



# HCFANY Evaluation of the UnitedHealth Reform Proposal

## *UnitedHealth Group*

In October 2007, the UnitedHealth Group issued a proposal to reform New York's direct-pay and small-group markets. The direct-pay market is individual insurance coverage.

The goal of the UnitedHealth proposal is to address the “death spiral” (see box below) or decline in enrollment. UnitedHealth attributes this decline to a lack of product flexibility, inadequate stop-loss pool funding, and by the introduction of the HealthyNY program onto the market.

### **The Proposal**

This proposal would:

- Create a separate direct-pay risk pool with the same administrative structure and vendors as the New York state employees' and retirees' insurance plan (NYSHIP).

- Propose two rating options: (1) the current community rating methodology; or (2) modified community rating based on sex and age (to get younger people to buy insurance).
- Keep the Direct Pay and NYSHIP pools separate because the adverse selection of direct pay individuals would raise the premium costs of New York State employees.
- Eliminate all Health Care Reform Act (HCRA)[see box below] surcharges for this population. Commercial insurers would no longer be required to offer coverage to this market.
- Open HealthyNY to small businesses (1-50 employees) at unsubsidized rates.

These employers would receive tax credits.

The NYSHIP model for the direct pay market is presented by UnitedHealth as having the ability to stabilize the direct pay market without adversely affecting the small employer market.

UnitedHealth strongly opposes merging the direct-pay and small-group markets. Their reservation lies in that without an enforceable individual mandate in place, community rating under a merged market would increase premium rates for small businesses.

### **Collective Impact**

United estimates that its proposal will reduce individual Direct Pay premiums by 13-19%.

## **The Direct Pay Market “Death Spiral”**

### **What is the direct-pay market?**

The direct pay market is the system by which individuals purchase insurance for themselves and their families directly through an insurance carrier, rather than through their employer. In contrast, the small-group market is the system by which small businesses (those employing 1-50 people) purchase health insurance for their employees directly through an insurance carrier.

### **Why is the direct-pay market said to be in a “death spiral”?**

Throughout the past decade, enrollment in the direct-pay market has been steadily declining from about 110,000

enrollees to 57,000. Much of this decline is a direct result of an acceleration in premium costs.

### **What has been done to address the direct-pay market “death spiral”?**

The Health Care Reform Act of 2000 (HCRA) attempted to slow premium increases by setting up a “stop-loss” pool to reimburse insurers for claims falling between \$20,000 and \$100,000. At the outset, this pool covered 100% of the claims liability and was annually increased for inflation. In 2004, the HCRA reauthorization froze stop-loss pool funding at \$40 million. It now covers less than 50% of claims liability, which has caused the premiums to rise again.

## HCFANY's evaluation of the UnitedHealth proposal:

Health Care For All New York (HCFANY) has reviewed the UnitedHealth proposal in relation to our *10 Standards for Quality, Affordable, Health Care for All*. This is not a comprehensive proposal for universal health coverage.

The proposal is strongest in its use of the NYSHIP administrative structure, however it is unclear if the plan would preserve its comprehensive benefits or low-cost-sharing. Overall, it is difficult to evaluate this plan as it does not address several of the standards set forth by HCFANY.

The following symbols are used to show how United's proposal measures against HCFANY's 10 standards.

- 😊 = Meets standard
- 😐 = Partially meets standard
- 😞 = Does not meet standard

## HCFANY's 10 Standards for Quality, Affordable, Health Care for All

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| <p>😞 <b>Everyone must have health coverage and access to health care:</b> This is not a health care for all proposal. UnitedHealth only seeks to address the individual direct-pay market.</p> <p>😐 <b>Health coverage must be affordable to the family budget:</b> This proposal estimates a 13-19% reduction in the direct pay market premiums, but this alone does not make it affordable. After a 19% reduction, the average HMO policy in New York City would still cost \$8,738 per year for an individual or \$24,937 per year for a family. In several upstate counties, these costs would be significantly higher.</p> <p>😐 <b>Health coverage must include comprehensive benefits to meet people's needs:</b> UnitedHealth's proposal would create new products under NYSHIP for the direct pay market. However, it is unclear if NYSHIP's comprehensive benefits and low cost-sharing would be preserved under these new products. It would also open HealthyNY to the small group market at unsubsidized rates. However, HealthyNY does not offer comprehensive benefits, excludes pre-existing conditions, and has high deductibles and cost-sharing that can quickly become burdensome for people who are ill, have chronic diseases or disabilities.</p> <p>😞 <b>Government should be an active watchdog and regulator of health care system:</b> UnitedHealth does not address this standard.</p> | <p>😞 <b>Health coverage must promote equity in health care utilization and outcomes:</b> UnitedHealth does not address this standard.</p> <p>😞 <b>Existing and new public health insurance programs must be administratively simple to ensure enrollment:</b> UnitedHealth does not address this standard.</p> <p>😐 <b>Everyone should have the choice of a public health plan:</b> Part of this proposal builds off of the NYSHIP program which meets the definition of a public plan under the standards. However, this program is only made available to some people, not all.</p> <p>😞 <b>Health care reform should include effective cost controls that promote equality:</b> UnitedHealth does not address this standard.</p> <p>😞 <b>Employers' health coverage costs should be predictable and proportional to their total labor costs:</b> Despite the creation of a separate direct-pay risk pool and an expansion of HealthyNY with tax credits, all employers would still pay for health care costs on a per-employee basis. This would result in higher health care costs as a portion of total labor costs for lower wage as opposed to higher wage workers</p> <p>😞 <b>The safety-net health care delivery system must be preserved and enhanced:</b> UnitedHealth does not address this standard.</p> |
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