Healthcare Solutions: Portability

An important goal of healthcare reform should be portability. People should be able to change jobs, addresses, family status, and health status with minimal disruption to their health insurance coverage, their healthcare, and their financial condition. America's system of employer-sponsored insurance has long impeded portability.

Portability has no single, simple definition.

Portability is a goal along a continuum. There is no single, simple definition of portability, but here's a workable description of the concept: As a goal, portability means that the health insurance market is structured so that a change of job, address, family status, or health status has the least possible negative impact on one's insurance coverage, healthcare, or insurance premiums.

There will always be some limits to portability.

A cross-country move obviously means changing one's network of healthcare providers, so portability has its limits. Similarly, if a couple gets insurance through one spouse's employer, a divorce probably means that one spouse will have to change coverage.

But better laws and regulations can greatly improve portability.

While portability has its limits, changes in a few laws and regulations could greatly increase the continuity of coverage and care as Americans go through changes in their lives. Portability would be especially enhanced by changes in tax laws, more flexible insurance pools, and increased consumer options.

COBRA and HIPAA allow some portability.

Current laws provide limited portability. Under current law, the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) allows an employee to keep his ESI after leaving a job. However, purchasing coverage through COBRA is time-limited and costly. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) provides similar guarantees.

PPACA allows limited portability.

For all of its severe failings, the Patient Protection and Affordable Care Act (PPACA) does increase portability though its guaranteed issue and rating restrictions. To a large extent, however, PPACA reinforces the shortcomings of today's employer-sponsored insurance (ESI). After 2014, while an individual will have some guarantee of being able to purchase an insurance policy, they may not be able to carry a policy they like from one employer to another.

Employer-sponsored insurance (ESI) limits portability.

Tax law changes would be the most essential catalyst for portability. Today's fragmented market for employer-sponsored insurance (ESI) is single biggest impediment to portability. This includes prohibitions on interstate purchase of insurance. An employee who changes jobs generally has to change insurance coverage. This, in turn, can entail changing healthcare providers and frequently means a change in the cost of the insurance.

Current tax laws bias markets toward ESI.

The Tax Code is a major reason for the pervasiveness and rigidity of ESI. Since the 1940s, employees with ESI have been able to buy insurance with pre-tax dollars. People with individual policies have to pay their premiums with after-tax dollars.

A change in family status is also risky.

Portability is currently a problem for those changing family status. Take, for example, an individual who gets insurance through an employer's ESI. If the two divorce, the spouse will probably have to change coverage.

Tax parity would provide the strongest boost to portability.

The most incentive for portable insurance would be tax parity between the individual, group, and self-employed buyers. One option is to allow all insurance purchasers to pay premiums with pre-tax dollars. Others propose to eliminate the tax exclusion and replace it with an equal tax credit for all Americans. Either way, individuals could base insurance choices on their personal needs rather than on arcane tax laws.

Interstate insurance markets would provide more options.

More flexible small-group markets would also enhance portability. Large businesses, labor unions and governments generally self-insure, so under the federal ERISA law, they can pool their risks across state lines. Hence, an employee who changes addresses or moves from one of his employer's locations to another experiences minimal disruption. The fully-insured market (mostly small businesses and individual purchasers) has no such ability to pool risks across state lines. Small businesses and individuals should also be able to pool risks and purchase insurance across state lines.

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Broader pooling arrangements would also provide options.

Similarly, employers should be able to voluntarily join with other employers to form larger risk pools and purchasing arrangements. Properly crafted, **multi-employer risk pools** legislation would enable groups of employers to band together to form larger, more stable risk pools. Thus, an employee in a particular industry could move from one employer to another without changing coverage or care.

Defined contribution health insurance gives individuals choices.

More consumer options would also help. Small businesses generally lack health insurance expertise, human resource departments and market power. They would like the option of contributing dollars to employees' health insurance without actively choosing, purchasing or managing the plans. With **defined contribution** health insurance, an employer could contribute pre-tax funds toward employees' insurance. (This amount should remain deductible to the employer.) Employees could then purchase their own insurance policies and carry them from one job to another when they change employers.

Insurance exchanges provide a venue for portability.

The small-group and individual insurance markets have long been fragmented and relatively uncompetitive. Public and/or private exchanges are an attractive innovation, potentially giving consumers a seamless venue for comparison shopping, purchasing, and conducting business with insurers. Importantly, exchanges can allow individuals to purchase policies that they can carry from one job to another. It is vital that states and other entities have the ability to experiment with various exchange models. The goal should always be a purchasing environment with enough insurance carriers to unleash competitive forces. PPACA creates exchanges, but it remains to be seen whether they will be viable or flexible enough to permit competition to flourish.