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Michigan COMMENTARY

Small Business Market Reform: The Return of Risk Sharing?

By Peter Pratt

As anyone who has witnessed the recent battles over no-fault automobile insurance reform in Michigan surely must know, insurance and its regulation are a complex and mysterious business. Health insurance is no exception, and its role in the shortcomings of our present system of health care finance and delivery is hotly debated. As most people without health insurance are employed or the dependents of workers, much of the debate has focused on reforming the insurance market to make health coverage more affordable for individuals and businesses that cannot pay for it.

RUNNING AWAY FROM RISK

In an incisive article in the spring 1992 issue of *The American Prospect*, Deborah Stone, professor of law and social policy at Brandeis University, examines the role of small business insurance market reform in improving access. Stone recognizes that several states have programs to make health insurance more affordable for the uninsured and uninsurable, but she concludes that, at best, a state covers 2,000–10,000 people who might not otherwise have coverage, only a fraction of its uninsured population. High-risk pools—which 24 states use to cover persons whose health status makes them an uninsurable risk for insurers—are the major symptom of the problems facing the states. These pools are necessary because, increasingly, insurers are unwilling to cover the sickest among us—that is, the people who need health insurance the most. The very necessity of these pools dooms them to failure: It is too expensive for the state to subsidize the pools; thus few states cover many high-risk individuals. This retreat from community rating, in which all employer groups in a region were treated as one group and risk was spread as broadly as possible, is creating a startling irony in health care: More and more, the people with insurance are those who are likely to be at the lowest risk of needing it.

This retreat is exacerbated by the growing tendency of larger employers to self-insure, thereby escaping from pooling risks with other, often less healthy groups. But who can blame them? Isn't community rating a form of cost shifting, in which the healthy pay for the sick? How else can individual businesses keep costs down? The problem is this: Experience rating or self-insurance benefits you only if your work force is healthier than average. Despite belief to the contrary, not all businesses have low-risk work forces. The more that healthier businesses self-insure or experience rate, the more that firms with less healthy work forces will have to pay for health insurance. If risk sharing is seen only as cost shifting, then the whole purpose of insurance—spreading risk so that everyone can weather a catastrophe—no longer holds.

At some level, insurance violates many Americans' sense of equity. On the one hand, most of us are more than willing to pay reasonable monthly premiums as protection against catastrophic illness; on the other hand, we deeply resent having to pay higher premiums because others in our group may be sick more often or more seriously than we are. In this latter frame of mind, we fail to accept that health insurance is based on "inequity"—the healthy pay for the sick. Thus, it is no surprise that many healthy Americans do not object to this retreat from sharing risk with sick strangers.

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SMALL BUSINESS MARKET REFORM

This retreat from risk sharing is grave enough to have attracted the attention of Democrats and Republicans alike. The two most prominent federal plans to reform our health care system— Senate Majority Leader George Mitchell's "play or pay" plan and President Bush's proposal centering on tax credits for low-income purchasers of health insurance—both feature small business market insurance reform. Both plans would force insurance companies to compete in ways other than by avoiding people who are sick or likely to become sick. Preexisting conditions would be covered after six months. Insurers also would be limited in what they could charge small groups for premiums.

Moreover, several states have adopted and Congress will soon consider "guaranteed issue," which requires that all workers in a business must receive health insurance if one receives it. (Currently in many states, but not Michigan, insurers can exclude high-risk employees when it insures a firm's work force.) The proposal has support from House and Senate leaders of both parties, the Health Insurance Association of America, which represents large commercial insurers, the National Federation of Independent Business (NFIB), and others, a rare bipartisan coalition according to *The Wall Street Journal.* It is opposed by small insurers and small business organizations that sell health insurance to their members. They contend that the mandate will force them to raise premiums so high that their current subscribers will no longer be able to afford them. "It is unfair to burden small employers and their carriers with America's 2.3 million medically uninsurable individuals," they explain.

Proponents of guaranteed issue, including the NFIB, the nation's largest small business organization, see current practices as unfair: "From my standpoint, they [small insurers and small business organizations who insure their members] are part of the problem," says John Morley, the NFIB's government affairs director. "They are cherry picking" the healthiest individuals and insuring only them.

SHARING RISK AND CONTROLLING COSTS

The problem, as Professor Stone has noted, is that everybody wants to cherry pick if they can get away with it. The solution, as many along the spectrum of political ideology have come to agree, is a return to broader risk pooling. (As the battle over guaranteed issue illustrates, simple political divisions no longer hold in health care debate—there are insurers and business groups that welcome greater regulation.) This effort, however, which promises to improve access at least for the working uninsured, must be accompanied by responsible cost containment. If we cannot rein in costs, no amount of risk sharing will make health insurance affordable for many people.