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California's safety-net health insurance premiums rise

State regulators have quietly given insurers permission to raise maximum premiums for most of the 20,000 who depend on the coverage of last resort. Some are paying an extra $7,500 this year.

By Duke Helfand

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As state leaders blast giant health insurers for raising rates, Gov. Arnold Schwarzenegger's administration has quietly allowed hefty increases for thousands of sick or jobless Californians who must rely on expensive safety-net coverage -- if they want insurance at all.

To the frustration of policyholders, state regulators have given insurance companies permission to raise maximum premiums for most of the 20,000 Californians who depend on the coverage of last resort. Some who buy the insurance will have to pay an extra $7,500 annually, pushing their bills to nearly $25,000.

Healthcare advocates say that continued high unemployment in California could drive up the ranks of people in this high-risk pool who have no other options for protecting themselves against catastrophic medical expenses.

These vulnerable consumers could face higher-than-anticipated costs until at least 2014, when the nation's new healthcare law will require private insurers to cover all comers regardless of their health histories.

For now the state's move has been painful for policyholders such as Richard Sevin and his wife, Mardy Wasserman, of La Canada Flintridge.

Both 60 and unable to buy less expensive private insurance because of preexisting health conditions, they are digging into their savings to pay their nearly $17,000 bill this year. That's about $1,400 more than they would have paid under a rate cap system that was replaced in January.

When they factor in the cost for their 11-year-old twins, both on conventional private insurance policies, their family tab will exceed $19,000 this year.

"It is a tremendous burden," Sevin said.

Regulators with the state Department of Managed Health Care, an arm of the Schwarzenegger administration, say the rate hikes are regrettable but unavoidable. They say the increases are the result of a move to correct a much-criticized system for calculating maximum premiums that had led to unpredictable cost fluctuations.

Officials said they had little authority in the past to stop insurers from overcharging because the state law that established the rate caps was vague and unenforceable.

"These rate increases are certainly an unfortunate consequence," department spokeswoman Lynne Randolph said. "They were not our intention when we set out to solve this problem. The department is pursuing a formula for consumers to bring down rates as much as possible."

Critics of the new approach say it could have a devastating effect on an already strained population.

"When you buck up rates, more and more people who need insurance can't afford it," said Lucien Wulsin, executive director of Insure the Uninsured Project in Santa Monica. "A portion of them are going to drop coverage and have no protection for their healthcare needs."

At issue are safety-net provisions of the federal Health Insurance Portability and Accountability Act. The law requires insurers to offer coverage to people who have lost their job-based insurance regardless of preexisting medical conditions that could exclude them from coverage in the private market.

The program kicks in once consumers exhaust COBRA, a separate federal law that allows people to maintain their employer-sponsored health insurance -- as long as they pick up the full cost -- for 18 months once they leave or lose a job.

Concerned with the soaring costs of the safety-net insurance, California lawmakers passed a law in 2000 that sought to cap premiums. But the law did not specify how the limits would be calculated.

As a result, regulators and California's two largest safety-net insurers -- Anthem Blue Cross and Blue Shield of California -- came up with separate formulas, each producing a different rate configuration.

Policyholders sued Blue Shield and Anthem last year, accusing the insurers of exceeding the state's caps. A judge in one case ordered Anthem to refund a Los Angeles man more than $7,000. The two other cases, one against Anthem and the other against Blue Shield, are pending.

The state's own formula, meanwhile, had problems of its own, producing rate fluctuations because of the relatively small number of people in its calculations.

Seeking to resolve uncertainty over the various formulas, the managed-healthcare department hired an outside actuary to review them. State officials said the actuary developed a uniform calculation -- based on a larger number of enrollees -- that led to reliable rates with gradual increases.

The downside was that the formula also pushed up the maximum price tag for the majority of consumers, particularly for those ages 50 to 64, the largest group in the high-risk pool.

Still, the managed-healthcare department last fall asked Anthem and Blue Shield to use its new formula for 2010. Anthem applied it in January. "It was the appropriate thing to do," a spokeswoman said, without elaborating. Blue Shield followed in February, saying a single formula would make the rates more consistent for everyone.

The state's new limits went almost unnoticed until the managed-healthcare department asked the Legislature to make the rate cap formula permanent. A bill (AB 718) passed the Assembly in May but was blocked this month in the Senate Health Committee, whose chairwoman objected to saddling already burdened consumers with additional costs.

"While I appreciate the administration's efforts to clear up ambiguity in the law, my committee's careful analysis of the information provided suggested that the formula in the bill would likely result in a higher rate for more people than the previous formula," Sen. Elaine Alquist (D-Santa Clara) said.

"Since this is safety-net healthcare," she said, "I was not comfortable with the idea of raising rates during these tough economic times."

A Schwarzenegger spokeswoman defended the method put forward by regulators.

"We are disappointed the Legislature did not accept the department's proposal to smooth out rates and adopt a more predictable formula," Rachel Arrezola said.

Regulators point out that Anthem and Blue Shield have both agreed to continue following the state's preferred method in 2011. "We think we have the right formula here for everybody," said Tim Le Bas, an assistant deputy director in the managed-healthcare department.

But some critics say the state's new rate caps, however benignly conceived, will be costly for policyholders who have no other options.

"This could be terrible for some subscribers who are the most vulnerable and suffering the greatest health risks," said Les Greenberg, a onetime safety-net policyholder who successfully sued Anthem last year, alleging overcharging. "It's an unauthorized, surreptitious rate increase."

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