

PEHP Position for Utah Health Insurance Reform

Judi Hilman, the executive director of the Utah Health Policy Project (UHPP) recently opined that the Public Employee Health Plan (PEHP) should be available to all small businesses in Utah as a way to make health insurance more affordable. Ms. Hilman points out that “PEHP’s claims costs are less than 4%, which compares favorably to the average claims costs for private insurers of 15 percent”. (We assume she meant “administrative” costs rather than “claims” costs.) UHPP contends that by allowing PEHP to cover small business in Utah, the cost of insurance would go down based on the lower administrative costs of PEHP, which would in turn allow more small businesses to offer health insurance to their employees. UHPP also reasons that by saving substantial amounts of money, PEHP can help subsidize the Children’s Health Insurance Plan and lower the uninsured population. Before we jump on the bandwagon of the UHPP proposal, let’s look at the tough details. Let’s consider the reasons that PEHP has 4% administrative costs compared with 15% costs with private carriers. First, unlike commercial carriers, PEHP has no bad debt with customers. That is the advantage of doing business with taxing entities. They never go out of business and if they run short of money, they increase taxes. This is not so in the real world of small business insurance. If a business can’t pay – they seek protection under bankruptcy - and under law, the carrier has to continue paying claims for 1 to 2 months without collecting premium. That would be a shocking new addition to PEHP’s administrative costs. Next, PEHP has very low billing costs. That is because their clients, state and local agencies, are limited in number and rarely change. Most of their clients are large – like State employees and water districts. It will make a big difference in overhead to go from billing and reconciling scores of bills to thousands of bills every month. Additionally, PEHP also enjoys low marketing costs. Currently the low number of potential PEHP clients minimizes the need for a marketing department. This will not be the case if they want to sell in the small group market. PEHP will either need to hire a sales staff, or set up an 800 number and hope businesses call them or they will need to pay commission to agents. All of these marketing solutions will cost a substantial amount of money. Finally but most importantly, PEHP lacks the staff and infrastructure necessary to properly underwrite small group cases on a large scale. Underwriting is the process of evaluating and pricing for risk, and developing underwriting capability is an expensive proposition. Small employers are an extremely price sensitive crowd. Health insurance is usually their second or third biggest expense – behind wages and sometimes worker’s compensation costs. A small employer will change plans in a heartbeat if it they can find a better value. Price too low and you lose money. Price too high and your competitors take your most profitable groups. If PEHP is to develop the department necessary to underwrite small employers on a large scale, it will incur substantial additional administrative overhead. Last year when UHPP first proposed that PEHP enter the small employer market to compete with commercial insurers, the most serious design flaw had to do with the development of premium rating structures. PEHP is accustomed to serving clients that have composite rates (meaning one rate for all singles and one rate for all families) and community rates (all groups pay about the same). Commercial small group rates are age-banded (older employees pay more than younger) and the risk of the group (the law allows a 30% discount for the healthiest groups and no more than a 30% surcharge on the most expensive groups). Carriers price this way to provide affordable coverage for the youngest and healthiest folks. This helps pool the risk and moderate premiums for all of us. If PEHP would try to implement their current underwriting model against the commercial underwriting model, they would attract only the sickest and oldest of the groups. This is not merely a guess, but is a broadly accepted fact of “field underwriting”. If commercial carriers’ prices are geared towards the young and healthy and PEHP uses “one size fits all” pricing it will be an unmitigated disaster of the highest order for Utah taxpayers. Because of this, we believe the UHPP proposal will result in exactly the opposite of what Ms. Hilman purports will happen; she said “PEHP will have the advantage of including a younger healthier population in its risk pool, decreasing costs for all beneficiaries.” In order to assume that, she must believe that a younger population will join PEHP, whose current risk pools include a slightly older population than found with small business. This contention underestimates the power of pricing and its effect on the types of people that actually enroll. On the other hand, if the plan is for PEHP to mimic the current commercial pricing model – then what are we creating? The answer is; a government entity competing with private business – with taxpayers ready to bail out any mistakes. This would not be consistent with free-market ideals. For PEHP to enter the small group market – with no experience – would be extremely risky for the taxpayers of the State of Utah. Under law, the State would have to make up any losses in their block of business. On the other hand, if PEHP made a “profit”, it could not be shared with other blocks of business. The pool for State Employees must be kept separate from the Government Trust and the Children’s Health Insurance Plan as well as the proposed new pool. Despite Ms. Hilman’s optimism, we could not subsidize CHIP with any savings from other PEHP pools. The bottom line is this: PEHP does not have an internal cost advantage over the current carriers in the small group market. Their claims expenses (what they pay doctors, hospitals and pharmacies) are about the same as and in many cases more than the commercial carriers. They would not be able to serve the private small group market for the same 4% overhead with which they serve the government. They would be entering a treacherous market in which they have no experience. The taxpayer would be at risk if things go wrong. Keep in mind that losses in health insurance can be huge. As a general philosophy, the Utah Association of Health Underwriters believes in a competitive marketplace. We are working hard to give Utah employers more choices and better information in the marketplace. We are in favor of expanding options in the private health care market. We support government and charitable subsidy of those that need real help. If the legislature believes that it is worth asking PEHP to expand its mission, we would strongly recommend a serious analysis of the underwriting and marketing of plans before jumping into unfamiliar waters. If UHPP’s predicted outcomes are probable, then we would welcome the addition of PEHP into the small group marketplace, but the taxpayers should not be at risk for the losses of PEHP as a competitor in the private market. We recommend caution, and a well thought out business plan from PEHP. It’s good to think outside the box, but the devil is in the details.

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