

Crisis Cure

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Maine's Failed Experiments With Big Government Controlling Health Insurance

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As America looks at health care reform, policy makers would be wise to review Maine's experience with government solutions intended to improve access, lower costs, insure more people and add fairness to the health insurance system. Maine's experience with many of these exact same proposals drove up private costs, caused tens of thousands to drop private insurance, made Medicaid rolls skyrocket and drove away ten insurance carriers.

This document focuses on the Individual health insurance market because this small segment can be seen as an indicator of stability in a state's health care financing system. These under-65, non-group policy holders are spending their own money for health insurance plans for themselves and their families and do not benefit from the tax incentives available for employment-based plans. These vulnerable consumers may be seen as a "canary in a coal mine" indicator for the health insurance industry because they are more likely to react to policy rate increases, or personal income decreases, by reducing coverage or cancelling their health insurance.

The non-group market has been the focus of many reforms in Maine during the last two decades. Various mandates, regulations and even a "Public Option," where a new state agency was created to develop, market and operate health insurance plans intended as a low-cost alternative to private insurance, have been introduced with promises of lower costs and better access to health insurance. They have not worked. In fact, these reforms have backfired on Maine non-group insurance buyers, resulting in higher costs, reduced choices, fewer insured people and a radical increase in the number of Maine people dependent on Medicaid.

Maine's Non-Group Insurance Market Overview			
	1993	2001	2009
Percentage of population under 65 years old on Medicaid	9%	22%	23%
Number of Traditional Health Insurance Carriers writing new business	11	1	2**
Number of Mainers with Traditional Non-Group Insurance	90,000	38,000*	29,000**
Most Common Deductible	\$150/Yr	\$5,000/Yr	\$15,000/Yr
Relative Monthly Premiums (small group)	At Nat'l Average	Above-Average	Nation's 2 nd -Highest

Source: US Census, Kaiser Family Foundation, and Maine Bureau of Insurance

* 1999 figure ** excludes mini-medical plans sold by MEGA

Major Reforms In 1993, the Maine Legislature had a debate similar to the hottest topic in Congress today - how to expand access to health insurance and make it "fair" for everyone. In late 1993, two changes meant to impose this "fairness" in the issuance and rating of non-group health plans were approved in Maine. Guaranteed Issue was intended to end the traditional coverage limits to newer enrollees in health insurance plans by requiring insurers to fully cover new policy holders who had comparable coverage within the previous 90 days and limit coverage on pre-existing conditions to no more than one year. Community Rating restricts the variations in premiums for age and other non-health differences to within just 20 percent of the average premium rate for a specific plan design. These reforms were intended to lower costs, improve access to health care, increase the number of people with health insurance and end the perceived "discrimination" due to age, health conditions and lifestyle.

The reaction of all insurance carriers to the 1993 reforms, except Blue Cross and Blue Shield of Maine, was to abandon the state. Premiums skyrocketed in the late 1990s, products changed from traditional comprehensive coverage to extreme high-deductible “catastrophic” plans and healthy people chose to drop expensive plans that no longer met their needs or were not worth the high cost. The more frequent users of health services, the elderly and those with chronic illnesses, kept their plans because the alternative of self-paying was still higher than the monthly premiums. The Community Rating regulations, intended to bring fairness to the market, created a situation where the younger and healthier customers were overcharged, based on their utilization, while the higher utilization policy holders were being subsidized. The Guaranteed Issue regulation, which allows people to buy coverage after becoming ill, contributed to the Death Spiral condition of these plans; in which a shrinking number of seriously ill people in the shrinking pool face a continued series of higher monthly premiums until only the very sick retain their coverage.

The table on page 1 shows that instead of improving the non-group health insurance market, the 1993 reforms slashed the number of people with private insurance, dramatically increased premiums and out-of-pocket costs and nearly tripled the percentage of Maine people on Medicaid in an eight-year period.

President Obama and the Congressional Democrats are proposing these exact same Guaranteed Issue and Community Rating “reforms” as part of their health care legislation. Maine’s disastrous results - skyrocketing premiums, dropped private coverage and expanded Medicaid - could be duplicated across the nation if they ignore Maine’s experience.

Enter Dirigo By 2001, Maine’s “reforms” had obviously backfired, and the market was much worse than it had been prior to 1993. In his campaign for governor in 2002, John Baldacci proposed a new state government program would be the best way to correct the unintended consequences of previous reform efforts. Dirigo (named for the state motto “I Lead”) was a new idea to create a government run health plan, in competition with private-sector plans, and is actually very similar to the “Public Option” being discussed today for use on a nationwide basis.

Dirigo was launched in 2003 using \$53 million in federal dollars meant to stimulate the economy. Mainers were promised a self-funded alternative to the individual and small-group plans offered by Anthem and a few other carriers. This public option also promised to cover Maine’s 128,000 people who were without health insurance by 2009.

Dirigo Health policies were marginally less expensive than the policies issued by commercial carriers, but still high in cost. Instead of covering the uninsured, about two-thirds of Dirigo policies were sold to customers who already had health insurance, but wanted the government-subsidized coverage. Monthly premiums never came close to funding Dirigo’s claims and operating costs, so an obscure, very difficult to define funding model called the “Savings Offset Payment” was developed to levy a tax on Maine’s private health insurance plans to fund a program designed to lower the cost of health insurance. Due to chronic financial instability, Dirigo enrollment was closed in September 2007. New taxes to fund the experiment were rejected by Maine voters in November 2008, and another series of taxes on health claims was passed to revive Dirigo in June 2009.

Lessons Learned In the same way that Maine’s Guaranteed Issue and Community Rating reforms are a clear indication of what not to do, Dirigo Health offers a preview of a Public Option plan. Instead of following Maine’s “lead,” Dirigo provides a perfect example of an option that does not work to improve access, lower costs or increase the number of people with health insurance.

Contrasting Note: In the mid 1990’s, Maine’s neighbor New Hampshire also enacted guaranteed issue and community rating regulations. By 2001, their non-group market was similar to Maine’s, with only two carriers selling expensive plans with high deductibles to a shrinking number of customers. Instead of trying another government plan, New Hampshire repealed these two mistaken reforms in 2002. Today, there are 11 companies competing in New Hampshire’s thriving non-group market, selling affordable health insurance plans to individual customers.

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Crisis To Cure is a series of publications by The Maine Heritage Policy Center which focus on patient-centered reforms to America’s health care system that will keep personal medical decisions between patients and their physicians - without government interference and intrusion. All information is from sources considered reliable, but may be subject to inaccuracies, omissions, and modifications.

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