TO: Key Hill Staff

FROM: Prof. Karen Pollitz, Georgetown University Health Policy Institute

RE: Historical Analysis on Two-Check Provision

I've been asked to comment on the Senate bill's two-check requirement for private health plans covering abortion. There is recent relevant history to consider. The Trade Act of 2002 created a 65 percent health insurance subsidy (the HCTC) for trade dislocated workers. As the Bush Administration implemented the HCTC, it sought broad participation in the program by private insurers. However, insurers were adamant that they would not participate in the program if they would be required to accept two separate payments for coverage - one for the 65% subsidy and one for the individual's 35% share. Insurers said that processing two separate checks per individual each month would be administratively cumbersome and costly. As a result, the Bush Administration devised a complex system to ensure a single payment. Now, each month, when HCTC-qualified individuals get their health insurance bill, they must write and mail a check to the IRS for their 35% portion of the premium, and then the IRS sends one check (covering 100% of the premium) to the health plan.[1] If the person makes a mistake—for example, calculates their 35% share incorrectly or pays a few days late—he or she is dropped from the monthly subsidy program and must reapply.

Fast forward 8 years later, and a two-check provision pops up again, this time in the context of abortion and health care reform. The Senate bill requires that for plans covering abortion, enrollees would have to write two checks: one for the abortion benefit and one for everything else. Insurers would be required to segregate these payments into separate internal accounts. The accounting is less administratively difficult, but processing two checks each month could be as problematic as it was under HCTC. For example, imagine a woman forgets to write two checks one month, instead paying her entire premium in a single check. Because of the accounting requirements under the Senate bill, the insurer would not be allowed to move funds between the internal accounts. Instead, it would need to advise the woman that she is delinquent on the premium for the abortion portion of her coverage, while crediting her overpayment on the portion of the premium for the rest of her policy. The woman would need to promptly pay an additional amount to cover the abortion benefit, or risk having her entire policy cancelled for late payment. The administrative cost and complexity of so many transactions would soon become prohibitive. One must question whether any insurer would bother offering abortion coverage at the cost of so much red tape.

Ironically, the internal segregation of funds would not be as costly or complicated for insurers as administering two payments per individual. The two-check requirement would do nothing to make the segregation of funds easier or more certain. But it would add significantly to the manual processing of premium payments, raising administrative costs and reducing loss ratios (the portion of premium used to pay actual claims vs. administrative expenses.) Because health reform also requires insurers to increase their loss ratios, the two-check requirement makes it doubtful that insurers would offer abortion coverage at all.

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[1] Note: due to changes to the HCTC program under the ARRA economic recovery package, the government now contributes 80 percent of health plan costs and individuals pay 20 percent.