



February 27, 2008

Hon. Joseph A. Montalbano  
President of the Senate  
The State House Room 318  
Providence, Rhode Island 02903

Hon. William J. Murphy  
Speaker of the House of Representatives  
The State House Room 323  
Providence, Rhode Island 02903

Dear President Montalbano and Speaker Murphy:

In accordance with RI laws 42-14.5-3 and 42-14.5-4 I am pleased to transmit to you the report of the “Market Merger Task Force” of the Office of the Health Insurance Commissioner. I endorse its findings and recommendations.

This letter will not discuss the Report of the Task Force in detail. Hopefully, it is easily understandable. Rather, it will give context for the Task Force’s work and direction.

The Task Force, in keeping with the statute and motivated in part by health insurance reforms in Massachusetts, brought together people with strong and sometimes conflicting interests – business people, legislators, insurance brokers, insurance companies, consumers and consumer advocates. It worked to find consensus on five basic questions:

1. The stability of the Direct Pay (Individual) Market
2. The effect of merging the direct pay and small group markets.
3. The effect of changes in small group rating rules.
4. The effects of an individual mandate to purchase health insurance.
5. Reviewed product simplification and distribution channels and regulatory authority.

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The task force found both data analysis and serious conversations to be helpful in arriving at consensus. Its resulting principles, findings and recommendations are the result of compromise, and represent nobody's perfect solution. As such, they mirror the legislative process and merit attention by the legislature.

### **The Problem**

Members of the Task Force define the problem they are addressing as the increasing unaffordability of health insurance. While the focus of the Task Force's work was the individual and small group markets, this problem extends beyond those groups. The effects are higher business costs, more people uninsured and poor individual and community health. The problem is not unique to Rhode Island. The Task Force did not spend time analyzing the causes of this problem, but spoke from their experiences as buyers, users and distributors of health insurance.

### **The Tension**

Members of the Task Force were clear in their wish not to just "rearrange the deck chairs on the Titanic". However, they also acknowledged the challenge of making progress on a politically charged issue, where the larger the change contemplated, the greater the number of interests effected. "Incrementalism vs Major Reform" was a constant theme. In addressing this, the Task Force found that it was helpful to agree on some basic principles that underlie its recommendations.

### **Principles**

#### 1. Everyone in the pool

- People have an obligation to obtain health insurance, employers have an obligation to make contributions to that health insurance and the state has an obligation to promote the availability of affordable health insurance.

So long as people can opt out of the insurance pool, that pool will be at risk of growing sicker and more expensive. That responsibility starts with the individual, not the employer, particularly in today's transient economy.

#### 2. Community Rating

- Prices for products in that pool should vary by objective, publicly accepted factors that apply to everyone and that predict rates of health care utilization.

In a mandatory insurance market, we can predict the characteristics of people who will use health insurance more. We should decide which of those characteristics are fair for insurance pricing (underwriting) and then use those same rules for everybody. People should not be penalized, however, for random incidents, or the consequences of them.

3. Subsidies for those who can't afford coverage

- If we are going to require everyone to purchase health insurance, we must recognize that some financial assistance will be necessary to make health insurance affordable for all Rhode Islanders.

In theory it is more equitable and in the long term more prudent to have access to health insurance, than a subset of services (say Emergency Rooms). The Task Force acknowledges the challenges of defining what is basic health care, what is affordable and implementing such a measure in this constrained budget environment.

4. Regulation of products and rates.

- The state should strive to set up a market where people choose from a
- standardized array of products with known prices and insurers compete for those people.

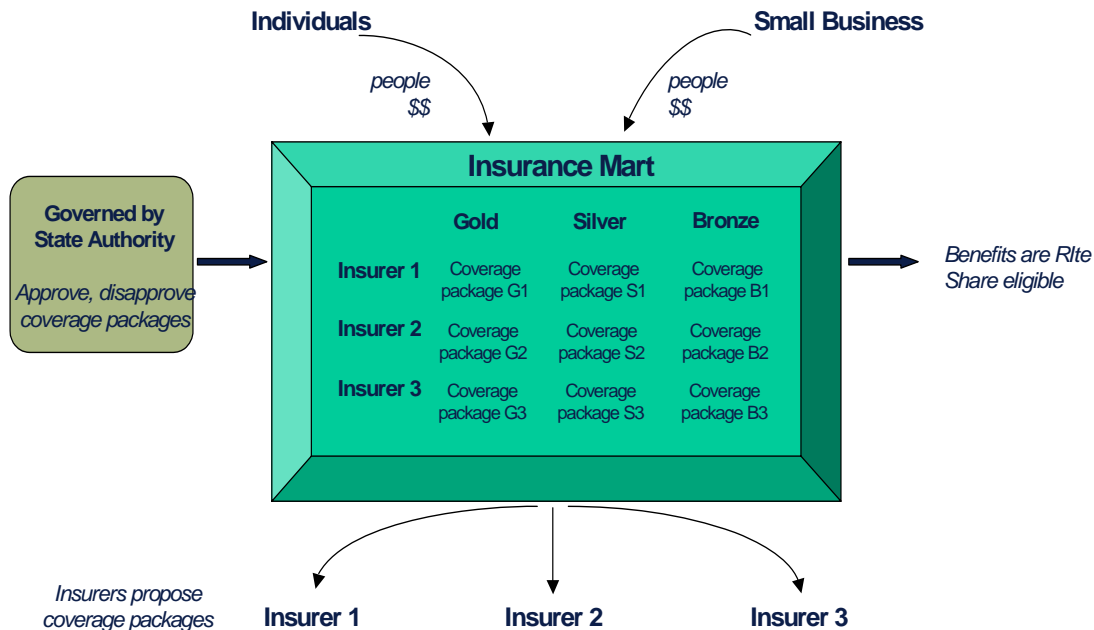
Because of an imbalance of information and negotiating power, and the purchase of insurance by third parties (employers), markets do not work well in health care. Individual purchase, transparency of information and regulation of rates and standardization of products - as in the auto insurance market - will align financial incentives and force health insurers to compete on service and not on their ability to find healthy people and exclude sick ones. It will protect consumers better and permit a public focus on underlying cost drivers in the medical delivery system.

Building on these principles will require changes by all stakeholders. With such change, more and more **consumers** would buy health insurance individually, as they do auto or home insurance; **employers** would either continue to buy insurance for their employees or give them pre-tax money to do so, as with pensions; **insurers** would operate under tight rating rules and innovate on products based on public standards; **providers** would face greater accountability for the costs and quality of their care; and **the state** would face new responsibilities for defining a basic insurance package, overseeing a structured market for health insurance, and subsidizing the purchase of health insurance for low income populations.

These principles would result in an individual and small group market where individuals are required to buy health insurance, using pretax dollars, in a structured market that could look like this:

## Longer-term insurance market reform plan

### Where we are headed:



What are the benefits of this structure?

#### 1. Fairness

- Nobody should be allowed to go without health insurance. People should not be locked into their jobs for fear of losing their health insurance. Employers who pay for health insurance should not have to worry about their competition skimping on health insurance to gain a competitive advantage. Health insurance pricing should be an open book, not a black box. A market that envisions individuals required to purchase health insurance in a structured market with pre-tax contributions addresses these issues.

#### 2. Accountable health plans

- Individuals and small businesses cannot bargain with health plans. Government oversight keeps a level playing field between health insurers, makes pricing consistent, transparent and fair, and promotes healthy competition.

#### 3. Focus on cost drivers

- In a structured market with government oversight, health plan products and payments can be focused on the underlying cost drivers in the system – consumer behaviors and provider practices, not on cost shifting and risk pricing. Individuals purchasing health insurance will also be more price sensitive than employers.

**4. More consistent consumer choice of health plans and products**

- Direct Pay consumers have access to one health plan and four products. Small group subscribers have access to 2 health plans and 150 products. Consumers should have choice *and* simplicity.

The recommendations of the Task Force as outlined in the attached report are based on these principles and move us closer to this longer term reform plan. They are full of compromises. For instance, the Task Force is not recommending the immediate formation of a large risk pool for all businesses under 100 employees – although that would be consistent with its principles. The Task Force found – contrary to assumptions – that the most regulated market (direct pay) produced the cheapest costs; yet believes until there is greater acceptance of the tradeoff between product price and product choice legislation should not set up this structure.

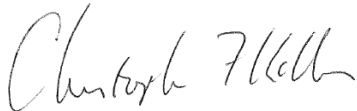
Similarly, the Task Force is recommending a requirement that individuals buy health insurance, but only at higher income levels where affordability is less of an issue. The bulk of the uninsured remain low income workers who need more assistance to buy health insurance.

The recommendations do however, propose significant changes that are consistent with the principles articulated above and will improve the availability and affordability of health insurance for Rhode Islanders as a whole, if not each and every person. This Office looks forward to working with you on the implementation of these recommendations and developing the next steps based on these principles.

The Task Force believes that while this work is difficult, there is no alternative – costs will continue to rise and more people will be uninsured. This work must acknowledge certain realities – Rhode Island is a small insurance market with a shifting economic base and dominant hospital providers and insurers. Similarly – making health insurance more affordable means taking costs out of the system – fewer benefits, fewer services or lower payments. This provides opportunities as well as constraints

Finally, I would like to offer my personal appreciation to all who served on the task force and contributed to its work. Their names are in the Report. As public citizens, they engaged difficult questions honestly and in the spirit of trying to improve policy for all Rhode Islanders. This Office and the Legislature owes them our gratitude.

Sincerely,



Christopher F. Koller  
Health Insurance Commissioner

cc: Members of the Market Merger Taskforce