

Managing risk in the small group insurance market through merged markets, reinsurance, mandates and pooling arrangements: does one strategy work better than another and what are the tradeoffs?

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Research Objective

Determine the tradeoffs of different risk management strategies (e.g., merging the small group and individual insurance markets, creating high-risk pools, and establishing individual mandates for insurance coverage, and reinsurance) that increase insurance coverage. Review the advantages and disadvantages of each strategy to enable policymakers to make more informed decisions about implementing initiatives designed to improve private health insurance coverage.

Study Design

The study reviews the literature and then examines initiatives in a small number of states in more depth. The state-level information is gleaned through interviews with state officials. National expertise is used to help review the various strategies for risk management. A comparative table briefly reviews the advantages and disadvantages of each strategy. The final paper discusses what policymakers could consider in weighing different interventions and briefly discusses specific options as they apply to New York State.

Population Studied

The population studied for this research is people who have difficulty affording private insurance and those who are uninsured and not likely to qualify for public insurance. In some states, the target population may be a large percent of the population (e.g., all those who are uninsured and not eligible for public insurance) or it may be a particular population for which private insurance is less affordable (e.g., people in the individual insurance market).

Principal Findings

The research finds that each of the methods to manage risk in the insurance market for the purpose of increasing insurance coverage has advantages and disadvantages. For instance, although high-risk pools are advantageous because they allow otherwise uninsurable people to obtain coverage, a disadvantage is that those in the pool pay much higher rates for insurance coverage. Another risk management strategy — reinsurance — helps reduce adverse selection in the insurance market, but it also requires a large public subsidy in order to be effective. Some methods, especially pooling, are more widespread than others, such as reinsurance or merging the individual and small group markets.

Conclusions

The exact degree to which different risk management strategies reduce risk or increase coverage is not well evaluated but this research provides helpful information for policymakers about the advantages and disadvantages of various policy interventions. A risk management strategy that is preferable in one

state may not be preferable in another. The issues that governments should consider in making their choices of a risk management strategy include: the primary goal of the risk intervention (e.g., to reduce the number of uninsured; to make insurance more affordable, to whom, and to how many people); available revenue; administrative mechanisms needed; and the implementation techniques of other states.

Implications for Policy, Practice of Delivery

This research has potential implications for future state or national efforts to bolster the private insurance market because it allows state and federal policymakers to better evaluate the tradeoffs of different risk management strategies that can potentially increase private insurance coverage and it provides recommendations regarding implementation.