HEALTH REFORM BEFORE THE ACA: CALIFORNIA'S INDIVIDUAL MARKET

The individual (nongroup) market is an important fallback option for those who are not offered health insurance coverage through their employers and do not qualify for public programs such as Medi-Cal or Medicare. Independent contractors, part-time employees, low-wage workers at businesses that do not offer coverage, people moving between jobs, and the unemployed all fall into this category of people who will need to turn to the individual market if they want health coverage.

Prior to the Affordable Care Act (ACA), fewer than 10% of Californians obtained individual health insurance at any given time (www.chcf.org/uninsured-almanac). The ACA established new health insurance marketplaces, provided new financial subsidies for low- and moderate-income people to purchase individual health insurance, imposed new regulations on health plans (like guaranteed issue, banning insurers from denying coverage based on pre-existing conditions), and required individuals to maintain coverage or face penalties. By 2015, two years into ACA implementation, almost 17% of Californians received coverage through the individual market.

Publications from the California Health Care Foundation (CHCF), Kaiser Family Foundation, and other organizations offer historical context about California's individual market before the ACA and identify potential concerns in the event that the ACA's provisions reshaping the individual market are repealed.

CALIFORNIA'S PRE-ACA INDIVIDUAL MARKET

Three publications paint a fairly complete picture of the individual market before the ACA.

SNAPSHOT OF THE INDIVIDUAL MARKET, 2005

In the early 2000s, the CHCF commissioned an extensive research study and survey of enrollees among the three major plans participating in California's individual market (Kaiser, Blue Shield of California, Anthem/Blue Cross). The publication illustrates how income and health status influenced individual market participation, and documents the diversity of products offered and bought. It also explores potential effects of premium subsidies and information on voluntary individual market participation.

Highlights: Those who purchased individual insurance had higher incomes, were older and had better health status when compared to the uninsured. Tax credits and subsidies had only modest results in encouraging people to purchase insurance. Authors concluded that making it easier to get information about products and simplifying the application process could increase purchase rates as much as offering modest subsidies.

Were California to return to an individual market without subsidies and no mandate that people maintain coverage, the state would likely experience dynamics similar to those documented in the early 2000s.

Snapshot: Individual Health Insurance Market (CHCF , 2005) www.chcf.org/individual-market-2005

ON THE EVE OF REFORM

Eve of Reform includes key facts on California's individual market just prior to ACA implementation, including distribution of members among carriers and products, information on the actuarial value (comprehensiveness) of coverage sold, and illustrative premium ratios across age groups.

Highlights: Individual premiums varied by age as much as five-fold. Insurance in the individual market provided less comprehensive coverage, paying an average of 55% of medical expenses, compared to 80% to 90% of expenses for group coverage.

The facts presented below may provide useful reference points as California explores the potential impact of any rollback of ACA provisions.

California's Individual and Small Group Markets on the Eve of Reform (CHCF, 2005) www.chcf.org/eve-reform-2011

ANALYSIS OF HEALTH INSURANCE PRODUCTS IN CALIFORNIA'S INDIVIDUAL AND SMALL GROUP MARKET

A previously unpublished PricewaterhouseCoopers (PwC) analysis of 2013 health insurance products summarizes the common benefit designs, actuarial value ranges, and premiums in California's individual and small group markets, along with comparative information from CalPERS and Medi-Cal.

Highlights: In the pre-ACA individual market, the most popular products had actuarial values that ranged from 55% to 85%, with the majority of plans having an estimated actuarial value below 65%. Low actuarial values were achieved either through high deductibles or via benefit exclusions (such as maternity, mental health, and prescription drugs) that were subsequently prohibited under the ACA.

If the ACA's essential health benefits and actuarial value tiers were eliminated, more individual market products would feature high deductibles and leave gaps in covered benefits.

Individual and Small Group Coverage in California Under the ACA: What to Look for in 2014 and Beyond (PwC, 2013) http://bit.ly/2mfDxl0

ISSUES TO WATCH

HEALTH REVIEW AND UNDERWRITING

Prior to the ACA, people seeking individual coverage after having had a gap in coverage (because they failed to pay a premium and were dropped by an insurer, or their COBRA coverage after losing a job ended, for example) could be denied coverage based on their health status, could have pre-existing conditions excluded from coverage, or could be charged higher rates because of their health status. National perspectives on underwriting practices and the types of health conditions that might prevent people from obtaining individual coverage are described in two Kaiser Family Foundation reports:

- *Pre-Existing Conditions and Medical Underwriting in the Individual Insurance Market Prior to the ACA* (Kaiser Family Foundation, 2016) http://kaiserf.am/2hJ7kNV
- *How Accessible Is Individual Health Insurance for Consumers In Less Than Perfect Health?* (Kaiser Family Foundation, 2001) http://kaiserf.am/2mMzvhj

Some plans also engaged in "rescission" or "post-claims underwriting" in which enrollees who used significant health care resources were subject to additional scrutiny of their initial applications and, if omissions were found, retroactively denied coverage. The *Los Angeles Times* reported extensively on this issue; an article from 2011, "Blue Shield To Pay $2 Million Over Dropping of Policyholders," provides a summary. http://lat.ms/2muR21E

AFFORDABILITY

Prior to the ACA, people with individual market coverage often struggled to afford premiums, deductibles, and copays, as described in a 2007 CHCF analysis. For example, in 2006, Californians earning 200% of the federal poverty level who were enrolled in individual coverage would have paid, on average, 25% of their annual incomes toward premiums and out-of-pocket costs.

- *Health Insurance: Can Californians Afford It?* (CHCF, 2007) www.chcf.org/ins-afford-2007

TRANSPARENCY

The ACA set minimum coverage requirements and sorted all allowable health insurance products into defined "metal levels" to make it easier to compare similar health plans. Prior to the ACA, a wider variety of products was available. While in theory the pre-ACA diversity of products allowed consumers to choose a product that suited their needs (for example, buying thin benefits to pay lower premiums), it also complicated the process of comparison-shopping. CHCF commissioned two studies describing the challenges faced by consumers and potential solutions.

- *Individuals Find Wide Price Spreads and Differing Benefits When Shopping for Insurance* (CHCF, 2002) www.chcf.org/price-spread-2002
- *Check the Label: Helping Consumers Shop for Individual Health Coverage* (CHCF, 2008) www.chcf.org/check-label-2008