

How to use agents to protect the Exchange from adverse selection

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Why do insurance companies pay agents?

- a) Because agents need the money for their families?
- b) Insurance agents, by law, must be paid by the insurance company?
- c) The companies need agents in order to stay in business?

– The answer is C

Agents are hired to:

- Insure the uninsured
- Keep people insured continuously
 - Currently there are two methods to become insured in the private market:
 - Some **buy** insurance (an immediate need)
 - Most are **sold** insurance (voluntary decision)

Individuals that buy insurance

- These are the few Individuals that *call* a health insurance company or agent on their own:
 - They understand they have a need for insurance
 - They expect to have medical claims in the very near future
 - They're hoping their premium will be less than their claims
 - Most often are high risk individuals

Individuals that buy insurance

- At this point, the agent now acts like a “Navigator” using MCHA
 - Agent explains the six different MCHA plans
 - The agent will assist in the application process (enrollment)
 - The agent may elect to receive a one-time, \$50 fee for being the MCHA “Navigator”
 - These individuals will remain continuously insured *because it's a great deal*: they receive on average \$2.14 in Medical claim payments for each \$1 they pay in premium*

- Calculated based on data available from MCHA regarding income from premium and payment of medical claims

Individuals are sold health insurance

- These individuals usually do not call agents or insurance companies, like unhealthy individuals do.
- They have no immediate medical need.
- They believe their premium will be more than their claims

Agents Role:

- Must attract healthy people to the pool
- Must keep them insured – Over the long term even the years they have no claims
- The companies compensate agents, but only when the agent sells coverage, and keeps it sold.
- The agent is compensated for as long as the person stays insured

Protecting the Risk Pool

- Without agents selling to healthy individuals, the insurance company suffers adverse selection (adverse selection is when more unhealthy people buy insurance than healthy people)
- Adverse selection creates higher insurance premiums, which eliminates healthy people from joining the risk pool.
- Eventually, only individuals with high claims will still be enrolled in the risk pool.
- Adverse selection is a cancer that will kill any insurance company.

Protection against adverse selection

- Must dilute the large claim individual with small, or no claim individuals
- Example:
 - Individual with \$25,000 claim pays \$5,000 premium
 - Agent must sell four healthy individuals that pay \$5,000 each
 - Healthy individuals receive nothing back, other than peace of mind

An Exchange must also have healthy people in the pool

- Individuals with health problems will call a Navigator to enroll
- The ACA creates two methods to get healthy people into the pool:
 - Buying down premium with subsidies*
 - Mandating that everyone must buy insurance by enrolling** (Involuntary purchase)

* Sec. 1401, 1402: Affordable Care Act of 2010

* Sec. 1501: Affordable Care Act of 2010

How well have subsidies attracted good risk?

- Minnesota's largest population of uninsured are healthy individuals currently eligible for a public plan
- Of Minnesota uninsured population, 61% are currently eligible for a subsidized public plan*
- 97% are healthy risk – Only 3% of the uninsured population rank their health status as poor**

* Health Insurance Coverage in Minnesota, Early Results from the 2009 Minnesota Health Access Survey: MDH, February 2009

** Health Insurance Coverage in Minnesota. MDH. 2004

Mandating insurance coverage is not a new idea

- 47 states mandate auto liability insurance
 - CBO says 14.6% do not comply*
 - Threat of losing your driver's license
 - Threat of losing your vehicle registration
 - Threat of spending up to 90 days in the workhouse
 - Threat of up to \$1,000 fine**

*Key Issues in Analyzing Major Health Insurance Proposals, CBO, Dec. 2008, P 52.

**Penalties for Driving Without Insurance, The Unofficial DMV Guide,
<http://www.dmv.org/insurance/penalties-for-driving-without-insurance.php>.

Retrieved 10/20/2010

Penalties for not owning insurance

<u>Considerations</u>	<u>Auto Insurance</u>	<u>Medical Insurance</u>
Average Annual Cost	\$410	\$4,824
Imprisonment	Yes, up to 90 days	None
Privileges lost	Loss of driver's license	None
Fines/Penalties	First time: To \$1,000	\$95 – 2014; \$395 – 2015; \$695 – 2016
Mandatory months to be insured	12	9
Average annual savings	\$0.00	\$1,206
Pre-existing conditions covered	No	Yes

Information Sources:

- 4 Auto Insurance Quotes. Oct. 20, 2010
- "Average family health insurance policy: \$13,375, up 5%." USA Today. Sep. 9, 2009
- The Affordable Care Act of 2010, final edition. Section 1501.

Jumpers and Dumpers

- **Jumpers** is the new term used when an uninsured person becomes ill or has an accident and jumps in to the insurance pool to have their claims paid for.
- A **Dumper** is an insured person that dumps their insurance by not paying their premium once they think they will no longer have medical claims.
- Guarantee issue with no pre-existing condition exclusion makes it attractive for healthy people to become Jumpers and Dumpers.

Persuading healthy people to join the risk pool



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- Insurance companies contract with insurance agents because of the need for healthy risk in the pools – to avoid adverse selection.
- The legislature will decide
 - If agents are able to sell inside the Exchange, there is a better chance to have a balanced pool
 - If agents are not included, or are only Navigators, the pool will grow and have adverse selection, and make it difficult to attract healthy risk

How to use agents to protect the exchange

- Allow agents to do their job in the exchange
- Compensate them fairly to retain them long term

Minnesota Agents Resume'

- Minnesota Agents are trusted by 2.25 million Minnesotans for their health insurance needs
- Agents results have been valued for over 75 years
- Minnesota has one of the lowest uninsured rates in the United States
- Minnesota is a low cost insurance state

Reference from the Federal Government

- Congressional Research Service study from October 1, 2010*
- Health insurance related complaints nationally
 - Total of 125,651 in 20 categories
 - Agents “...rank relatively low on the list of concerns that consumers have about their insurance coverage.”
 - 97% of complaints were not about agents

* Congressional Research Service. M. Newsom. 10/1/2010

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