Module III

GUARANTEED ISSUE

Guaranteed Issues

- All plans in all markets guaranteed issue and guaranteed renewable
  - No pre-ex limitations
  - No pre-ex exclusions
  - No surcharges
- Enrollment Periods
  - Annual Open Enrollment
  - Special Enrollment Periods

Existing guaranteed issue rules

HIPAA

- Passed in 1996, called for guaranteed issue rules in the small group market and a guaranteed issue individual option in each state.

Small Group

- Most states, including Texas, implemented guaranteed issue rules in the small group market, defining small group as 2-50 eligible employees. This definition varies in some states but is pretty standard.

Risk Pools

- Most states, including Texas, created high risk pools as a safety net for individuals who are not eligible and do not qualify for other insurance programs. Some states have guaranteed issue individual options. But some states, even 16 years after HIPAA, still do not have a guaranteed purchasing option.

Health Reform

Children

- Not wanting to wait, the health reform legislation eliminated pre-existing condition limitations and exclusions for children back in 2010.

Pre-existing Condition Insurance Plan (PCIP)

- Effective three months after the law was signed, a national high risk pool, supplemented with federal dollars, was set up to provide people with pre-existing conditions and no coverage in the past 6 months a guaranteed purchasing option. The temporary high risk pool will go away and transition into the exchange in 2014.

All plans in all markets

- Effective January 1, 2014, all plans in all markets will be guaranteed issue with no pre-existing condition limitations or exclusions. This is a huge accomplishment and the central provision of the legislation.

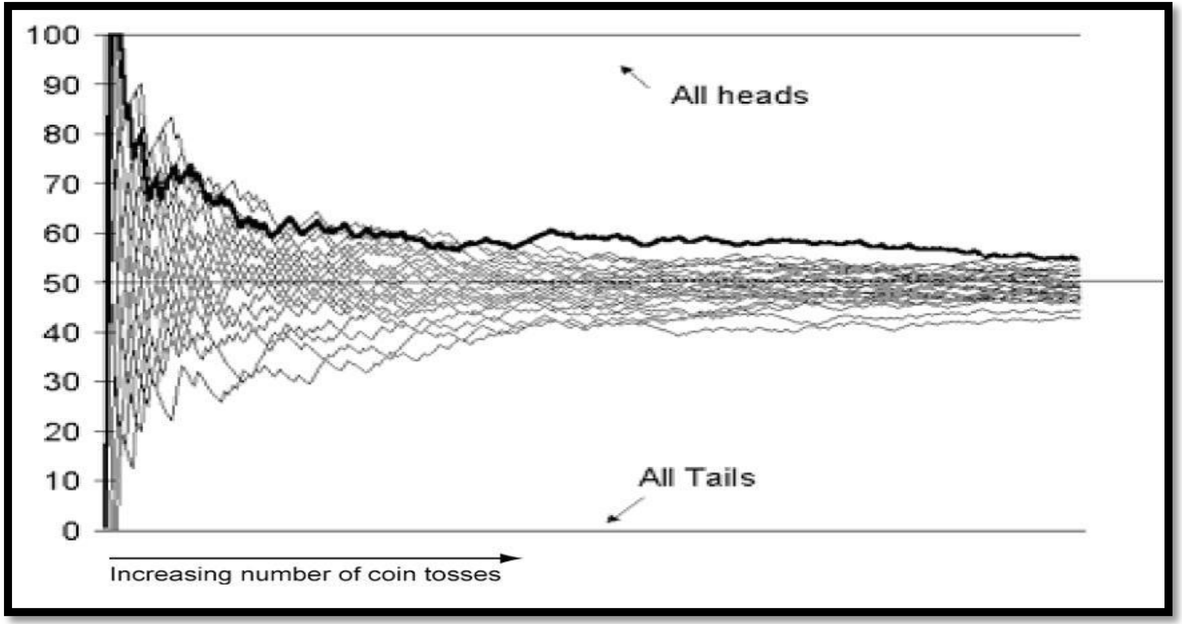
Adverse Selection

- The term…describes a situation wherein an individual's demand for insurance (the propensity to buy insurance and the quantity purchased) is positively correlated with the individual's risk of loss (higher risks buy more insurance), and the insurer is unable to allow for this correlation in the price of insurance.
- This may be because of private information known only to the individual (information asymmetry), or because of regulations or social norms which prevent the insurer from using certain categories of known information to set prices (for example, the insurer may be prohibited from using such information as gender, ethnic origin, genetic test results, or preexisting medical conditions, the last of which amount to a 100% risk of the losses associated with the treatment of that condition).

Source: Wikipedia

Reducing adverse selection

Group Coverage: Law of Large Numbers



Ways carriers reduce adverse selection

Contribution Requirements

Participation Requirements

Enrollment Periods

Ways carriers reduce adverse selection

- **Contribution requirements**: when the employer contributes a significant share of the premium, a significant percentage of employees choose to participate, spreading the claims risk across a bigger group.

- **Participation requirements**: to ensure that enough employees sign up for coverage, most carriers have a minimum participation requirement (usually 75%). Healthy employees help offset the cost of unhealthy employees

- **Annual enrollment periods**: Employees purchase coverage before they need it; they don't wait until they get sick to enroll.

Ways carriers reduce adverse selection

Pre-existing condition waiting periods – eliminated by the health reform legislation starting in 2014.

Moral hazard

- In economic theory, a moral hazard is a situation where a party will have a tendency to take risks because the costs that could incur will not be felt by the party taking the risk. In other words, it is a tendency to be more willing to take a risk, knowing that the potential costs or burdens of taking such risk will be borne, in whole or in part, by others. A moral hazard may occur where the actions of one party may change to the detriment of another after a financial transaction has taken place.
- Moral hazard arises because an individual or institution does not take the full consequences and responsibilities of its actions, and therefore has a tendency to act less carefully than it otherwise would, leaving another party to hold some responsibility for the consequences of those actions.
- In insurance markets, moral hazard occurs when the behavior of the insured party changes in a way that raises costs for the insurer, since the insured party no longer bears the full costs of that behavior. Because individuals no longer bear the cost of medical services, they have an added incentive to ask for pricier and more elaborate medical service, which would otherwise not be necessary. In these instances, individuals have an incentive to over consume, simply because they no longer bear the full cost of medical services.

Source: Wikipedia

Guaranteed Issue

ANY QUESTIONS?