



OFFICE OF
INSURANCE COMMISSIONER

January 9, 2017

The Honorable Kevin McCarthy
Majority Leader
United States House of Representatives
H-107, U.S. Capitol Building Washington, D.C. 20515

Dear Majority Leader McCarthy:

Thank you for the opportunity to offer my input on how we can improve our country's health care system.

Washington state fully embraced the reforms allowed under the federal Affordable Care Act. We understand the positive impacts it has had on our residents, our insurance market and our economy. Governor Inslee and I shared much of the data behind those successes in our previous letter to you in December.

We also understand the limitations and challenges of the Affordable Care Act. Over the last six-and-a-half years, we've worked with our insurers, providers and consumers to improve choice, coverage and affordability. Guaranteeing everyone access to health care is a worthy goal as long as their policies provide meaningful coverage at a realistic price.

I strongly believe that any effort to amend or replace the Affordable Care Act must maintain the progress we've made in helping people gain coverage. And it must be based on sound insurance principles. I cannot overstate the importance of these principles.

In the 1990s, our state learned an extremely difficult lesson that ignoring basic insurance principles when working on health reform has dire consequences.

In the early 1990s, Washington state passed health reforms, including an individual mandate to have coverage and guaranteed coverage with a limited three-month waiting period on pre-existing medical conditions. Two years later, our Legislature repealed the mandate, but kept many of the other reforms that it deemed beneficial to consumers. Even a three-month pre-existing waiting period ultimately proved fatal to the market.

Eliminating the mandate led to trouble. Rates skyrocketed because there wasn't a strong enough incentive for healthier people to keep their coverage. The resulting risk pool was smaller and sicker, resulting in further rate increases.

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By the late 1990s, every health insurer left our individual market. And for two years, consumers could not buy an individual or family health insurance policy.

Here's what we learned: health insurance markets must include good and bad risk. But to keep the good risk participating, you must create meaningful incentives for healthy people to stay covered. The Affordable Care Act recognized this by mandating coverage and penalizing those who choose not to participate. There may be other options that could produce the same or better results, such as requiring that people stay covered and imposing consequences when they fail to do so, including restricting or delaying their ability to re-enroll.

We face clear challenges in addressing the rising cost of health care with or without the Affordable Care Act. Below are some suggested steps for your consideration.

Congress should consider immediate reforms that expand and stabilize the health insurance risk pool, maintain good and bad risk, and help stabilize rates. I suggest:

- Providing tax incentives to small employers to encourage coverage of employees
- Merging the individual and small-group risk pools to increase the stability of the small-group market and prevent rate fluctuation
- Increasing small-group size to 100 nationally to spread risk across a larger pool
- Reviving the federal Reinsurance and Risk Corridor programs (and funding the latter) to provide predictability to insurers and more stable rates

And Congress must consider long-term reforms to control the cost of health care. The Affordable Care Act did not sufficiently address the root causes behind increased health care costs, including waste in the system and surging pharmaceutical costs.

Pharmaceutical pricing was the number one cost driver in our 2017 individual and family plan market. Key reforms should include:

- Continuing to promote value-based care and outcome-based provider contracting
- Increasing cost transparency for patients, so they can shop wisely
- Considering the impact of increased provider consolidation on cost
- Controlling pharmaceutical pricing and practices designed to inflate cost, including the "pay-to-delay" tactic used to keep generic drugs off the market

Lastly, I appreciate your recognition that the timing of plan reviews will complicate implementation of any reform. Washington insurers must file their proposed 2018 individual and small-group health plans and network designs in May of this year. In light of this



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timeframe, Congress should give health insurers at least one year – and preferably longer – to understand and consider the impact of any new health reform requirements. However, without a simultaneous replacement of major features of the Affordable Care Act, the individual and family market could easily collapse in my state.

Jane Beyer, my senior health policy advisor, is my agency's contact for any additional information or feedback. She can be reached at (360) 725-7043 or JaneB@oic.wa.gov.

Thank you again for the opportunity to comment. We look forward to continuing to work with you in the future to share our expertise as Congress moves forward on this vitally important issue.

Sincerely,



Mike Kreidler
Insurance Commissioner

cc: The Honorable Kevin Brady, Chairman, House Committee on Ways & Means
The Honorable Fred Upton, Chairman, House Committee on Energy & Commerce
The Honorable John Kline, Chairman, House Committee on Education & the Workforce
The Honorable Greg Walden, Chair-Elect, House Committee on Energy & Commerce
The Honorable Virginia Foxx, Chair-Elect, House Committee on Education & the Workforce
Governor Jay Inslee, Washington State
Washington State Congressional Delegation

