



Letter

February 5, 2003

The Honorable Olympia Snowe
Chair, Senate Small Business and Entrepreneurship Committee
United States Senate
428A Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Snowe:

As you know, rapidly escalating health care costs have posed a major challenge for states as we work to ensure that our citizens have access to affordable health insurance coverage. We are writing to alert you to legislation that Congress may soon consider that would undermine our efforts by exempting Association Health Plans (AHPs) from state insurance reforms.

AHPs are health insurance companies sponsored by business and professional associations that would be granted a special exemption from state regulation, and would instead operate under skeletal federal rules and virtually no oversight. Under current AHP proposals, these types of insurers would be exempt from important regulations that our states have designed to ensure a healthy small insurance group market that can deliver affordable care to *all* participants.

As a result, AHPs would be free to selectively market to healthy groups by selling stripped down benefit packages that exclude benefits now required by the states. AHPs also would be permitted to charge higher rates to "older, sicker" groups, a practice banned in many states. People could purchase minimal AHP coverage when they are healthy, but then jump back to state regulated insurance when they need more comprehensive coverage in the state-regulated market.

This is a major problem since it would create two pools of individuals: relatively healthy people in the federal AHPs and older, sicker people in the state-regulated market. The result: spiraling premiums for most employers. The Congressional Budget Office projected that AHP legislation would result in higher premiums for four out of five small employers if enacted.

Looking to the future, this legislation raises important questions about the future ability of our states to regulate health insurance at all. By allowing insurers who sell to AHPs to set up shop in a state with very lenient rules and oversight and market to small employers without meeting any state's rules, we would be powerless to take action even where there is obvious risk to consumers.

Congress should be especially concerned about preempting state oversight given the long history of failures involving similar plans called Multiple Employer Welfare Arrangements (MEWAs). In just the last six months, media reports have documented failures of MEWAs - including some sponsored by associations - that have left over 100,000 consumers with unpaid claims. AHP legislation would exacerbate these problems by replacing state oversight with minimum certification by the U.S. Department of Labor, which has no capacity for regulating insurance arrangements.

We strongly urge you to recognize the critical role states play in making health coverage affordable and accessible for our citizens. Please do not support AHP legislation, which would only tie our hands and exacerbate the task before us.

Sincerely,

Governor Frank O'Bannon
Chairman
Human Resources Committee

Governor John Hoeven
Vice Chairman
Human Resources Committee

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