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"Junk" Health Plans and Other Obamacare Insurance Myths

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Obamacare affects nearly all areas of health care, but the most disruptive provisions of the law affect insurance sold in the individual market. In 2013, at least 4.7 million policyholders across 31 states and the District of Columbia were notified that their current coverage was being discontinued.[1] The number is likely even higher, since data were not available for 19 states.

Obamacare's advocates claim that the law and its plethora of new insurance regulations were necessary to better protect consumers in this market. They discount the large disruption of coverage for millions of people by claiming that the plan cancelations were for "substandard" policies and that plans were routinely canceled in this market regardless of Obamacare. Further, they assert that the law will replace these plans with "better" insurance[2]—all of which is largely untrue.

Myth: The canceled health plans were "substandard" policies. President Obama has repeatedly referred to the 4.7 million discontinued policies as "substandard."[3] When the President announced his administrative "fix" that attempted to allow those with canceled plans to keep their existing plans for another year, Senator Tom Harkin (D–IA) said he was still "concerned about people having policies which don't do anything. They're just junk policies."[4]

Typically, "substandard" refers to plans with limited benefits, which are commonly seen as inadequate because they do not protect against catastrophic costs. These types of plans typically cover routine care, but if there were a major medical event, they might pay only up to a certain amount before leaving the enrollee to pay the rest.

Obamacare gradually phased out these types of plans from 2010 to 2013—completely outlawing them by 2014—by prohibiting both annual and lifetime limits on coverage.

Limited-benefit plans are not nearly as prevalent in the individual market as they are portrayed to be. Of the nearly 16 million enrollees in the individual market in 2012, 725,710 individuals were enrolled in plans classified as limited-benefit plans, and slightly more than a million were in student health plans, which also typically have a limited benefit package. Thus, less than 11 percent of the individual market in 2012 had a plan that could reasonably be considered "substandard."[5]

Limited-benefit plans are mostly offered by employers in the group market. Indeed, of the temporary waivers received by over 4 million plan enrollees from the Obama Administration for Obamacare's annual limit caps before they were completely phased out, only 3.7 percent were for individual market plans; the rest were given to enrollees in group market plans.[6]

Myth: Before Obamacare, there were routine plan cancelations in the individual market. Many Obamacare defenders blame the discontinued policies on "bad apple insurers,"[7] claiming that it

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was typical in this market to have plan cancellations and that they are not a result of Obamacare.

For instance, former Obama Administration official Van Jones called the individual marketplace a "'wild, wild west' where people were denied coverage for pre-existing conditions and policyholders were continually dropped by insurers offering thin, sketchy coverage."[8] In addition, President Obama said, "Before the Affordable Care Act, the worst of these plans routinely dropped thousands of Americans every single year."[9]

But since the enactment of the Health Insurance Portability and Accountability Act of 1996 (HIPAA), insurers have been broadly prohibited from canceling or refusing to renew coverage.[10] One of the few exceptions to that prohibition is if an insurer discontinues a particular plan or type of coverage. In such cases, the insurer must provide the affected individuals the option to enroll in any other applicable coverage that the insurer offers.

That is largely what happened with the 4.7 million plan cancelations that were reported at the end of 2013. The insurers were discontinuing their pre-Obamacare plans and offering policyholders replacement coverage that complied with Obamacare's wide variety of new mandates and regulations.

Myth: Pre-existing condition exclusions were rampant before Obamacare. Individuals being denied health insurance or kicked off their plans because of pre-existing medical conditions is often cited by defenders of Obamacare as justification for the law. The President has said that "up to half of all Americans have a preexisting condition."[11]

However, while the problem did exist, it was on a much smaller scale than depicted. The issue was in the individual market, where about 10 percent of the privately insured purchase coverage. In the group market, where about 90 percent of privately insured Americans are covered, the issue was mostly resolved by HIPAA.[12]

Beginning in 2014, Obamacare enforced a blanket prohibition of pre-existing condition exclusions in the individual market. A consequence of this policy is that it incentivizes people to wait until they are sick to purchase coverage. Thus, the law also included an individual mandate to force all Americans to purchase health insurance or pay a tax penalty.

1. Associated Press, "Policy Notifications and Current Status, by State," December 26, 2013, http://news.yahoo.com/policy-notifications-current-status-state-204701399.html (accessed January 21, 2014).
2. Igor Volsky, "Obamacare Is Radically Changing the Individual Insurance Market—and That's a Very Good Thing," Think Progress, October 29, 2013, http://thinkprogress.org/health/2013/10/29/2850701/coverage-good-thing/ (accessed February 4, 2014).
3. News release, "Remarks by the President and Governor Deval Patrick on the Affordable Care Act," the White House, October 30, 2013, http://www.whitehouse.gov/the-press-office/2013/10/30/remarks-president-and-governor-deval-patrick-affordable-care-act (accessed February 4, 2014).
4. Barnini Chakraborty, "Critics from Both Sides of the Aisle Take on Obama's Health Care 'Fix,'" November 15, 2013, http://www.foxnews.com/politics/2013/11/15/rumors-obamacare-fix-president-to-address-concerns-at-1135-am/ (accessed February 4, 2014).
5. Derived by the author from insurance market data as reported in state insurance department regulatory filings, aggregated by the National Association of Insurance Commissioners and formatted into a comprehensive subscription dataset by Mark Farrah Associates.
6. Of the 4,039,774 waivers granted, only 147,532 were given to plan categories that would be sold in the individual market, associations, and state plans. However, for waivers given to insurers, some of those waivers went to individual market plans; for instance, about 3,604 enrollees in the Massachusetts Connector received waivers.
7. News release, "Remarks by the President and Governor Deval Patrick."
8. PunditFact, "Amid Swarm of Canceled Policies, Van Jones Says Individual Market Has Always Been Volatile," November 3, 2013, http://www.politifact.com/punditfact/statements/2013/nov/03/van-jones/amid-swarm-canceled-policies-van-jones-says-indivi/ (accessed February 4, 2014).
9. News release, "Remarks by the President and Governor Deval Patrick."
10. 42 U.S. Code § 300gg-42 (c). Also, for an excellent discussion on the laws governing the individual market before and after Obamacare, see Edmund F. Haislmaier, "Saving the American Dream: The U.S. Needs Commonsense Health Insurance Reforms," Heritage Foundation *Backgrounder* No. 2703, June 22, 2012, http://www.heritage.org/research/reports/2012/06/saving-the-american-dream-the-us-needs-commonsense-health-insurance-reforms.
11. News release, "Remarks by the President on the Affordable Care Act," the White House, September 26, 2013, http://www.whitehouse.gov/the-press-office/2013/09/26/remarks-president-affordable-care-act (accessed February 5, 2014).
12. For a detailed explanation, see Haislmaier, "Saving the American Dream."

Since the provisions did not take effect right away, the law created the pre-existing conditions insurance plan (PCIP) to operate from 2010 to 2014. It funded new high-risk pools in each state to provide temporary coverage to those with pre-existing conditions.

The PCIP experience revealed that the number of individuals facing pre-existing condition exclusions was not nearly as large as it was portrayed. The Obama Administration initially estimated that 375,000 people would enroll in the PCIP by 2010,[13] but the highest enrollment total ever to occur over the three-year period was in March 2013: almost 115,000, only about 30 percent of original projections.[14]

Reforms to protect this population from unjust exclusions were necessary, but they certainly did not require Obamacare's individual insurance market takeover.[15]

Myth: Obamacare plans are "better" insurance. Obamacare does indeed mandate a host of new benefits that every plan must cover and new rules that each insurer must follow, but the result is not just standardization and over-regulation of health insurance; it also increases costs, which is seen in premiums and cost-sharing levels.

For instance, the average deductible for a bronze plan in the 34 states with a federally facilitated exchange is $5,095 a year for an individual, and the average catastrophic plan carries an individual deductible of $6,346.[16] Moreover, 42 states will see significant average premium increases—in many cases, over 100 percent—for individuals purchasing from the exchanges.[17] Therefore, enrollees may not see "better" insurance for their money.

Obamacare Overkill. Obamacare cancels many insurance policies that individuals chose based on their wants, needs, or ability to afford, and it replaces those plans with what the government deems "better" insurance. But this leaves little choice for consumers and increases costs.

Though there were problems in the insurance market before Obamacare was enacted, the scale of those issues does not match the scale of regulatory authority and coercion created by Obamacare. It is Obamacare's *new* health insurance regulations that threaten to destabilize the market and make the present situation much worse, particularly in terms of cost. There are more commonsense ways to address the existing problems that do not require massive disruptions of coverage for millions of others.

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13. Centers for Medicare and Medicaid Services, "Estimated Financial Effects of the 'Patient Protection and Affordable Care Act,' as Amended," April 22, 2010, http://www.cms.gov/Research-Statistics-Data-and-Systems/Research/ActuarialStudies/Downloads/PPACA_2010-04-22.pdf (accessed February 4, 2014).
14. U.S. Department of Health and Human Services, Center for Consumer Information and Insurance Oversight, "State by State Enrollment in the Pre-Existing Condition Insurance Plan," http://www.cms.gov/CCIIO/Resources/Fact-Sheets-and-FAQs/pcip-enrollment.html (accessed February 4, 2014).
15. Edmund F. Haislmaier, "The Right Way to Limit Pre-Existing Condition Exclusions," The Heritage Foundation, The Foundry, September 22, 2010, http://blog.heritage.org/2010/09/22/the-right-way-to-limit-pre-existing-condition-exclusions/.
16. Data derived from U.S. Department of Health and Human Services, "Health Plan Information for Individuals and Families," https://www.healthcare.gov/health-plan-information/ (accessed February 4, 2014).
17. Drew Gonshorowski, "How Will You Fare in the Obamacare Exchanges?," Heritage Foundation *Issue Brief* No. 4068, October 16, 2013, http://www.heritage.org/research/reports/2013/10/enrollment-in-obamacare-exchanges-how-will-your-health-insurance-fare.