# California's Prognosis

## There could be a massive loss of employer benefits if federal health care reform backfires in the state.

**By TIM DeROCHE**

LET'S assume that President Obama's health care reform bill – signed into law a year ago – is implemented as written. What will the health insurance market look 10 years from now? Where will Southern Californians get their health insurance?

The short answer: No one knows. The bill is very complex, but there are three provisions in particular that have the potential to revolutionize the U.S. health insurance market: mandates that require businesses and individuals to purchase insurance (or pay a penalty), coverage requirements that prohibit insurers from denying coverage or using price discrimination to target those with preexisting conditions, and the establishment of government-sponsored health plans.

It is very difficult to predict how these provisions will interact and how they will affect the behavior of consumers, employers, regulators and insurers. Indeed, the impact on the health insurance market may differ quite a bit state by state, since conditions vary across the country.

In some ways, California looks very similar to the United States as a whole. Our premiums, for example, are just a tad higher than average ($349 per month in the small group market), according to the Association of Health Insurance Plans. And the majority of our residents under 64 get their insurance through their employer or through Medi-Cal.

However, there are several ways in which Southern California is different from the national norm. According to UCLA, 29 percent of Los Angeles County residents go uninsured for all or part of the year, almost 50 percent higher than the national average. In addition, many of California's uninsured, 22 percent, are illegal immigrants, whose insurance status will not be changed by the law.

Given the demographics of California (young and growing), this CBO base case would contribute to a huge 43 percent increase in the number of lives covered in the individual and small group insurance markets. The size of this market could increase by more than $11 billion in 2010 dollars, even assuming that health premiums only rise with inflation.

However, the Law of Unintended Consequences says that the base case is likely to be wrong. We just don't know how yet.

In one alternative scenario, employers begin to dump coverage en masse, preferring to pay the penalty rather than exorbitant premiums. This outcome is even more likely if California is successful in establishing an insurance exchange offering affordable, high-quality options for individuals buying insurance with the help of federal subsidies.

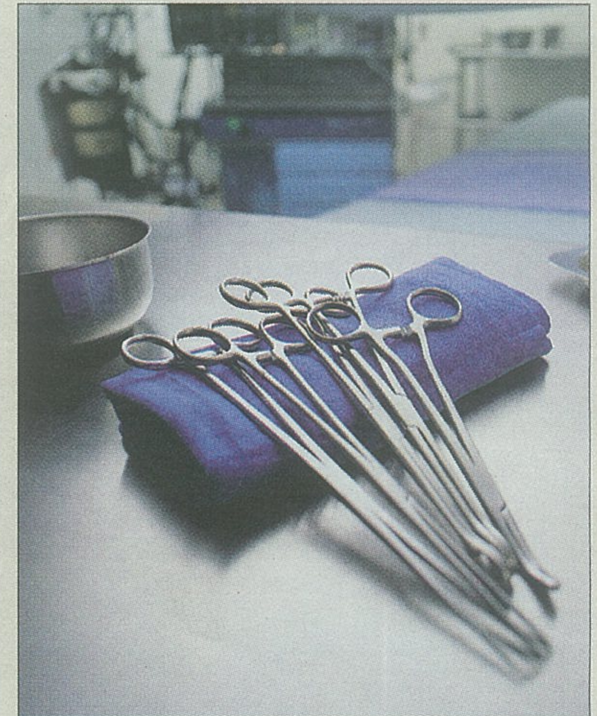
The American Action Forum – headed by a former CBO chief – has published an analysis that suggests the number of new lives who purchase on the individual market could be three times the official estimate from the CBO. In this case, California's insurers could find themselves competing furiously for individual policies, while the large group market stagnates or shrinks.

### Another scenario

In another alternative scenario, government-sponsored plans – like the multistate plan that will be authorized by the federal Office of Personnel Management – are able to exploit their size and legal advantages to offer more competitive products than private insurers (much as Fannie Mae and Freddie Mac have done in the mortgage markets).

In this case, employers would likely still dump health coverage, but the employees would be scooped up by government plans offering better benefits and lower premiums. Private insurers would face a slowly dwindling market.

One final scenario is even scarier. In it, employers cut coverage en masse. But healthy individuals, knowing they can't be denied, refuse to buy insurance until they get sick. The fines for being uninsured prove to be too small … or the government doesn't enforce them … or the individual mandate is ruled unconstitutional.



**With a risk pool made up of the sick, insurers are forced to raise premiums, which causes even more individuals to drop coverage. The resulting negative feedback loop pushes insurers into a death spiral, and the government is forced to step in and bail them out.**

now), the individual market soon dried up, as healthy individuals declined to purchase coverage and insurers withdrew their offerings.