

healthplan insider

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The 2007 Kansas Legislative session is already past its mid-point and continues to move at a quick pace. There have been what are surely a record number of bills introduced this session carrying implications for Blue Cross and Blue Shield of Kansas and in many cases our customers. A summary of the two most significant state based initiatives is provided here along with a summary of a third state initiative (SB 243) that could also raise costs, but to a lesser degree than SB 309 and SB 175.

SB 309 – Health Insurance Exchange

(Note: At press time, alternative legislation for Senate Bill 309 (Substitute for SB 309) was introduced. It calls for a study of the health insurance exchange mechanism and other health insurance reforms that have been considered this legislative session. Blue Cross and Blue Shield Kansas supports the approach taken by Substitute for SB 309.)

SB 309 promotes a fundamental reform of the small group and individual health insurance marketplace. It would provide for the establishment of the health insurance exchange that would eventually become the sole conduit through which every state employee, individual and small group employee would purchase coverage. Insurance companies wishing to participate in those markets would be required to accept all applicants enrolling through the exchange without regard to health status. Individuals seeking coverage through the exchange, including individual employees of participating employers, would have the right to select an individual (non-group) insurance policy available from any of the participating insurance companies offering products through the exchange.

Since insurance companies are required to issue coverage regardless of an individual's health status, the exchange itself can be designated an "employer sponsored plan." Employers could contribute toward an employee's premiums but wouldn't be required to do so. Employers also would not be required to participate. However, if they do offer coverage to their employees, they must do so through the exchange. As well, employers offering coverage through the exchange would be required to establish a Section 125 plan and a payroll deduction mechanism so that employees purchasing coverage through the exchange would do so with pre-tax dollars.

The bill contains no functional mechanism that would compel all individuals and small employers to purchase coverage. The lack of such a mechanism and a corresponding state subsidy to assist low income Kansans with affordability increases the potential for participating insurers to be selected against – for only those in need of a significant amount of health care making the decision to buy into the market.

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We also believe that blending state employees, the individual market and the small group market into a single pool using only age, geography and family composition as rating factors could lead to inequitable rate increases for some insureds. These three groups are currently rated based on their own separate pools using different rating methodologies.

Our actuarial staff has analyzed the implications of this, concluding that approximately two-thirds of our affected insureds would experience rate increases under the proposed exchange system while only one-third would see a rate decrease.

Even though the initial hearings on this bill exposed several aspects that could lead to serious unintended consequences, considerable interest in the health insurance exchange concept continues to be expressed. It is too early to know how the debate on the exchange concept will turn out as the situation remains in an extreme state of flux and the issue has become increasingly controversial.

SB 175 – Mandatory Assignment of Benefits

This year there are new and energized members of the coalition pushing mandatory assignment legislation, in particular the specialty hospitals. They will join Via Christi, the Kansas Dental Association and others in their fight for direct payment of non-participating providers. We were again successful in building a strong coalition in opposition to the bill, and believe our efforts and logic will prevail so that we'll be able to defeat this legislation again this year.

SB 243 – Increasing Dependent Age

This bill would require all individual and group insurance policies to extend coverage to dependent children until they turn age 26. Our current practice is to terminate coverage when the dependent reaches age 23.

The legislators pushing this concept understand that a large segment of the uninsured population is comprised of young adults in this age range. They believe that by extending the period of time dependents can remain covered under the parent's policy, they will effectively be reducing the number of uninsured young adults. Of course, adding the claims costs of those young adults that would have otherwise reached the age limit on their parent's policy back into the pool from which their parent's policy is priced, will increase the cost of those policies.

Our actuarial staff has estimated that passage of this legislation would increase premiums for the affected policies by approximately 1 to 2 percent. Other similar legislation considered would apply the extended coverage only to non-group policies and only up to age 25. While the aggregate cost impact of that legislation would be less, such a bill would still result in an approximate 1 percent increase in premiums for the affected policies.

Federal Legislation

Two initiatives getting early attention include the President's proposed changes to the tax code relating to the deductibility of health insurance related costs, and expansion of the existing mental health parity legislation.

The President's Plan

The President's budget includes a new standard deduction of \$15,000 for insured families and \$7,500 for insured singles. No income or payroll taxes would be paid on this amount as long as the family or individual has a catastrophic health insurance policy in force. Health insurance contributions by employers would become taxable income so that anyone receiving health insurance contributions of more than the threshold of \$15,000 per family/\$7,500 per single individual would pay taxes on the difference. The cost of premiums in excess of these thresholds is also not deductible.

Employer-provided health insurance is not currently considered taxable income to the employee or to the employer regardless of the total cost of the insurance. However, for the first time, all individuals purchasing coverage would receive a tax deduction. Currently, only the self-employed can deduct the costs of non-group health insurance from income taxes.

This plan has, at its basis, incentives designed to move the country away from an employer-based model for the provision of health insurance to an individually owned and controlled health insurance system. While there is some degree of bipartisan support for this sort of proposal in the Senate, this type of initiative is not expected to pass during the run-up to the 2008 presidential election.

Mental Health Parity

It has become clear that legislation is likely to pass this year that will expand the existing federal mental health parity benefit mandate. As it stands, the federal mental health parity law only prohibits insurers from imposing annual and lifetime dollar limits on nervous and mental benefits. In some states, carriers were able to get around this limitation by imposing day and visit limits on such benefits in lieu of the dollar limits.

The Kansas Insurance Commissioner did not allow us to alter our benefits in that way and instead required that we extend benefits indefinitely at a 50 percent coinsurance level. As such, the impact of this legislation will be relatively minor – causing us to increase our current 50 percent benefit to the same level of benefit otherwise applicable under a given contract for health (non-mental) related conditions.

Both the existing law and the enhancement apply only to groups with more than 50 employees, and contain an exception to application of the law if the impact of the change on premiums exceeds 1 to 2 percent. There appears to be overwhelming bipartisan support for this measure.