

THE WHITE HOUSE

WASHINGTON

January 25, 1972

MEMORANDUM FOR KEN COLE

FROM:

RAY WALDMANN 

SUBJECT:

Issues Raised by Health Insurance Association

1. They believe the reimbursement formula used under Medicare is inappropriate for broad insurance coverage and is inadequate to reimburse hospitals. This comment does not mean our method is wrong, only that the Secretary must review the reimbursement formula.
2. Carriers are willing to underwrite all small employers in the pools. Carriers are not willing to write the self-employed and any other individuals unless HMO's and self-insurers are required to participate in losses. The carriers are basically worried about losing business to self-insurers if they must bear the additional costs of high-risk groups alone. This could be solved by subsidy, or, in the absence of subsidy, by including self-insurers.
3. The carriers propose two simplifications in plan approval. The first is that only one state must approve the contract (the state of issue), and any other state may accept that. Secondly, they propose that non-licensed carriers (i. e. , self-insurers) must file in each state, a patently onerous condition.
4. The carriers suggest requiring a simple certificate of compliance instead of filing the plan itself, to minimize unwanted paper work.

5. The carriers strongly object to applying utilization review procedures since they feel providers can be policed only by other providers, that utilization review at claims-paying time is far too late, and that peer review committees or similar mechanisms are better. Furthermore, what happens to unpaid or disallowed claims? This seems to me to pull the teeth of any state planning or other control mechanisms; there must be, at some point in the system, some standards about what bills are out of line. I am convinced that, although it would be more costly to the carriers, this is an effective way of reducing health costs.
6. The carriers ask who will provide the beneficiaries of HMO's with benefits if they should become bankrupt. The carriers request that self-insurers be required to meet certain financial requirements. They suggest either performance bonds or deposits to insure that employers will carry out insurance functions. This seems to me designed solely to make self-insuring less financially attractive, and would be a change in the way business is done today.
7. The Secretary of HEW has broad rights of intervention that could lead to duplicate regulation. One example could be modified by requiring a complaint from an employee, employer or carrier before HEW acts. The bill should take account of the "trusteed health and welfare plans" provided through unions or associations of employers. Certain provisions, such as reporting, should be made applicable to them, not the insurer.
8. The carriers urge redefining small employer as one who employs fewer than 25 employees, instead of the present 100. (HEW had adopted the 25 and is now back at 100.)

RJW:ll
Attachment

cc: George Crawford
Paul O'Neill