

## ASSOCIATION HEALTH PLANS AND THEIR EFFECT ON SMALL GROUP COVERAGES

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John Schachterle's recent article as to small group pools leads to a discussion of the current debate in Congress on Association Health Plans. Going back to 1995, Congress has introduced bills proposing to allow small businesses to form Association Health Plans (AHPs) which would create new purchasing arrangements for health insurance coverage. The AHP legislation attempts to improve access to and affordability of health insurance for small business employees.

The House adopted HR 525 by a vote of 263 to 165 on July 26, 2005. Senator Olympia Snow (R-ME), along with a number of other introducers, introduced a companion bill, S. 406. This legislation has the support of President Bush.

This legislation, which is to promote access and affordability, misses the mark completely. The supporters of this legislation believe that small businesses banding together will be in a better position to buy affordable and quality health coverage from AHPs. This is a fallacy.

The members of FORC, with their past association with insurance departments, will remember what happened under the Multiple Employer Welfare Arrangement. In that case, a significant number of people were left without coverage despite having paid their premiums.

I refer you to two studies, the Urban Institute study<sup>1</sup> and the Mercer Risk study<sup>2</sup>; both reports predict that AHPs would result in over 1 million more uninsured Americans.

As proposed, AHPs would not be subject to the same statutory requirements or regulations that apply to health insurance writers providing coverage to small groups and individual health insurance. The financial requirements for AHPs are extremely low. These associations would not be required to provide coverage which is now required of health insurance companies. AHPs would not be subject to the same scrutiny with respect to rates charged to the consumer. Finally, AHPs would not be required to guarantee access to and renew coverage as are the current health insurance writers in this country.

What in my opinion will happen is that if the AHP legislation is passed by Congress, our health insurance clients will be forced to guarantee access, renew coverage, limit pre-existing conditions, establish premiums that can be charged, while AHPs will be required to do none of this. Someone will be paying the bill for inadequate risk-spreading mechanism which presently is found in the small group market.

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<sup>1</sup> L. Nichols, The Urban Institute, testimony before the U.S. House of Representatives, Commerce Subcommittee on Health and Environment, June 16, 1999.

<sup>2</sup> Mercer Risk, Finance & Insurance Consulting, for National Small Business United, "*Impact of Association Health Plan Legislation on Premiums and Coverage for Small Employers*," June 2003.

AHPs cannot possibly help but disrupt the risk-spreading mechanism by siphoning off young and healthy consumers (cherry picking), leaving the remainder of the small group market with an older and less healthy population to insure. This vulnerable segment of the population would face the prospects of spiraling premium costs or even loss of coverage.

The U. S. Congressional Budget Office report<sup>3</sup> analyzed the AHP legislation and found that 82% of the small business employees would pay higher premiums under AHPs. The CBO further found that if savings were to occur at all, it would be the result of the exemption from state insurance laws, including mandated benefits and not increase economies of scale. The Mercer Risk study also concluded that any savings would result from favorable risk selection and exclusion of benefits, not from improved efficiency or lowered administrative costs.

The AHP proposal does nothing to address the three primary factors of the continuing increase in the cost of health care, which in my opinion are (1) cost of prescription drugs, (2) cost of provider services, and (3) utilization by the consumer. None of these factors is addressed in the AHP proposal.

Our clients who provide small group coverage will find the basic small group program being destroyed by under-regulated, under-financed entities. These ill-conceived vehicles will be allowed under AHP proposal to move into the small group marketplace unrestrained by the states' regulatory schemes imposed upon real insurance companies.

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<sup>3</sup> U.S. Congressional Budget Office, *Increasing Small-Firm Health Insurance Coverage Through Association Health Plans and HealthMarts*, Jan. 2000