

## Enacting a Core Benefits Health Plan for Young Adults

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### Introduction

The legislature is considering a bill, SB 5052, designed to reduce the number of uninsured in Washington by lowering the cost of private health insurance for people ages 19 to 34, the age group most likely to lack health coverage.<sup>1</sup> The bill would allow people in this age group to access a core benefits health plan in Washington. The bill was introduced, but not passed, in the 2007 and 2008 sessions, and has been reintroduced in slightly revised form for 2009.

### Bill Description

The bill addresses the findings of the Governor's Blue Ribbon Commission on Health Care Costs and Access. The Commission found that 51% of the uninsured in Washington are adults without children, and more than half of uninsured people are ages 19 to 34 years old.<sup>2</sup>

There are many reasons why people in this age group may not have health insurance. People this age tend to be among the healthiest in society and many of them feel they have no need of health insurance. Many people in this age bracket are moving from school to the work force, or are still living with their parents. Since they are just starting out in life, or are in transition, they often feel that getting health insurance is not a priority right now. Finally, for many of them money is tight, and the high premiums and lack of consumer choice in Washington's highly-regulated health insurance industry has priced them out of the market.

SB 5052 would ease state law and allow insurance companies to offer people in this age group core benefits health plans that do not include all of Washington's 53 state mandates. Research shows each mandates adds on average one half to one percent to the cost of a health insurance plan. Some mandates add up to four percent to insurance costs.<sup>3</sup> By providing a "mandate light" plan, the intent of SB 5052 is to entice 19 to 34-year-olds to purchase low priced, basic health insurance, rather than go with no coverage at all.

Under the bill the state would continue to impose community rating, a form of price control, but only among people purchasing plans allowed by the bill. Specifically, SB 5052 would allow the Insurance Commissioner to set an upper price limit of 375% of the lowest insurance rate permitted

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<sup>1</sup> SB 5052, An act relating to health insurance options for young adults, 61st Legislature, 2009 Regular Session, introduced January 12, 2009.

<sup>2</sup> Washington State Blue Ribbon Commission on Health Care Costs and Access, Final Report, January 2007, at [www.leg.wa.gov/documents/joint/HCCA/Final%20Report.pdf](http://www.leg.wa.gov/documents/joint/HCCA/Final%20Report.pdf).

<sup>3</sup> "How Mandates Increase Costs and Reduce Access to Health Care Coverage," by Paul Guppy, Policy Brief, Washington Policy Center, June 2002, at [www.washingtonpolicy.org/Centers/healthcare/policybrief/02\\_guppy\\_mandates.html](http://www.washingtonpolicy.org/Centers/healthcare/policybrief/02_guppy_mandates.html).

for all age groups on January 1, 2000.

One of the principle objections to this bill in 2007 was the lack of mandatory maternity coverage for woman in the covered age group.<sup>4</sup> SB 5052 now provides for the guaranteed issue of maternity coverage to women who buy affordable plans allowed under the bill. If a woman becomes pregnant, she would have the option of exchanging her original insurance plan for one that contains maternity coverage.

The final section of the bill requires the Office of the Insurance Commissioner to provide people 19 to 34 years old with wellness and outreach health educational materials, as funding becomes available.

## **Policy Analysis**

One of the greatest inequities in the regulation of health insurance is that young and healthy people are forced to pay high prices as a subsidy to an older and less healthy population. In a rigid statewide community rating system like Washington's, people young and old must pay the same rates for similar mandate-rich health insurance policies. Many people, young and old, see this as unfair; to force the young to subsidize the old. It should come as no surprise to policymakers, then, that many young people simply go without health insurance, rather than pay artificially inflated prices.

## **The Cost of Health Care Mandates**

Health care mandates are laws that restrict and determine the provision of certain health care services. They are distinct from the many administrative rules the state places on the health insurance industry and which carry a significant cost of their own. The legal definition of a mandated health benefit is "coverage or offering required by law to be provided by a health carrier to: (a) cover a specific health care service or services; (b) cover treatment of a specific condition or conditions; or (c) contract, pay, or reimburse specific categories of health care providers for specific services..."<sup>5</sup>

In many cases insurance customers would choose these mandated services anyway, and to that extent mandates have little or no impact on the insurance market. Also, a number of individual mandates have little or no effect on the overall cost of health care because they are relevant to only a small patient population or apply only to uncommon medical procedures.

Taken together, however, mandates have a significant impact on the health insurance market. Because state-imposed mandates carry the force of law, they interfere directly in the normal voluntary relationship between buyer and seller. The presence of state-imposed mandates means insurance customers are forced to pay for coverage of a medical service that they may not otherwise choose. This leads inevitably to a "crowding out" effect, by which other types of health care coverage that customers would choose are not offered because insurers must offer the benefits mandated by the state instead.

A number of research studies find a strong correlation between higher health coverage costs and increases in the uninsured population. A report by professors Frank A. Sloan and Christopher J. Conover of Duke University found that:

<sup>4</sup> "Parlette introduces bill aimed at increasing access to health care," Senator Linda Evans Parlette News and Views, Senate Republican Caucus, January 18, 2009, at [www.senaterepublicans.wa.gov/news/2008/parlette/011808HealthCareAccess.htm](http://www.senaterepublicans.wa.gov/news/2008/parlette/011808HealthCareAccess.htm).

<sup>5</sup> Revised Code of Washington 48.47.010, (7), "Definitions."

“...the higher the number of coverage requirements placed on plans, the higher the probability that an individual was uninsured, and the lower the probability of people having any private coverage, including group coverage. The probability that an adult was uninsured rose significantly with each mandate present.”<sup>6</sup>

The large number of mandates in place today is variously the result of interest group pressures, occasional campaigns for reform, an individual medical tragedy, the influence of professional associations, the personal experiences or beliefs of legislators, and the haphazard nature of the political process over time.

Mandates also carry social costs. By their nature mandates force insurance consumers to pay for medical coverage they may not want, while denying them options they do want and would choose if available. In the current regulatory climate many decisions about health coverage are made by lawmakers through the political process, not by consumers, doctors and employers.

The cumulative impact of the 53 mandates is to add between 15% and 25% to the cost of buying a health insurance policy in Washington. Our state has one of the highest levels of mandates and regulations placed on health insurance; it also has one of the highest uninsured rates in the country.

## **The Policy Purpose of SB 5052**

The purpose of SB 5052 is to rectify inequities caused by mandates and community rating rules, by allowing younger people to access a meaningful and affordable level of health insurance, and thus move part of the uninsured population into the insured category.

Recommendation number eight of the Governor’s Blue Ribbon Commission is to explore the need for and the costs of specific benefit mandates.<sup>7</sup> SB 5052 would allow insurance carriers to experiment and design plans that contain only those mandates that make sense for people in the 19 to 34 age group.

SB 5052 would not authorize an unregulated market in health care. All other regulations and oversight of the Insurance Commissioner’s office would apply to these plans, and the bill includes some price controls and modified community rating rules. Still, on balance the bill would create a core benefits health coverage solution directed at a large segment of the uninsured population, by relieving these consumers from paying for the entire list of state-imposed mandates.

Fewer mandates, greater consumer choice and vigorous price competition among insurers in an energized insurance market is the most effective way to promote access to affordable, high-quality health care for all Washington citizens, and this proposal represents a significant policy change in this direction.

*Dr. Roger Stark is a health care policy analyst with Washington Policy Center, a non-partisan independent policy research organization in Seattle and Olympia. Nothing here should be construed as an attempt to aid or hinder any legislation before any legislative body.*

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<sup>6</sup> “Effects of State Reforms on Health Insurance Coverage of Adults,” by Frank A. Sloan and Christopher J. Conover, Inquiry 35, No. 3, Fall 1998, pp. 280 – 293.

<sup>7</sup> Washington State Blue Ribbon Commission on Health Care Costs and Access, Final Report, January 2007, at [www.leg.wa.gov/documents/joint/HCCA/Final%20Report.pdf](http://www.leg.wa.gov/documents/joint/HCCA/Final%20Report.pdf).