

HEALTH INSURANCE

Is The Individual Market in New Jersey Alive and Well?

by Joseph Torella, Vice President, Savoy Associates

In starting this piece, I was tempted to suggest that the individual (IHC) market was poised for greatness – although that might be a stretch. Then I quickly realized that many would vehemently argue that this market is far from greatness – that it is barely alive and breathing. The answer – somewhere in the middle.

If we choose to be negative, it's easy to write an obituary for the individual market. Enrollment is spiraling out of control. Down from a high of more than 220,000 covered individuals in the last quarter of 2003, the number is now just over 78,000. In addition, prices have been high and benefits limited.

Those who remain in the pool are using benefits so fast that it's difficult to charge high enough premiums to keep pace with utilization. As premiums continue to rise, the younger healthier members drop out of the pool, leaving fewer across whom to spread the risk. Being an actuary or senior underwriter is not a prerequisite to understanding that in a pure community rated environment, over time, if the participants can opt out of the pool or find coverage elsewhere at an arbitrarily lower rate, long term "cherry-picking" or "cherry-leaving" will decimate the pool.

And, since the pool is regulated in New Jersey, there are no quick solutions without legislative change. This doesn't mean solutions don't exist, simply that the quick and easy ones aren't politically expedient. For example:

- Participants who use the most medical services must pay a greater share of the premium; and
- Benefits must be designed and priced to favor younger healthier participants.

To many of us, this means the compression ratio must be increased from 1:1 to 2:1 or higher. To legislators, it means taking on a political third rail – touch it and end your political career. The legislature is not likely to pass a plan that increases the cost for older participants while the younger pay

less – even though the present structure is unfair. The mom of a non-smoking recent college graduate was amazed that her son's premium of over \$4400/year would be the same as that of a man 2 1/2 times his age who smokes and could be chronically ill.

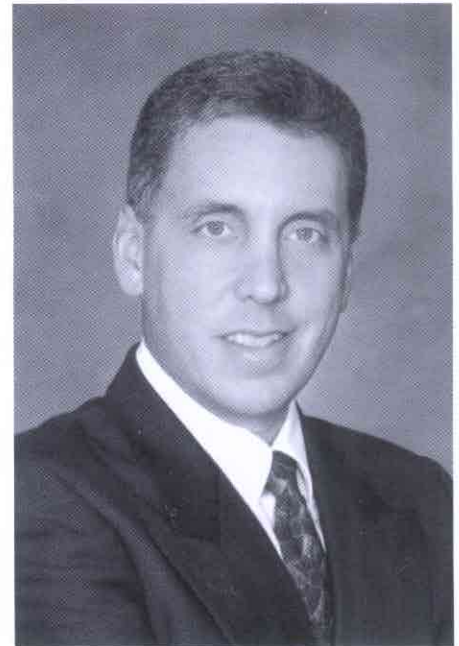
A politically-expedient legislative solution would likely circumvent rather than directly address this issue. Witness a pending bill to raise the "dependent" age to 30. (See page 6.) So when you contact your legislator, urge him/her to take on this issue and explain how insurance works. In auto insurance, those with more accidents pay a higher premium and in life insurance you'd have no participants under the age of 55 if everyone had to pay the 55-year old rate. The same principles apply to health insurance. It can't work unless there are many participants with few claims subsidizing the risk for those who use benefits (and pay a higher, but not necessarily proportional amount).

So back to the third rail: Knowing that legislation costing the "elderly" more is politically untenable, we have to focus on the positives rather than the negatives and continue developing market-based solutions.

Following eight straight years of fourth quarter enrollment declines, 2004 saw three consecutive quarterly increases. Although modest, could this be a positive indicator? Could the Basic and Essential (B&E) Plan be helping to attract, new, younger members?

Then there are the positive changes initiated by some of our carrier partners. Their range of product choices includes more competitively priced PPO and low-end options. The addition of these newer plans, the B&E plans, and soon high deductible health plans (HDHPs) that are HSA-compatible will complete the array of offerings.

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capability, the "elimination" of paper applications, cleaner "paperwork" to the carriers and fewer people touching the applications. Recognizing positive changes and that brokers can facilitate market momentum, some carriers have made a substantial commitment to this market, including inviting brokers into the sales process and encouraging the use of e-enabled technology.

We can't give up yet on IHC – not without each segment playing its role: the legislature considering its options; lobbyists staying on top of the legislators; carriers providing resources, options and web-based tools; and brokers adding value by making the employer/consumer aware that the products exist and are accessible. So let's not attach any moniker to the Individual market... we need to keep policymakers dialoguing while market-based initiatives facilitate growth and stabilization of the IHC market.

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