Washington Research Council

Policy Brief

PB 99:13
February 24, 1999

Basic Health Plan Still Ailing

BRIEFLY

Washington's Basic Health Plan is in trouble. It suffers from enrollment declines, a paucity of private insurers willing to contract with the state, and rising costs.

Some policy makers think the solution might be self-insurance, which amounts to having taxpayers assume financial risks that private insurance carriers find unacceptable.

BHP's problems – particularly in the unsubsidized program – mirror those in the broader health care marketplace. Until they are resolved, the state should be wary of self-insuring. And when they are resolved, the state won't need to self-insure.

Six years ago, the legislature expanded the Basic Health Plan into a full-blown state health insurance program for residents throughout the state. For many of those years, the program has struggled with enrollment and financing problems.

The Basic Health Plan (BHP) provides subsidized health insurance for residents ineligible for Medicaid but earning too little to afford private health insurance. Any and all other residents, however, may buy BHP coverage if they are willing to pay the full premium.

As the BHP heads toward the year 2000, it's still experiencing problems. The state Health Care Authority, which administers the BHP, is promoting legislation to deal with one of them: the real possibility that no health insurers will agree to contract with the BHP to serve its members in one county or another.

In Clallam, Jefferson and Kittitas counties, only a single insurer now serves BHP members. BHP officials say they are no longer confident that, in the future, there will be at least one insurer in all 39 counties. So they want the BHP to have the option of self-insuring.

They have asked the legislature to give BHP the option to assume the financial risk of acting as an insurer and to pay medical-care providers fees for their services. That means, of course, that the taxpayers are asked to assume a financial risk private health insurers have found unacceptable.

As it is, state law requires the BHP to pay "capitated" rates to insurers (or to risk-bearing medical groups) contracting with the BHP to serve its members. That means the BHP must pay a contractually set monthly amount per member.

The BHP wants to be able to pay physicians, hospitals and other providers negotiated fees for each service a member receives. That would let BHP act as the insurer when no private carrier is willing to contract.

Other problems linger, as well. Enrollment has fallen, particularly in the unsubsidized program. In 1998, subsidized BHP members numbered 129,000 and unsubsidized nearly 17,000. This year, the number of subsidized members dropped to 127,669. Unsubsidized membership plummeted by more than half to 8,422.

Remaining unsubsidized members face much higher premium costs.

Monthly rates for unsubsidized members were expected to jump an average of 62.9 percent for 1999, ranging from a 0.9 percent rate decrease to a whopping 120 percent increase. But as it turned out, unsubsidized rates rose an average 49.8 percent, which still amounts to a hefty hike.

Rates for subsidized members increased by an average 8.6 percent.

Why the big difference in rate increases for the two groups? According to the Health Care Authority, many unsubsidized residents join the BHP for specific medical services, such as maternity, and then leave the plan. This

evidently does not occur as much among subsidized BHP members, who tend to obtain coverage less for immediate medical needs than for security against the financial drain of unexpected health problems.

Another reason unsubsidized members might leave the BHP is that they can buy cheaper coverage from private insurance companies. Subsidized members lack this mobility; they cannot afford private insurance.

Also, there is an incentive for subsidized members to join the BHP before they need medical care and to stay in. Between October 1996 and May 1998, because of funding problems, new applicants were put on a waiting list. Subsidized members may fear that if they leave the plan and later want to re-enroll, they may have to wait.

"By taking themselves out of the BHP market, private insurers seem to be telling the state that the risks are unacceptable. If they're right, then self-insurance simply shifts that unacceptable risk to state taxpayers."

For all these reasons, unsubsidized BHP members may tend to be more medically needy than subsidized members. And higher unsubsidized rate increases would reflect that.

More generally, reasons for the BHP rate increases this year include higher prescription-drug costs, higher health-care inflation and continuing insurer underwriting losses.

To maintain the current level of benefits and to increase subsidized membership to 137,200 from the current level of nearly 127,700, Gov. Gary Locke has proposed budgeting $380 million for the Basic Health Plan for the 1999-2001 biennium. Of that, $73 million is expected to come from Washington's share of the national tobacco settlement.

The Basic Health Plan is funded out of the state's Health Services Account, which is fed by taxes on cigarettes, alcohol, hospitals and health insurers.

The history of the Basic Health Plan began in 1987, when the legislature created it as a pilot program aimed at providing subsidized health insurance for state residents ineligible for Medicaid but earning too little to afford private health insurance.

In 1993, the legislature expanded the program so that anyone may buy health insurance through the BHP, but those who do not qualify for subsidies must pay the full premium.

Eligibility for subsidies starts at 200 percent of the federal poverty level. Residents with incomes above 200 percent must pay the full premium. Those who are eligible for subsidies pay sliding-scale premiums based on their income but must pay at least $10 a month. Also, all Basic Health Plan members must make copayments for most medical services, ranging from $10 to $100.

Basic Health Plan benefits include office visits, hospitalization, outpatient care, emergency-room care, ambulance, radiology and laboratory services, maternity services, prescription drugs, and skilled nursing, hospice and home health care.

The problems afflicting the unsubsidized part of the BHP, including rising declining enrollment, are not unique to the BHP. They affect the entire Washington market for individual health insurance, of which the unsubsidized BHP is a part.

By taking themselves out of the BHP market, private insurers seem to be telling the state that the risks are unacceptable. If they're right, then self-insurance simply shifts that unacceptable risk to state taxpayers. Before the legislature accepts that risk, lawmakers should fix the underlying problems in the health insurance market.