



February 19, 2010

Ten Easy Reforms to Cover Preexisting Conditions

Written by John C. Goodman

Most current proposals for dealing with the problems of preexisting conditions would completely divorce health insurance premiums from expected health care costs. Yet a policy of trying to force health plans to take enrollees they do not want risks jeopardizing the quality of care people receive.

Instead of suppressing the price system, I propose ten ways of dealing with this problem that make greater use of the price mechanism. In a reformed health care system, the chronically ill, along with their doctors, their employers, and their insurers, should all find lower-cost, higher-quality, more-accessible care to be in their economic self-interest.

1. Encourage Portable Insurance.

In almost every state, employers are not allowed to buy the kind of insurance most employees want and need: Insurance they own and can take with them from job to job, in and out of the labor market. Most of the time, the problem of preexisting conditions arises precisely because health insurance isn't portable.

2. Allow Special Health Savings Accounts for the Chronically Ill.

Cash and Counseling pilot programs in Medicaid are underway in more than half the states. Homebound, disabled patients manage their own budgets, hiring and firing those who

provide them with services. Satisfaction rates approach 100 percent (virtually unheard of in any health plan anywhere in the world). This program could become a model for treatment of chronic illness everywhere.

3. Allow Special Needs Health Insurance.

Instead of requiring insurers to be all things to all people, we should allow plans to specialize in treating one or more chronic conditions. Plans could specialize, for example, in diabetic care, heart care, or cancer care, and they should be able to charge a market price (say, to employers, other insurers, and even risk pools), and price and quality competition should be encouraged.

4. Allow Health Status Insurance.

To facilitate the market for chronic illness insurance we should encourage a division of conventional insurance into two separate kinds of insurance, with two separate premiums. Standard insurance would cover the health needs of people during the insurance period, while health status insurance would pay future premium increases people face if they have a change in health status and then try to switch to another health plan.

5. Allow Self-Insurance for Changes in Health Status.

Federal tax law allows employers to pay for current-period medical expenses with untaxed dollars. But there is no similar opportunity for either employers or employees to save for a future change in health status that generates substantial increases in medical costs. Clearly, people need the ability to engage in contingency savings: A Health Savings Account for future, rather than current, medical costs.

6. Give Individuals the Same Tax Break Employees Get.

Most people who have a problem with preexisting conditions are trying to buy insurance in the individual market. Unless they are self-employed, they get virtually no tax relief, and even the self-employed are penalized vis-à-vis employer-provided insurance. This should be a no-brainer: All insurance should get the same tax relief regardless of where it is obtained, and individuals should get the same tax relief regardless of how they obtain their insurance.

7. Allow Providers to Repackage and Reprice Their Services Under Medicare and Medicaid.

Most providers today are trapped in a payment system that encourages high-cost, low-quality care. Instead we should encourage innovative solutions to the care of diabetes, asthma, cancer, heart disease, etc. Providers should be able to offer a different bundle of services and be paid in a different way as long as they reduce the government's overall cost and provide a higher quality of care.

8. Allow Access to Mandate-Free Insurance.

Studies show as many as one out of four uninsured Americans has been priced out of the market for health insurance by cost-increasing,

government-mandated benefits. These are mainly healthy people. These mandates, however, also raise premiums for the chronically ill, diverting dollars away from their care. There is no reason the government should force a diabetic to pay for other peoples' in vitro fertilization, naturopathy, acupuncture, or marriage counseling in order to obtain life-saving care.

9. Create a National Market for Health Insurance.

More competition, especially among special-needs insurers (see number 3), would be a huge benefit for the chronically ill. Being able to buy insurance across state lines would encourage that competition.

10. Encourage Post-Retirement Health Insurance.

If the past is a guide, more than 80 percent of the 78 million baby boomers will retire before they become eligible for Medicare. This group has the greatest potential for denial of health insurance because of preexisting conditions. Fortunately, one out of every three baby boomers has a promise of post-retirement health care. However, two out of three do not, and even for those who have a commitment, almost none of the promises are funded.

Hence employers should (a) be encouraged to negotiate with insurers to cover their retirees, (b) be able to pay some or all of the premium for retiree-owned insurance or make deposits to the retiree's HSA with pre-tax dollars, and (c) both employers and employees should be able to save in tax-free accounts in anticipation of these needs (see number 5).

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