Health - Status Insurance

by Dr. Robert Hamilton
August 23 2019 10:52 AM

Most of us expect to keep our health insurance plan until we reach Medicare age at 65 years. However, some people develop a chronic illness at some time after purchasing their insurance plan. If they subsequently change employment, become divorced, or, for any reason, lose their health insurance, they find that new health insurance is either prohibitively expensive or unavailable, because of this (now) preexisting condition. Development of a preexisting condition, after age 25, but before 55, happens in about 1% of the adult population.

New Jersey and more recently, ObamaCare, tried to solve this problem by imposing guaranteed insurability and community rating to cover the medical expenses of these people. ObamaCare also imposed financial penalties on large employers and individuals, who didn’t provide or purchase adequate health insurance. Both programs failed because of unacceptably high insurance premiums, public indignity, and the mass withdrawal of healthy people from the plan.

My previous blog described Alaska’s ObamaCare state waiver program in which redirected federal subsidies, ceded portions of insurance premiums, state assessments on insurance companies, and state general fund contributions could be combined and used to cover medical expenses for people with preexisting conditions, while avoiding many of the onerous stipulations of ObamaCare exchanges.

John Cochrane is one of several advocates of health-status insurance policies, which would provide another means of preparing for and coping with the financial burdens of developing a chronic illness - heart disease, cancer or a number of other chronic conditions.

The basic idea of a health-status insurance plan is fairly simple. A young healthy person buys a standard type of health insurance to take care of the medical expenses we all encounter. The buyer also buys a second policy, the health-status insurance policy, to pay for chronic, expensive illnesses, which develop after purchasing the plan.

The cost of the second policy is somewhat less than the insurance premium for the medical portion of the combined plan. Premiums for this second policy go into a health-status account. The funds in the health-status account can only be spent to pay for medical insurance or medical expenses.

The reason the premium for the health-status portion of the plan is so low is that 99% of the purchasers will never need that insurance. They won’t develop a preexisting condition in the ensuing years. However, for those who develop a chronic health problem without insurance protection, it can ruin them financially for life.

If the person changes jobs or loses the medical portion of their combined plan, they still own the health-status plan, and it goes with them to their next job. Their new employer or the individual, only has to purchase a standard medical insurance plan at standard rates for their age.

In a 2009 blog, Cochrane quotes a detailed, data-based report by Bradley Herring and Mark Pauly. The numbers are different today, but the principles remain the same. They considered a “long list of chronic illnesses to provide a realistic estimate of the sum of medical and health-status premiums”.

A low risk 25-year-old healthy male would pay $800 annually, rising to $3,038 at age 55, for medical insurance only. A 25-year-old high-risk male would have to pay $2,300 annually at age 25 and $10,023 at age 55 for the medical plan. The combined medical and health-status premium at age 25 would be $1,487 rising to $3,936 at age 55 regardless of medical risk. The health-status portion of the premium would rise from $687 at age 25 to $898 at age 55. This is another way of increasing the funding pool to solve the problem of preexisting conditions. It is also a fairly modest, low-risk, high stakes investment to avoid possibly becoming medically indigent.

In addition, according to John Goodman, President Trump’s New Ruling means that any patient between ages 25 and 55, with a preexisting condition, will be able to buy a “short-term, limited duration” policy lasting for 12 months and guaranteed renewal for up to three years. These are exempt from “mandated benefits and a prohibition on pricing based on expected health expenses”. By stringing together short-term insurance with a health-status plan, “patients will likely be able to remain insured indefinitely”.

Robert F. Hamilton, M.D., FACS