

A New Proposal in New Jersey

An Analysis of Senate Bill 1557

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Senator Joseph Vitale recently introduced a broad-reaching health reform package. S1557 aims to establish a mandate for healthcare coverage of children, expand public coverage for low-income parents and increase the affordability, efficiency and transparency of the individual and small employer insurance markets. If passed, this bill could enable thousands of uninsured New Jersey families to obtain healthcare coverage. However, two provisions in S1557 as currently drafted have potential to harm the very families they are intended to help. The first section of this memo outlines the bill's strengths, and the second suggests two improvements that would achieve Senator Vitale's positive policy objectives while eliminating potential harms.

Senator Vitale is to be commended for proposing to:

- **Expand affordable health coverage to low-income parents**

S1557 would increase the income eligibility limit for parents on New Jersey FamilyCare from 133% of the Federal Poverty Level (FPL) to 200%. This valuable expansion will enable more hard-working New Jersey families to access the health care they need. Also, all New Jersey residents will benefit from the additional matching federal funds this expansion will bring to the state.

- **Increase enrollment rates among families who are already eligible for New Jersey FamilyCare and Medicaid**

Senator Vitale proposes requiring all taxpayers report their insurance status, as well as the insurance status of their dependents, on their annual tax returns. S1557 calls for the Department of Human Services to conduct outreach to uninsured taxpayers who may be eligible for Medicaid or New Jersey FamilyCare, including mailing application forms. Senator Vitale could strengthen this important outreach tool by also requiring the Department to educate uninsured families above 350% FPL about the underutilized New Jersey FamilyCare Advantage program.

S1557 would prohibit hospitals from billing the state's charity care fund if children are potentially eligible for New Jersey FamilyCare or Medicaid. Therefore, hospitals would educate and enroll families who may be eligible for these public programs that provide preventive and ongoing care.

- **Strengthen the individual and small employer insurance markets by increasing their efficiency and transparency**

S1557 would increase the efficiency of the individual and small employer insurance markets by increasing the amount insurers are required to spend on patient care from 75% to 80% of premium dollars. In turn, the amount available for administrative overhead would decrease.

Senator Vitale also proposes increasing the transparency and oversight of the individual and small employer insurance markets. S1557 would require listing the cost of additional insurance options separately from the price of standard plans so that purchasers can make fully informed decisions based on the true cost. Senator Vitale would also require that carriers file with the Department of Banking and Insurance when they wish to increase premiums. Finally, S1557 would require brokers to disclose their compensation to both the purchaser and to the Department of Banking and Insurance. These reforms would ultimately make the individual and small employer markets easier to navigate and the insurers more accountable for their policies.

The following two provisions of the bill, while intended to achieve positive policy objectives, have the potential to harm vulnerable families if appropriate affordability protections are not enacted:

- **Mandating that all children obtain health care coverage**

S1557 imposes the Kids First mandate, requiring that all families obtain insurance coverage for their children. As stated, the mandate would not be enforced. If families do not face consequences for failing to ensure their children, the Kids First mandate would likely be inconsequential – neither increasing coverage among children nor imposing financial harm to vulnerable families.

If an enforcement mechanism for this provision is eventually enacted, however, the Kids First mandate risks encouraging some low-income parents to drop their own insurance to afford coverage for their children. While insuring children may be a legitimate policy priority, driving parents with high-risk medical conditions to drop their own coverage in favor of covering their healthier children could endanger the parents' health and cause family instability. To avoid this adverse consequence, Senator Vitale should establish an overall family cap on healthcare costs. Under this type of policy, families that exceed the cap might still be required to cover their children, but New Jersey FamilyCare premiums would be reduced to keep the cost of covering the whole family below the affordability cap.

- **Allowing insurers in the individual market to vary premiums based on age**

The individual insurance market is unaffordable for the majority of New Jersey residents. Under current regulations, insurers in the individual market are required to charge the same premium to all individuals for the same policy, regardless of their health status or risk factors. The introduction of this “pure community rating” policy increased premiums for healthier people, driving some to drop coverage and chased their “good risk” out of the market, which led to even higher premiums. Senator Vitale proposes replacing this policy with a “modified community rating” policy in which insurers are permitted to charge different prices to beneficiaries of different ages. He believes this will draw young healthy individuals back into the individual market, bringing down overall premiums.

However, carriers are already permitted to charge different rates based on age, sex and geography for “basic and essential” plans, with over 8,000 current enrollees. Since this alternative option will likely remain preferable to many of the “good risk” individuals even after “modified community rating” is established, overall premiums may not be lowered significantly. Although S1557 includes certain protections, “modified community rating” would certainly increase prices for older beneficiaries and those with health risks, leaving some unable to afford coverage. To create a truly affordable system, reintroducing rating factors is a step in the wrong direction.

As an alternative, Senator Vitale could work towards merging the small employer and individual markets. Combining the two markets would increase the size of the risk pool, partially mitigating the adverse selection inherent in the individual market. In order to properly integrate, both markets need the same regulations. The small employer market would have to move from “modified” to “pure community rating.” To buffer any negative effect on the small group premiums, Senator Vitale might consider proposing a protection for insurance companies against catastrophic medical expenses. Merging the individual and small employer markets

could lower premiums in the individual market without subjecting older beneficiaries to higher, unaffordable premiums.

Senator Vitale seeks to move New Jersey in the right direction by expanding coverage for uninsured New Jersey families and increasing the transparency and efficiency of the small employer and individual insurance markets. However, while the child mandate and the modified community rating provisions are intended to achieve important policy objectives, they could be strengthened to ensure they do not harm the families they are meant to help.

Community Catalyst is a national non-profit advocacy organization dedicated to making quality, affordable health care accessible to everyone. Since 1997, Community Catalyst has worked to build consumer and community leadership to transform the American health system. With the belief that this transformation will happen when consumers are fully engaged and have an organized voice, Community Catalyst works in partnership with national, state and local consumer organizations, policymakers, and foundations, providing leadership and support to change the health care system so it serves everyone—especially vulnerable members of society. *For more information, visit www.communitycatalyst.org.*