WASHINGTON STATE HEALTH INSURANCE POOL

Options for Equitable, Broad-Based, and Stable Funding Sources

Report to the Washington State Legislature
As Required by Substitute Senate Bill 5777:
Concerning the Washington State Insurance Pool

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SUMMARY

The Washington State Health Insurance Pool (WSHIP) provides health insurance coverage to individuals unable to obtain coverage on the individual market because of pre-existing medical conditions. Because the cost of insuring and providing medical care to high-risk individuals is greater than most individuals can afford, WSHIP coverage is subsidized by non-premium revenue. This additional revenue comes from assessments on health insurance carriers that provide coverage for groups and individuals, those that offer Medicare supplemental policies, those that participate in Healthy Options and Basic Health, and the Public Employees Benefits Board's Uniform Medical Plan.

In 2009 the Washington State legislature passed Substitute Senate Bill 5777, requiring WSHIP to conduct a study to explore options for alternative funding strategies for WSHIP. This report summarizes the findings of that study.

SB 5777 Section 5: The board of the Washington State Health Insurance Pool shall conduct a study of options for **equitable, stable, and broad-based funding sources** for the operation of the pool. The board is authorized to solicit funds to conduct the study. The board shall report its findings and recommendations to the appropriate committees of the senate and house of representatives by December 15, 2009.

Several factors combine to make this goal particularly challenging. WSHIP enrollees have medical expenses that are higher than enrollees in other state high-risk pools. The primary funding base for WSHIP (enrollment in member health plans) is declining. A large number of eligible individuals do not enroll and remain uninsured. Finally, the payment of WSHIP assessments is unevenly distributed across health plans and their enrollees.

The cost of covering WSHIP expenses is not evenly distributed among all individuals covered by health plans. Currently, approximately 48% of individuals with health coverage in Washington pay WSHIP assessments, leaving approximately 52% of individuals with health coverage who *do not* pay WSHIP assessments. The following chart shows the percent of covered individuals in Washington State by source of health coverage and whether the source of health coverage is a WSHIP member.

Distribution of Individuals Paying WSHIP Assessments

Coverage Type: PAYS Assessments	Percent Enrolled	Coverage Type: DOES NOT Pay Assessment	Percent Enrolled
Group (Large)	16.7%	Self-Funded Plans	28%
Group (Small)	4.9%	Fed Employee Health Benefits Plans	3.6%
Individual	3.8%	VA/ TriCare/ Military	6.7%
Medicare Supplemental	3.6%	Medicare	13.8%
Healthy Options	12.1%	WSHIP	0.1%
Basic Health	1.6%		
Public Employees Benefits Board (1/10th assessment)	5.2%		
TOTAL	47.9%	**TOTAL**	52.2%

(Source: *Blue Ribbon Commission Administrative Expense Analysis. Exhibit 2: Health Care Financing in Washington State, 2006)*

The following options for equitable, stable and broad-based funding are discussed:

- Increase Uniform Medical Plan contribution from 10% of the assessment to 100%
- Increase Stop-Loss contribution from 10% of the assessment to 100% of the assessment
- Increase excess loss ratio remittance threshold from current range of 74%-77%
- Impose an assessment on processing TPAs
- Institute hospital assessment based on revenue or admissions
- Institute assessment on *all* insurance companies (such as property, and casualty)
- Create novel sources of revenue: pharmaceutical assessment, payroll deduction, sin taxes, or extending the insurance premium tax to fund WSHIP

When determining the feasibility of different funding options, several factors should be considered, including financial feasibility, administrative implementation, potential legal challenges, stakeholder interests (support and opposition), the current economic climate, and federal reform initiatives. If new funding sources are sought, the current funding structure should not be disrupted. The current funding structure in which assessments are not statutorily capped and are calculated retrospectively based on claims has significant advantages over funding sources that are fixed. Given these considerations, the most likely sources of additional stable, broad-based revenue are achievable by increasing the stop-loss assessment to 100% or assessing processing TPAs. Each of these options would capture payments to WSHIP from new sources and would increase the funding base.

BACKGROUND: WASHINGTON STATE HEALTH INSURANCE POOL

I. General Background

The Washington State Health Insurance Pool (WSHIP) provides health insurance coverage to individuals unable to obtain coverage on the individual market because of pre-existing medical conditions. The individual market serves those who do not have access to large or small group (public or private) plans. While enrollees in group markets are protected by law from discrimination based on health status, those who apply for coverage in the individual market do not have this protection. Rather, applicants are required to submit answers to the "Standard Health Questionnaire." Through the use of this questionnaire, insurance companies providing health insurance coverage in Washington State are allowed to identify and then reject the 8% of individuals likely to be the most costly to treat based on their pre-existing conditions. Applicants who are rejected in the individual market may be eligible to purchase insurance through the Washington State Health Insurance Pool provided they meet additional requirements such as being a Washington resident, not eligible for Medicaid, and not in prison. WSHIP coverage is offered at premiums that are limited to 110%-150% of the Standard Risk Rate. The Standard Risk Rate is the average rate among the largest five carriers in Washington for comparable coverage on the individual market (RCW 48.41.200). The exact premium is based on the specific plan selected by the enrollee and the subsidies for which s/he qualifies.

In 2008 premiums accounted for $19.6 million (31.5%) of WSHIP revenue. Because the cost of insuring and providing medical care to high-risk individuals is greater than most individuals can afford, WSHIP coverage is subsidized by non-premium revenue. This additional revenue comes from assessments on health insurance carriers that provide coverage for groups and individuals, those that offer Medicare supplemental policies, those that participate in Healthy Options and Basic Health, and the Public Employees Benefits Board's Uniform Medical Plan (UMP). In 2008 these assessments accounted for $40.7 million (65.4%) of WSHIP revenue. Smaller revenue sources included required excess loss ratio remittance ($52,808 or 0.1%), interest on investment income ($229,254 or 0.4%), and federal grant funding ($1.6 million or 2.6%).

In 2009 the Washington State legislature passed Substitute Senate Bill 5777, requiring WSHIP to conduct a study to explore options for alternative funding strategies for WSHIP. This report summarizes the findings of that study.

SB 5777 Section 5: The board of the Washington State Health Insurance Pool shall conduct a study of options for **equitable, stable, and broad-based funding sources** for the operation of the pool. The board is authorized to solicit funds to conduct the study. The board shall report its findings and recommendations to the appropriate committees of the senate and house of representatives by December 15, 2009.

II. Prior Washington studies and WSHIP studies

Several studies have previously been conducted to examine various aspects of the Washington State Health Insurance Pool. The following studies provided background information for this report:

- **Addressing the Affordability of Coverage for High-Cost Individuals**: *Recommendation #11 of the Blue Ribbon Commission on Health Care Costs and Access*, Washington State Office of the Insurance Commissioner, March 1, 2007.
    - Recommended broadening the funding base.

- **The Affordability of Coverage of High-Cost Individuals**: *Options for Washington State,* Washington State Office of the Insurance Commissioner, April 30, 2007
    - Examined reinsurance as an option for replacing WSHIP to cover high-cost individuals.

- **A Study of Eligibility Standards for Pool Coverage, Washington State Health Insurance Pool.** Leif Associates, December 1, 2007.
    - Examined the 8% rejection threshold and modeled alternative rejection thresholds at 4% and 12%. An 8% rejection threshold increases rates in the individual market compared to traditional medical underwriting in Oregon. Oregon individual rates are approximately 17% lower than in Washington. A change to a 4% rejection threshold would increase individual rates 10%, leading 15,000 individuals to drop individual coverage. Alternatively, changing to a 12% rejection threshold would decrease individual rates 6% leading 8,300 individuals to obtain individual insurance. A 12% rejection would also increase WSHIP enrollment, decrease average claims, and decrease premiums. *(A Study of Eligibility Standards for Pool Coverage, Washington State Health Insurance Pool. Leif Associates. December 1, 2007).*

- **Reinsurance in Washington State**: *Report to Washington State Office of Financial Management,* Reinsurance Project of the Urban Institute, February 2008.
    - Examined reinsurance as an option to decrease costs of covering high-risk individuals.

- **Reinsurance in Washington State**: *Final Report to the Governor and Legislature*, September 2008, Office of Financial Management.
    - Further examined reinsurance as an option to decrease costs of covering high-risk individuals, explored alternative funding sources for WSHIP.

PROBLEM IDENTIFIED

Ensuring equitable, stable, and broad-based funding for WSHIP is essential. Several factors combine to make this goal particularly challenging. WSHIP enrollees have medical expenses that are higher than enrollees in other state high-risk pools. The primary funding base for WSHIP (enrollment in member plans) is declining. A large number of eligible individuals do not enroll in WSHIP and remain uninsured. Finally, the payment of WSHIP assessments is unevenly distributed across health plans and their enrollees. These factors are discussed in turn.

I. Distribution of individuals paying WSHIP assessments under current funding sources

The difference between WSHIP costs and enrollee premiums is predominately covered by assessments paid by member health plans. Currently, the cost of covering WSHIP expenses is not evenly distributed among all individuals covered by health plans. Approximately 48% of individuals with health coverage in Washington pay WSHIP assessments, leaving approximately 52% of individuals with health coverage who *do not* pay WSHIP assessments. The following chart shows the percent of covered individuals in Washington State by source of health coverage and whether the source of health coverage is a WSHIP member.

TABLE 1
Distribution of Individuals Paying WSHIP Assessments

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Healthy Options	12.1%	WSHIP	0.1%
Basic Health	1.6%		
Public Employees Benefits Board ($1/10^{th}$ assessment)	5.2%		
TOTAL	47.9%	**TOTAL**	52.2%

(Source: *Blue Ribbon Commission Administrative Expense Analysis. Exhibit 2: Health Care Financing in Washington State, 2006)*

II. Declining primary funding base

WSHIP faced a declining funding base between 2000 and 2008 despite population growth. The declining funding base can be attributed to a shift in coverage from group to self-funded plans (that pay no WSHIP assessment) and to an increase in the number of uninsured individuals. In 2001, 51.15% of Washington residents paid a WSHIP assessment compared to 44.10% in 2008. The addition of assessments on stop-loss insurance in 2002 mitigated what would have been an even steeper decline. While the addition of stop-loss assessments increased the number of individuals contributing to WSHIP revenue, the contributions were smaller because stop-loss assessments are only 10% of the assessment on health plans. With the exception of multiple employer welfare arrangements, self-funded health plans are exempt from state insurance regulation under federal law through the Employment Retirement Income Security Act of 1974 (ERISA). Therefore, states cannot impose benefit mandates, state premium taxes, or WSHIP assessments for such self-funded health plans. ERISA provides an incentive for larger employers with adequate financial reserves to shift from large group coverage (that requires a WSHIP assessment) to self-funding their employees' health coverage. According to the Blue Ribbon Commission, claims for self-funded plans have grown in both the public and private sector. Claims for self-funded plans increased 35% in the public sector and 183% for Washington's two largest domestic health insurance carriers (Source*: Blue Ribbon Commission Recommendation #11 Addressing the affordability of coverage for high-cost individuals*). Because self-funded plans are not subject to state insurance regulation, specific data on the number of individuals covered by self-funded plans is based on estimates.

The percent of uninsured individuals increased significantly in Washington between 2000 and 2008. The percent of uninsured individuals less than age 65 increased from 8.6% in 2000 to 12.3% in 2008 *(Source: OFM Sources of Health Insurance 2000-2009).* While the number of uninsured children decreased from 5.5% in 2000 to 4.6% in 2008, the number of uninsured adults aged 19-34 years increased dramatically from 16% in 2000 to 25.9% in 2008 *(Source: OFM Sources of Health Insurance 2000-2009).* An increase in uninsured individuals decreases the percent of individuals insured by health carriers that pay a WSHIP assessment. To the extent this increase arises from lost employer coverage, there may be an accompanying increase in the number of individuals seeking coverage in the individual market being rejected and becoming eligible for WSHIP.

III. Expense of WSHIP enrollees

Enrollees in high-risk pools incur high medical expenses because of their medical conditions and accompanying high utilization of health services. WSHIP enrollees comprise the actuarially identified 8% of individuals likely to be the most costly to insure. Some states allow underwriting practices that permit health insurers to reject an unlimited number of applicants. Thus, WSHIP enrollees are likely to be more costly than enrollees in those states. In fact, WSHIP's cost per enrollee is the highest of all state high-risk insurance pools. Table 2 shows that the average claims plus administrative expense per WSHIP enrollee is $17,503, compared to the national average of $10,269 per enrollee. Additionally, unlike other states, WSHIP does not presently cover individuals seeking continuing health coverage under the Health Insurance Portability and Accountability Act (HIPAA). HIPAA enrollees do not necessarily have high-risk health histories and, therefore, they may be less costly enrollees that lower the other states' per enrollee expense.

Finally, several programs, including Evergreen Health Insurance Program and kidney centers throughout the state, subsidize WSHIP premiums for individuals with extremely costly medical conditions such as HIV and End Stage Renal Disease. Some states do not allow premiums to be paid by such organizations. Without subsidies, these individuals may not be able to afford to enroll in WSHIP.

For a further discussion of the cost of WSHIP enrollees and analysis of the 8% rejection threshold see *Washington State Health Insurance Pool: A Study of Eligibility Standards for Pool Coverage, Leif Associates, December 1, 2007.*

TABLE 2
Cost per Enrollee in Each State High-Risk Pool

STATE	COST PER ENROLLEE	2008 AVERAGE MEMBERSHIP	CLAIMS and ADMIN EXPENSES
Washington	**$17,503**	**3,358**	**$58,775,229**
Indiana	14,988	6,755	101,240,788
Connecticut	14,608	2,336	34,123,143
Kentucky	13,515	4,343	58,694,001
Kansas	12,595	1,858	23,400,767
Alaska	12,409	476	5,906,475
South Carolina	12,261	2,319	28,433,352
Iowa	11,986	2,752	32,985,277
Wyoming	11,979	689	8,253,389
New Hampshire	11,811	1,103	13,027,347
New Mexico	11,762	5,456	64,170,901
Nebraska	11,357	5,126	58,215,310
Oklahoma	10,814	2,144	23,184,929
Illinois	10,649	16,126	171,729,297
Oregon	10,304	16,596	171,010,920
Texas	10,187	27,346	278,581,731
Tennessee	10,152	3,909	39,682,639
Wisconsin	9,620	16,374	157,520,571
Louisiana	9,509	1,121	10,659,141
Florida	9,486	312	2,959,769
Missouri	9,482	2,899	27,489,424
South Dakota	9,390	668	6,272,805
Minnesota	9,160	28,107	257,467,801
Maryland	9,030	14,458	130,550,763
Alabama	8,724	2,515	21,940,695
Montana	8,488	3,026	25,685,112
Colorado	8,317	7,848	65,274,068
Utah	8,010	3,641	29,163,536
Arkansas	7,831	3,043	23,830,051
Idaho	7,653	1,383	10,584,500
North Dakota	7,294	1,470	10,721,751
Mississippi	6,807	3,547	24,145,343
West Virginia	5,767	574	3,310,000
California	5,703	7,313	41,707,857
Average	$10,269	5,912	$59,432,314

(Source: Calculations based on 2008 data from Comprehensive Health Insurance for High-risk Individuals: A State-by-State Analysis, Twenty-Third Edition, 2009/2010)

IV. Individuals rejected on the individual market who are eligible for WSHIP but do not enroll and remain uninsured

In 2007, a total of 5,790 individuals were rejected in the individual market *(Source: WSHIP Survey of Rejected Applicants 2007)*. Each rejected applicant is sent information about the availability of insurance through WSHIP. A survey of rejected applicants is completed every other year to analyze their insurance and the factors that influenced their decision to enroll in WSHIP. Table 3 shows the number and percent of individuals in 2007 who purchased WSHIP, had no insurance, retained the insurance they had, or purchased other insurance.

TABLE 3
Insurance Status for Individuals Eligible for WSHIP

Current Insurance Status	Number of People	Percent
Purchased WSHIP	909	16%
Had no insurance	1,332	23%
Retained insurance they had	1,438	25%
Purchased other insurance	2,111	36%
Persons rejected for individual coverage in 2007 = 5,790		

(Source: WSHIP cost projection if all rejected for individual coverage who do not find or have other coverage were enrolled in WSHIP, Leif Associates 2008)

Of the 84% of individuals who were denied insurance in the individual market and did not enroll in WSHIP, 1,332 individuals remained or became uninsured. Based on 2007 costs per non-Medicare enrollee of $19,646, insuring all 1,332 WSHIP eligible individuals would cost an additional $19,615,449 per year *(Source: WSHIP cost projection if all rejected for individual coverage who do not find or have other coverage were enrolled in WSHIP, Leif Associates, 2008).* Averaged across the 43,349,846 total per member per month (PMPM) WSHIP assessments in 2007, this amounts to an additional $0.54 PMPM to the 2007 assessment rate of $1.05 PMPM *(Source: WSHIP cost projection if all rejected for individual coverage who do not find or have other coverage were enrolled in WSHIP, Leif Associates, 2008).* It should be noted that although 61% of the individuals who did not choose to enroll in WSHIP retained their current insurance or purchased other insurance, some of these individuals may be enrolled in a plan that is not comprehensive enough for their medical condition. These individuals could benefit from WSHIP benefit packages that are designed considering the needs of high-risk individuals. If efforts were made to attract the 23% of individuals who remained uninsured, some of the 61% of individuals who retained other insurance would also be attracted. By increasing WSHIP enrollment by more than the projected 1332 members, the projected $0.54 PMPM assessment could also increase.

According to the Survey of Rejected Applicants in 2009, 64% of individuals who remained uninsured did not enroll because WSHIP was too expensive *(Source: Survey of Rejected Applicants 2009).* This demonstrates that cost is a significant barrier to individuals seeking insurance through WSHIP. At present the statutory minimum an individual can pay for WSHIP after all available income-based subsidies is 110% of the Standard Risk Rate. Most WSHIP plan rates are currently set at this amount. Creating subsidies that fall at or below the

Standard Risk Rate would make WSHIP coverage available to low-income individuals (whose income precludes them from Medicaid or Basic Health). But if subsidies decreased the cost of WSHIP to a level *less than* the Standard Risk Rate or less than a policy available on the individual market, there would be an incentive for individuals to appear less healthy when submitting the Standard Health Questionnaire in order to qualify for subsidies otherwise unavailable to them. This, too, would increase WSHIP enrollment and assessments, but for individuals not deemed eligible by current law.

Finally, although there is no statutory maximum-allowed assessment, increasing WSHIP enrollment and assessments could have a significant impact on insurance rates and access. If the PMPM assessment increased so much that non-WSHIP premiums rose to a point where individuals and employers decided to forego insurance altogether, WSHIP's funding base would decrease, leading to higher WSHIP assessments, higher insurance premiums, and more uninsured individuals in Washington State.

CURRENT FUNDING DISTRIBUTION

Washington State Health Insurance Pool

The following table shows the revenue sources for WSHIP funding in dollars and percent of total for year 2008, the most recent year for which data are available. This distribution will be used throughout the analysis.

TABLE 4
WSHIP Current Funding Distribution, 2008

Revenue Source	Dollars	Percent of Total Revenue
Premiums	19.6 million	31.5%
Assessments	40.7 million	65.4%
Group insurance	24.2 million	59.4%
UMP (1/10)	276,760	0.68%
Individual	4.08 million	10.03%
Medicare supplemental	2.83 million	6.97%
Healthy Options/ BH	8.77 million	21.56%
Stop-loss (1/10)	976,800	2.40%
Excess loss ratio remit.	52,808	0.1%
Interest income	229,254	0.4%
Federal grant funding	1.6 million	2.6%

(Source: WSHIP 2008 Annual Report)

Assessments

Assessments are the most common revenue source among all state high-risk insurance pools. Washington relies heavily on assessments, and Washington's assessment per enrollee is the highest among high-risk pools. Tables 5 and 6 show how Washington's assessments compare to those in other states.

TABLE 5
Assessments per Enrollee by State

STATE	Assessment Per Enrollee	Cost Per Enrollee
Washington	$11,377	$17,503
Florida	6,640	9,486
Connecticut	5,697	14,608
New Hampshire	5,551	11,811
Kansas	5,542	12,595
Maryland	5,508	9,030
Oregon	5,152	10,304
Minnesota	4,855	9,160
Alaska	4,840	12,409
Iowa	4,675	11,986
Oklahoma	4,326	10,814
New Mexico	3,999	11,762
Texas	2,852	10,187
Montana	2,546	8,488
North Dakota	2,480	7,294
Kentucky	2,298	13,515
Wisconsin	2,116	9,620
Mississippi	2,042	6,807
West Virginia	2,018	5,767
Alabama	1,919	8,724
Wyoming	1,917	11,979
Arkansas	1,879	7,831
Indiana	1,799	14,988
South Carolina	1,717	12,261
Illinois	1,704	10,649
Missouri	1,233	9,482
South Dakota	1,127	9,390
Tennessee	1,117	10,152
Louisiana	1,046	9,509

(Source: Calculations based on 2008 data from Comprehensive Health Insurance for High-risk Individuals: A State-by-State Analysis, Twenty-Third Edition, 2009/2010)

TABLE 6
Assessments as Percent of Revenue and Total Assessments by State

STATE	Percent Revenue from Assessment		STATE	Total Assessment
Florida	70%		Minnesota	$136,548,740
Washington	65%		Maryland	94,957,440
Maryland	61%		Oregon	79,049,187
Minnesota	53%		Texas	76,471,627
Oregon	50%		New Mexico	49,028,813
New Hampshire	47%		Indiana	48,846,408
Kansas	44%		Washington	40,700,000
Oklahoma	40%		Wisconsin	39,291,498
Connecticut	39%		Illinois	19,815,000
Alaska	39%		Connecticut	13,499,941
Iowa	39%		Kentucky	11,693,783
West Virginia	35%		Iowa	10,500,000
New Mexico	34%		Kansas	10,385,231
North Dakota	34%		Oklahoma	10,007,042
Montana	30%		Mississippi	8,437,165
Mississippi	30%		Montana	7,692,509
Texas	28%		New Hampshire	6,302,291
Arkansas	24%		Arkansas	5,613,424
Wisconsin	22%		Alabama	4,690,601
Alabama	22%		South Carolina	4,199,337
Kentucky	17%		Tennessee	4,090,548
Wyoming	16%		North Dakota	4,000,000
Illinois	16%		Missouri	3,262,207
South Carolina	14%		Alaska	2,499,719
Missouri	13%		West Virginia	2,070,000
Indiana	12%		Wyoming	2,000,000
South Dakota	12%		Louisiana	1,645,273
Tennessee	11%		Florida	1,483,000
Louisiana	11%		South Dakota	860,722

(Source: Calculations based on 2008 data from Comprehensive Health Insurance for High-risk Individuals: A State-by-State Analysis, Twenty-Third Edition, 2009/2010)

OPTIONS FOR EQUITABLE, STABLE & BROAD-BASED FUNDING

I. Expansion of current funding

In this section, a number of funding options are described and a revenue analysis is presented. Similar to data presented in Table 5, the distributions are based on 2008 data, the most recent complete year of data available. The "Number of new PMPM assessments" shows how many additional PMPM assessments would be collected based on the number of enrollees in 2008. If WSHIP enrollment remains the same, increasing the number of assessments reduces the size of the PMPM assessment. If WSHIP enrollment increases without an associated increase in the number of assessments collected, then the PMPM assessment amount will increase. The PMPM assessment amount is not statutorily capped and is calculated retrospectively based on submitted claims. In order to demonstrate how an increase in the PMPM assessment base could correspond to increased enrollment without increasing the PMPM assessment, the "hypothetical revenue generated" and "number of new enrollees" based on the $1.12 PMPM assessment is shown.

Option 1: Increase Uniform Medical Plan assessment from 10% to 100%

The Uniform Medical Plan (UMP) is a self-insured health plan offered to Washington State employees and retirees. UMP is currently administered by UMR, a third party administrator (TPA). Currently UMP pays 1/10 of the calculated assessment rate. The cost of increasing the UMP assessment rate would be borne primarily by the state.

TABLE 7
Increase UMP Assessment

Increase UMP assessment from 10% → 100%
Number new PMPM assessments = **2,130,998**
Hypothetical revenue generated at $1.12 PMPM = **$2,386,718**
Number new enrollees ($19,646 each, $1.12 PMPM assess) = **121 people**

Member	Current Distribution	Proposed Distribution	Percent Change
Group Insurance	59.04%	61.41%	+ 2.37%
--- UMP (100%)	0.68%	6.4%	+ 5.72%
Individual	10.03%	9.45%	- 0.58%
Medicare Supp.	6.97%	6.57%	- 0.40%
Healthy Options/BH	21.56%	20.32%	- 1.24%
Stop Loss (1/10)	2.40%	2.26%	- 0.14%

Option 2: Increase Stop-Loss assessment from 10% to 100% assessment

Self-funded companies often purchase insurance in cases of higher-than-expected losses. Such insurance purchased to protect against losses of a defined magnitude is termed stop-loss insurance. Assessments of stop-loss insurers are administered in the state high-risk health insurance pools of 24 states. Currently the stop-loss assessment in Washington is one tenth of the standard assessment. If stop-loss payments increased to 100%, these assessments could exceed the premium charged for the coverage. This could possibly adversely affect the stop-loss market.

TABLE 8
Increase Stop-loss Assessment

Increase Stop-loss assessment from 10% → 100%
Number new PMPM assessments = **7,529,778**
Hypothetical revenue generated at $1.12 PMPM = **$8,433,351**
Number new enrollees ($19,646 each, $1.12 PMPM assess) = **429 people**

Member	Current Distribution	Proposed Distribution	Percent Change
Group Insurance	59.04%	48.56%	- 10.48%
--- UMP (100%)	0.68%	0.56%	- 0.12%
Individual	10.03%	8.25%	- 1.78%
Medicare Supp.	6.97%	5.74%	- 1.23%
Healthy Options/BH	21.56%	17.73%	- 3.83%
Stop Loss (1/10)	2.40%	19.74%	+ 17.34%

Option 3: Increase both UMP and Stop-Loss from 10% to 100% assessment

TABLE 9
Increase UMP and Stop-loss Assessment

Increase UMP and Stop-loss assessment from 1/10 → 100%
Number new PMPM assessments = **9,660,776**
Hypothetical revenue generated at $1.12 PMPM = **$10,820,069**
Number new enrollees ($19,646 each, $1.12 PMPM assess) = **551 people**

Member	Current Distribution	Proposed Distribution	Percent Change
Group Insurance	59.04%	51.01%	- 8.03%
--- UMP (100%)	0.68%	5.32%	+ 4.64%
Individual	10.03%	7.85%	- 2.18%
Medicare Supp.	6.97%	5.46%	- 1.51%
Healthy Options/BH	21.56%	16.88%	- 4.68%
Stop Loss (1/10)	2.40%	18.79%	+ 16.39%

Option 4: Increase excess loss ratio remittance threshold from current range of 74%-77%

Insurance companies who sell policies in Washington State and whose loss ratio is less than 74%-77% are required to remit the excess earnings to WSHIP. In 2008 WSHIP collected $49,228 plus interest from excess loss ratio remittances *(Source: WSHIP Loss Ratio Filings, 2007).* These funds were collected from six companies whose total Washington premiums ranged from $736 to $90,013 *(Source: WSHIP Loss Ratio Filings, 2007).* In 2009 WSHIP collected $294,396 plus interest from excess loss ratio remittances. Thirteen insurance companies with Washington premiums ranging from $736 to $830,648 remitted funds *(Source: WSHIP Loss Ration Filings, 2008).*

Excess loss ratio remittances are not a significant, stable, or predictable source of funding. Remittances are generally received from companies with a relatively small presence in Washington who happen to have low claims for the year. There is not a reasonable, identifiable loss ratio threshold that would generate predictable revenue.

II. Additional Funding Sources

Option 1: Processing TPA assessment

Third Party Administrators pay claims for health plans of groups that self-fund health plans but do not administer the benefits directly. The risk pools of three states assess Processing TPAs: Mississippi, Tennessee, and Wyoming. The advantage of assessing TPAs is that the vast majority of self-funded plans utilize TPAs for plan benefit management, and self-funded plans are not subject to state insurance regulation directly. Presently TPAs are not licensed or regulated in Washington State, and the number of PMPM assessments that could be collected through a Processing TPA assessment is unknown. This estimate is based on the number of insured individuals covered by self-funded plans in 2006 (28% of covered individuals covered by self funded plans, *Source: Blue Ribbon Commission Administrative Costs, 2006).* If the Uniform Medical Plan continues to be self-funded, and TPAs are assessed, consideration should be given to discontinuing its current 10% assessment.

TABLE 10
Processing TPA Assessment

Processing TPA assessment
Number new PMPM assessments = **18,980,435**
Hypothetical revenue generated at $1.12 PMPM = **$21,258,087**
Number new enrollees ($19,646 each, $1.12 PMPM assess) = **1,082 people**

Member	Current Distribution	Proposed Distribution	Percent Change
Processing TPA	0%	33.91%	+ 33.91%
Group Insurance	59.04%	40.58%	- 18.46%
--- UMP (100%)	0.68%	4.23%	+ 3.55%
Individual	10.03%	6.25%	- 3.78%
Medicare Supp.	6.97%	4.34%	- 2.63%
Healthy Options/BH	21.56%	13.43%	- 8.13%
Stop-Loss (1/10)	2.40%	1.49%	- 0.91%

Option 2: Processing TPA assessment and increase stop-loss from 1/10 to 100% assessment

Since the identity of those who would pay Processing TPA and stop-loss assessments is unknown, the following estimate reflects "double counting" of WSHIP assessments and over-estimates the overall increase in PMPM assessments.

TABLE 11
Processing TPA Assessment and Increase Stop-loss

Processing TPA assessment and Increase Stop-loss to 100%
Number new PMPM assessments = **26,510,213**
Hypothetical revenue generated at $1.12 PMPM = **$29,691,438**
Number new enrollees ($19,646 each, $1.12 PMPM assess) = **1,511 people**

Member	Current Distribution	Proposed Distribution	Percent Change
Processing TPA	0%	30.93%	+ 30.93%
Group Insurance	59.04%	33.54%	- 25.50%
--- UMP (100%)	0.68%	3.50%	+ 2.82%
Individual	10.03%	5.7%	- 4.33%
Medicare Supp.	6.97%	3.96%	- 3.01%
Healthy Options/BH	21.56%	12.25%	- 9.31%
Stop Loss (1/10)	2.40%	13.63%	+ 11.23%

Other options: Additional funding and assessment sources

Table 12 shows the funding sources of the 35 state high-risk pools. Assessments on health plans are the most common revenue source (29 states) followed closely by assessments collected from stop-loss insurers (24). Only five states, including Washington, assess Medicaid health plans. Mississippi, Tennessee, and West Virginia each assess Processing TPAs. Hospitals are assessed based on revenue or admissions in Maryland, and West Virginia. Some states assess *all* insurance companies (such as property and casualty), not only those related to health insurance. Novel sources of revenue could include a pharmaceutical assessment, payroll deduction, sin taxes, or extending the insurance premium tax to fund WSHIP.

TABLE 12
Assessment Sources by State

STATE	Health Plans	Stop Loss	Medicaid	TPAs	Hospitals
Alabama	X				
Alaska	X	X			
Arkansas	X	X			
California					
Colorado	X	X			
Connecticut	X	X			
Florida	X	X			
Idaho	X	X			
Illinois	X	X			
Indiana	X	X			
Iowa	X				
Kansas	X	X			
Kentucky	X	X			
Louisiana	X	X			
Maryland					X
Minnesota	X	X			
Mississippi	X	X		X	
Missouri	X	X			
Montana	X				
Nebraska					
New Hampshire	X	X			
New Mexico	X		X		
N. Carolina					
North Dakota	X	X			
Oklahoma	X	X	X		
Oregon	X	X			
South Carolina	X	X			
South Dakota	X	X			
Tennessee	X	X	X	X	
Texas	X	X			
Utah					
Washington	X	X	X		
West Virginia				X	X
Wisconsin	X		X		
Wyoming	X	X			
TOTAL	**29**	**24**	**5**	**3**	**2**

(Source: Comprehensive Health Insurance for High-risk Individuals: A State-by-State Analysis, Twenty-Third Edition, 2009/2010)

CONSIDERATIONS & RECOMMENDATIONS

The existence of the Washington State Health Insurance Pool benefits not only high-risk individuals who are able to get coverage, but also individuals who buy health insurance in a traditional insurance market. Providing a separate insurance pool for high-risk individuals decreases the premiums in the individual market. Making the funding base of WSHIP as broad-based as possible would distribute the benefit of WSHIP and the burden of high-risk individuals widely across Washington residents.

When determining the feasibility of different funding options, several factors should be considered, including financial feasibility, administrative implementation, potential legal challenges, stakeholder interests (support and opposition), the current economic climate, and federal reform initiatives. Considering the economic situation in Washington State, proposals that impact state funded programs such as UMP are unlikely to be feasible for the state or stable over time. General revenue, the most broad-based revenue source, is likely not a feasible or sustainable option. Similarly, proposals that impact entities unable to recoup assessment funds or who have been adversely affected by the economic downturn, such as hospitals and providers, are likely to face political resistance.

The current funding structure where assessments are calculated retrospectively based on claims and are not statutorily capped has significant advantages over funding sources that are fixed. While the latter funding sources are limited by circumstances outside the control of the high-risk pool, WSHIP's funding is theoretically unlimited. However, increasing enrollment substantially would likely have an impact on the health insurance market through higher assessments and, therefore, higher premiums.

Given these considerations, the most likely sources of additional stable, broad-based revenue are achievable by increasing the stop-loss assessments to 100% or by assessing Processing TPAs. Each of these options would allow WSHIP to capture payments from new sources and increase the funding base, albeit not by a precisely identifiable amount. This would distribute the costs of WSHIP over more entities and allow for increased enrollment without substantially increasing the assessment for any existing WSHIP member.

There are several challenges to this approach. Processing TPAs, stop-loss insurers, and those who utilize their services will likely oppose any imposition of assessments. Additionally, licensing and regulation is not required of Processing TPAs, which could complicate administration. However, the Mississippi high-risk pool (Comprehensive Health Insurance Risk Pool Association) imposes an assessment on Processing TPAs even though they are not licensed. Finally, this approach would appear to increase the proportion of assessments paid by UMP, which is predominately funded by the State. However, if the change did not cause a significant increase in WSHIP enrollment, an increase in the proportion of assessment might not change the total assessment charged to UMP dramatically because the addition of a Processing TPA or stop-loss assessment would increase the number of enrolled individuals on which assessments are being made such that the assessment per covered life would decrease significantly.

Although federal health reform is on the horizon and Washington State faces economic challenges, the needs of the vulnerable high-risk individuals in Washington State are significant. By ensuring equitable, stable, and broad-based funding for the Washington State Health Insurance Pool, Washington State will be in a position to respond to federal health care reform efforts as well as the needs of its residents.