HB 1349 Would Weaken Insurance Reserves in Uncertain Economy

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Introduction

By law, health insurance carriers must retain a certain amount of money, or capital, above and beyond the company's fixed liabilities. These reserves are an indicator of a company's ability to pay claims, and the level of these reserves reflects the carrier's financial stability.

Background

Insurance regulation began in the late 1800s largely to guarantee insurer solvency. People who buy health insurance policies need to be sure that when it is time to file a claim the insuring company, first, is still in business and, second, has enough money on hand to pay the claim. Requiring insurance companies to maintain a certain level of financial reserve achieves both goals.

Insurance regulation and reserve requirements are also a way to combat fraud. Responsible insurance companies gladly cooperate with the state insurance commissioner's office in maintaining reasonable reserves to serve consumers and to pay expected claims.

The basic service insurance companies provide the public is to reduce risk. From an accounting standpoint, these risks are determined by the company's available assets, the number of annual claims, how much a company's investments earn and other business factors. Taken together, these four points define a company's risk-based capital.

Pending Legislation

Insurance Commissioner Mike Kreidler has proposed a bill (HB 1349) to limit the amount of money nonprofit health insurance carriers can hold in reserve. The nonprofit companies are local and are the three largest carriers in the state: Premera, Regence and Group Health. The bill states the insurance commissioner can use a company's reserve amount to determine insurance premium increases. The rationale of the insurance commissioner is that this bill would supposedly decrease the cost of health care for individuals and small group employers.

HB 1349 would actually contradict existing Washington state law. RCW 48.43.305 states that "an excess of capital over the amount produced by the risk-based capital requirements [in law] is desirable in the business of insurance." RCW 48.43.335 further states that risk-based capital reports "are intended solely for use by the [insurance] commissioner in monitoring the solvency of carriers

… and shall not be used by the commissioner for ratemaking … nor used by the commissioner to calculate or derive … premium levels." In other words, the law says that beyond holding adequate reserves, the insurance commissioner has no authority to tell private companies how to run their businesses.

Policy Analysis

The health insurance industry is based on assuming risks. No one can predict future health care catastrophes. The larger a company's reserves, the stronger the company is and the more likely it will be able to protect its clients in the face of a medical claim or disaster. Forcing insurance companies to be less financially stable will not reduce the cost of health care, but it will put clients in jeopardy of personal financial harm.

Health insurance reserves are extremely fragile. Deterioration of the stock and bond markets could quickly lower a health insurance company's reserves by 15–20%. A natural disaster or mass emergency could lower its reserves by 20–25% in one day.

State government regulations and laws dictate what benefits insurance companies must cover. Also, starting in 2014, the Affordable Care Act, or ObamaCare, requires insurance companies to cover anyone regardless of pre-existing illness. The law also mandates that everyone pay essentially the same premium price for insurance.

Health insurance companies have been raising premium rates and increasing surpluses because the financial impact of guaranteed issue and community rating mandates is still unknown. The companies anticipate a substantial increase in costs, but have no way to predict the exact amount of those increases. The entire purpose of health insurance is to reduce financial risk and healthy insurance company surpluses do just that.

The new federal law will increase taxes on insurance companies by billions of dollars, force health insurance carriers to provide plans with more benefits, set pricing of plans, require more onerous medical-loss ratios (80% for individuals and small groups) and cause an increase in enrollment without price flexibility. These requirements of ObamaCare taken together could lower a carrier's reserves by 30%.

Nonprofit health insurance carriers do not have access to capital markets in the way for-profit companies do. Consequently, building adequate reserves is the only source of money these carriers have for paying claims and for paying unexpected business expenses that nonprofits incur. Forcing carriers to reduce their reserves would weaken their financial standing.

The government now sets regulations, determines premium pricing and dictates who the health insurance companies must insure. By limiting surpluses, the insurance commissioner would place the companies and those they insure at great financial risk. And, of course, the government would likely blame the insurance companies if they didn't have the financial reserves to cover medical costs for their customers.

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