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Health insurance ambition narrows

Schwarzenegger seeks a deal to cap profits, set minimum benefits and limit cancellations on individual policies.

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SACRAMENTO — Seeking to salvage two years of efforts to completely remake California's health insurance system, Gov. Arnold Schwarzenegger and Democratic legislators are nearing deals intended to rein in costly, meager medical insurance policies sold directly to individuals.

In the final weeks of the legislative session, they are negotiating measures that would limit insurer profits on individual plans, require plans to provide a minimum set of benefits and restrict insurers' ability to cancel policies retroactively.

The new focus reflects how far Schwarzenegger remains from his original healthcare goal: to orchestrate medical insurance for the 5 million Californians who lack it. Despite a year of strenuous campaigning for his vision, which garnered attention nationwide, the state Senate rejected that $14.9-billion plan in January.

Many of the concepts now under discussion were included in that proposal. Although most California insurers supported the governor's broader effort because it would have created millions of new customers, the industry is uniformly resisting the current push to circumscribe some of its most lucrative products.

Three million Californians buy health insurance on their own rather than through employers. Insurers keep premiums low -- and profits high, their critics say -- on some individual policies by limiting the services they cover. Such plans may exclude prescription drugs and maternity services, for example; others may cover only hospital visits.

Many of the policies have big deductibles and require patients to pay large portions of their expenses, costing them much more than coverage obtained at workplaces.

Studies have found that people with individual plans are more likely to end up with financially debilitating medical bills when serious illness strikes. California regulates these policies less firmly than it oversees coverage sold to businesses, though individuals have much less leverage to negotiate.

"The individual market really is the worst place to buy insurance," said Michael Russo, a healthcare advocate for the California Public Interest Research Group. "People can't band together to take advantage of greater bargaining power in groups, and as a result of that, they pay more to get less."

Insurers say the proposals being negotiated would drive up the cost of premiums and prompt some people to forgo coverage. Anthem Blue Cross, the largest seller of individual policies in California, says 70% of the people who bought coverage directly in the last year previously had been uninsured.

"By limiting product flexibility, we'd also be limiting the affordability and access to coverage," said Nicole Kasabian Evans, a spokeswoman for the California Assn. of Health Plans.

The average monthly premium for policies obtained individually in 2006 was $259, compared to $382 for policies bought by small businesses for their workers, according to the most recent survey by the California HealthCare Foundation, an Oakland nonprofit devoted to improving healthcare.

But a person with individual coverage paid an average of $1,825 in deductibles and co-payments, triple the $630 paid by someone insured through a small business, the survey found.

Three bills heading toward final legislative passage would restrict insurers' ability to cancel policies retroactively by alleging that customers had lied about their medical histories when applying for coverage. That practice has led California regulators to fine major health plans more than $15 million for not sufficiently scrutinizing applications or failing to prove that they were deceived.

Democrats want to limit cancellations to the first 18 months of coverage and require insurers to obtain approval from regulators before revoking a policy. Schwarzenegger wants to let insurers keep the recision option but impose new rules intended to thoroughly vet people's medical histories. The governor also would have independent arbitrators decide whether an insurer could cancel a policy.

Another measure aims to ban the most limited policies and make it easier for consumers to comparison shop in a market in which, said Marian Mulkey, a senior program officer at the California HealthCare Foundation, "it is quite difficult to understand all the provisions, limitations and features of policies."

This legislation would require individual healthcare policies to cover physician services, hospital care and preventive services, and would set a maximum amount patients would have to pay each year toward their bills. State regulators would sort policies into categories based on the benefits they offer and establish minimum benefits for each category. Presumably, that would allow consumers to compare what competing companies offer.

Schwarzenegger has asked Sen. Darrell Steinberg (D-Sacramento), author of the bill, SB 1522, to limit it to categorizing plans and not order insurers to offer specific benefits.

Daniel Zingale, the governor's senior advisor on health, said that although "we need to make the insurance market more user-friendly," too many benefit requirements could lead to price changes for people who already have coverage.

Steinberg said he was "always willing to consider compromise" but that he also would like "the bill to be meaningful to consumers."

Sen. Sheila Kuehl (D-Santa Monica) said she and Schwarzenegger are "very near" agreement on a proposal that insurers be required to spend at least 85% of the premiums they collect on medical care, limiting the amount they keep as profit and for administrative expenses.

The bill, SB 1440, is expected to have the greatest effect on the individual market because insurers tend to spend more on marketing and brokers' fees there than they do with employer plans. The governor's aides have asked that new types of coverage be exempted for the first two years from the 85% rule.

Premiums rose 8.3% in California last year, and backers of Kuehl's bill hope that limiting profits and overhead will staunch that inflation. Supporters include the California Medical Assn., which represents doctors.

But a preliminary analysis by researchers at the Rand Corp., a think tank with an office in Santa Monica, found little difference between the portion of premiums kept by insurers in 24 states that have such limits and in 21 states that don't.

The researchers also said medical expenses were primarily responsible for premium increases, even though profits have risen substantially as well.

Overall, individual health policies will have to change significantly before more consumers are impressed. A national http://studystudypublished in 2006 by the Commonwealth Fund, a New York philanthropy, found that 89% of those who shopped for health coverage on their own never bought a plan, either because all were too expensive, none offered the benefits they needed or their medical histories disqualified them.

Two-thirds of those holding individual policies were dissatisfied with them, the study found, while only half of those enrolled in employer plans were unhappy.

Susan Braig, an Altadena artist, was so displeased with her individual Blue Cross plan, which pays only hospital expenses, that in a fit of creative protest she began designing necklaces out of stethoscopes and syringes, pendants, bracelets and earrings studded with pills and a tiara bejeweled with stool softeners and ibuprofen.

Since being diagnosed with breast cancer in 2004, Braig estimates she has had to pay more than $31,000 for doctors' appointments, blood tests, ultrasounds and prescriptions because they were not covered.

The first time she faced a $500 pharmacy bill, Braig said, "I looked at these little pills and thought: What are these, precious gems?"

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