annual limits on coverage. As a result, more generous high-risk pools would be even more expensive to finance. Similarly, University of Chicago professor Harold Pollack has estimated that a high-risk pool covering 4 million people would need $24 billion in annual subsidies.[19]

As these estimates indicate, Speaker Ryan's proposal does not come close to providing enough funding to realistically cover people with pre-existing conditions in high-risk pools without limiting enrollment or coverage.

Conclusion

Using high-risk pools to quarantine the sick is not a new idea—and it has consistently failed in the past. Congressional Republican proposals to set up high-risk pools while significantly underfunding them are not a serious alternative to the ACA's coverage expansion and protections for people with pre-existing conditions.

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Endnotes

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