



LIFT Perspective

Role of Government Series
November 29, 2006

Reforming the Funding Mechanism of the Texas Health Insurance Risk Pool

Recommendation

The Texas Health Insurance Risk Pool plays an essential role providing health care coverage to medically uninsurable individuals. To reflect this essential role, and to ensure the long-term sustainability of the Risk Pool, the Texas Insurance Code (Section 1506.253) should be amended so that assessments made against the carriers who participate in the Pool are abolished. It is recommended that assessments against carriers should be replaced with the annual growth of revenue from insurance occupations taxes and, if necessary, other general revenue sources.

Background

The Texas Health Insurance Risk Pool was created by the Texas Legislature and has been operational since 1997. The role of the Pool is to:

“[P]rovide health insurance to eligible Texas residents who, due to medical conditions, are unable to obtain coverage from commercial insurers. The Pool also serves as the Texas alternative mechanism for individual health insurance coverage, guaranteeing portability of coverage to qualified individuals who lose coverage under an employer group plan, church plan or state plan.”¹

In Texas, Risk Pool eligibility is extended beyond what federal law mandates. Under the 1996 Health Insurance Portability and Accountability Act (HIPAA), federal law requires that coverage should be offered to individuals who had at least 18 months of previous

¹ Extract from the 2005 Annual Report of the Texas Health Insurance Risk Pool.

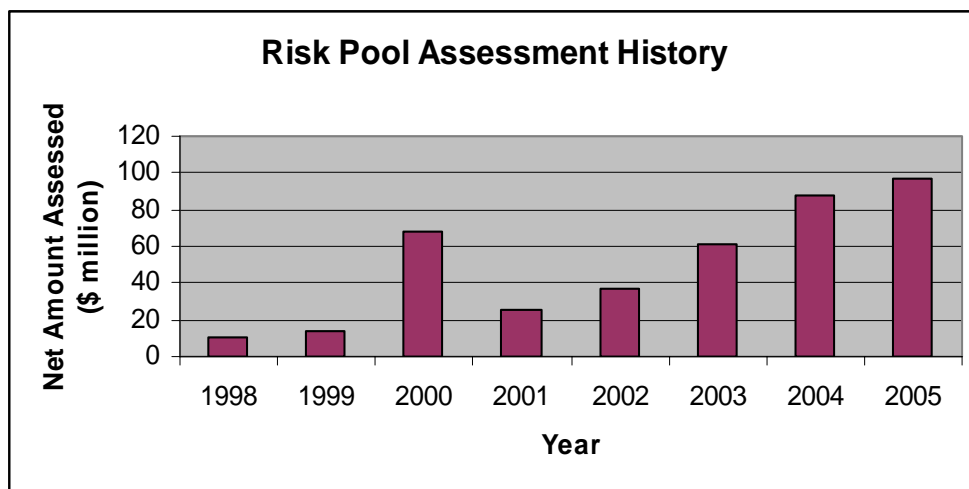
health insurance coverage through an employer, church, or government plan. The Texas Risk Pool exceeds this requirement by extending coverage to “medically uninsurable” individuals, regardless of any previous coverage they may have had.

The Health Insurance Risk Pool is one of the few areas of government intervention in the health care market which is a wholly appropriate role for the state to play. The Risk Pool essentially acts as a safety net for those who cannot find health insurance as a result of a pre-existing medical condition.

The difference between the Risk Pool and other government programs such as Medicaid and Children’s Health Insurance Program (CHIP) is stark: the Risk Pool provides health insurance to many individuals who are medically uninsurable, yet it utilizes significant cost-sharing and operates with its participants contributing more than half of the Pool’s total funding. By contrast, Medicaid and CHIP, two much larger programs, require only minimal cost-sharing and rely almost entirely on state and federal funding for the health care services they provide to lower-income Texans. The successful operation of the Risk Pool should serve as the standard for all government programs, and especially those such as Medicaid and CHIP, where the introduction of meaningful cost-sharing could greatly reduce the burden on taxpayers.

Risk Pool Funding

Despite the Risk Pool being an appropriate role for the state to play, no General Revenue is devoted to its funding, which comes primarily from premiums paid by enrollees (which are capped at 200% of the standard rate for commercial individual health insurance²) and assessments made against health insurers and Health Maintenance Organizations (HMOs) who are compelled to participate in the Pool.



Source: *Texas Health Insurance Risk Pool Assessment History Summary*³.

² “Texas Health Insurance Risk Pool Expansion Options,” Texas Department of Insurance, January 2005.

³ According to Steve Browning, Executive Director of the Texas Health Insurance Risk Pool, the above-trend spike in assessments in 2000 occurred because claim trend assumptions made by the Pool’s actuary were not realized. Responding to large premium increases (20% in August 1999 and another 20% in

In fiscal year 2005, the Risk Pool earned \$162 in premiums and \$98 million from assessments against insurers and HMOs, which covered the \$250 million total incurred expenses. The average monthly premium paid by a member of the Risk Pool in 2005 was \$490 dollars⁴, an increase from \$437 in 2003⁵. As the chart above demonstrates, assessments against carriers have also risen sharply.

Assessments against carriers have increased primarily as a result of increased participation rates. There were 2,946 Risk Pool participants in 1998, shortly after the pool was established. This figure stood at 24,675 in 2003⁶, and had risen to 28,132 by December 2005⁷ - a 14% increase in just three years.

The funding balance of the Risk Pool currently places approximately 40% of the burden on carriers, and the remaining 60% on the premiums paid by beneficiaries of the Pool. Given the essential role that the Risk Pool plays in providing health insurance to more than 28,000 individuals who cannot obtain coverage in the private market, it is notable that the Pool is funded exclusively by those who participate in it, either as enrolled members or as health insurance carriers. To lessen the funding burden on these two groups, measures are required that will bring additional sources of funding to the Risk Pool.

Recommendations

Given the rising assessments against carriers (which have more than doubled since 2002) and in order to prevent a premium increase on consumers, the following funding changes should be made to the Risk Pool:

Priority Recommendation

1. To reflect the necessary and appropriate role that the Risk Pool plays providing a safety-net to medically uninsurable individuals, the Texas Insurance Code (Section 1506.253) should be amended so that assessments made against carriers are abolished.

The assessments should be replaced by devoting General Revenue to the funding of the Risk Pool. It is recommended that the state direct the annual growth in Insurance Occupation Tax revenues to the Pool.

January 2001); Pool enrollees generally opted for policies with higher deductibles. The assessment overpayment in 2000 was carried forward and reduced the amounts needed in the following year.

⁴ 2005 Annual Report of the Texas Health Insurance Risk Pool.

⁵ "Texas Health Insurance Risk Pool Expansion Options," Texas Department of Insurance, January 2005.

⁶ Ibid.

⁷ 2005 Annual Report of the Texas Health Insurance Risk Pool.

Year	Insurance Occupation Tax Revenue (\$ million)	Growth from Previous Year (\$ million)
2000	\$796.6	-
2001	\$820.0	\$23.5
2002	\$1,045.8	\$225.8
2003	\$1,169.1	\$123.3
2004	\$1,185.0	\$15.9
2005	\$1,208.9	\$23.9

As the chart above shows, this approach would have provided an additional \$23.9 million to the Risk Pool in 2005, and the average additional funding to the Pool each year since 2000 would have been \$82.5 million⁸. This compares to annual assessments against carriers, which averaged \$62.8 million between 2000 and 2005⁹. It is clear that over the past six years, growth in revenue from insurance occupation taxes would have been more than sufficient to replace assessments made against carriers.

When the growth of insurance occupation taxes outstrips the funding required by the Risk Pool, the excess revenue should be placed in a Risk Pool Fund so that it can be accessed in years when there is a shortfall. In years when the growth of insurance occupation taxes combined with the balance of the Risk Pool Fund is less than the amount of funding required by the Risk Pool, an additional source of General Revenue should be devoted to the Pool.

Alternative Recommendations

If assessments against carriers are not replaced with the annual growth of revenue from insurance occupation taxes and other general revenue sources, the following reforms are recommended:

2. To ensure the long-term sustainability and equity of Risk Pool funding, amend the Texas Insurance Code (Section 225.004) to create a 50% Premium Tax credit for insurance companies. Ten states already provide this type of credit.
3. Amend the Texas Insurance Code (Section 1506.253) so that:
 - a) Health care providers, including hospitals (one of the biggest beneficiaries of the existence of the Risk Pool), are assessed to contribute to the pool since they are a chief beneficiary of the high risk pool (the effect of the pool is to reduce the amount of uncompensated care, therefore providers should participate in funding it.) If providers are included, they should receive a tax credit against the gross margins tax for participation.

⁸ Source for chart: Texas Revenue History by Source, 1978-2005, Office of the Comptroller.

⁹ Texas Health Insurance Risk Pool Assessment History Summary.

b) Assessments made against stop-loss carriers are made on the same basis as assessments against other health benefit plan issuers (Insurance Code Section 1506.253)¹⁰.

4. Amend the Texas Insurance Code (Section 1506.253) so that the methodology for calculating assessments reverts back to being based on the total premium dollars received by health benefit plan issuers, rather than on the total lives covered by health benefit plan issuers. This methodology was changed by Senate Bill 809 (79R), and results in inequitable assessments against health benefit plan issuers. Specifically, issuers who offer high-deductible plans with low premiums are disadvantaged since they pay the same assessment per covered life, but on average receive a lower premium from each individual they insure.
5. The federal Employee Retirement Income Security Act of 1974 (ERISA) prevents states from including all types of health coverage when assessing insurers' contributions to the risk pool. To improve the funding of the risk pool, ERISA plans should be included in the assessment calculation process. Although this revenue will undoubtedly benefit the Risk Pool, the precise amount of additional revenue that this would yield is unknown.

Conclusion

The Texas Health Insurance Risk Pool is one of the few areas of government intervention in the health care market that is wholly appropriate. The Risk Pool is essentially a safety net for those who cannot find or afford health insurance as a result of a pre-existing medical condition. Given that the state spends literally billions of dollars each year on other health insurance programs such as Medicaid and CHIP, few would argue against devoting state funds to the Risk Pool to keep it solvent.

The state created the Texas Health Insurance Risk Pool (THIRP) in 1989 to provide health insurance for individuals who could not obtain coverage as a result of a medical condition. However, it was not until 1997 that the Risk Pool became operational when then-Representative, now Senator, Kip Averitt (R-Waco) seized the initiative to create a funding mechanism for the Pool.

However, increased participation has resulted in a growing financial burden on the participants and carriers that fund the Pool. Devoting general revenue funding to the Risk Pool is the most effective way to lessen the funding burden that is currently shouldered by premium payments and carriers. Otherwise, creating tax incentives for carriers and health care providers who participate in funding the Risk Pool is an appropriate way to preserve its solvency while avoiding the prospect of increased premiums passed along by the carriers to its other policyholders.

¹⁰ A health plan provider's assessed contribution to the Risk Pool is calculated dividing the total assessment to be made against all providers by the total number of individuals insured statewide by all providers. This figure is then multiplied by the number of individuals insured by the provider in question.

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