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WHAT YOUR CAR CAN TEACH YOU ABOUT HEALTH REFORM

AN INDIVIDUAL REQUIREMENT TO PURCHASE HEALTH CARE CAN BE SUCCESSFULLY IMPLEMENTED

By Peter Harbage*

Analysts largely agree that if you want everyone to have health insurance, you're going to have to require it.¹ "Individual mandates" to purchase health insurance would also help insurance markets work better than they do now, since insurers would then find it far easier to attract a balance of high and low risks if all had to buy something. Therefore they would need to do far less medical underwriting (risk evaluation) and targeted marketing, and that would lower the cost of insurance to us all.² And of course, if all patients had good insurance, then hospitals and doctors would have to worry less about charging Peter to pay for uninsured Paul and thus be able to devote more time to high quality patient care.³

But this all works only if the mandate actually works, that is, if the purchase requirement is indeed enforceable in the real world. Critics of such a requirement have often argued that such a requirement will prove relatively unsuccessful, just like the current requirement for motorists to purchase auto insurance.

Though California has seen high rates of uninsured motorists despite three decades of legislation mandating that drivers buy auto insurance, health care reformers can learn valuable lessons from new changes underway at the California Department of Motor Vehicles. The successful efforts at California DMV and in other states demonstrate that there are models for how an individual requirement to purchase health care can be successfully implemented.

History of Auto Insurance

Since 1970, all California drivers have been required to carry automobile insurance, but the law lacked teeth and was enforced only sporadically. In 2004, it was estimated that approximately 15 percent of motorists are uninsured, causing those with insurance to pay higher rates to protect them against potential damages caused by uninsured motorists.

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¹ Robert Reischauer, Catherine G. McLaughlin, Mark V. Pauly, Len Nichols and Chip Kahn, *Top Ten Myths About the Uninsured*, (February 11, 2004), http://eriu.sph.umich.edu/pdf/bookevent_transcript.pdf, accessed June 25, 2007.

² Len M. Nichols, "Where's Obama's Mandate?: Why an Individual Mandate is a Crucial Element of Any Universal Health Care Plan—and Why Obama Should Rethink His Own Plan Because of It," *The American Prospect Online* (June 4, 2007), http://www.prospect.org/cs/articles?article=wheres_obamas_mandate, accessed July 2, 2007.

³ Peter Harbage and Len M. Nichols, "A Premium Price: The Hidden Costs all Californians Pay in Our Fragmented Health Care System," New America Foundation Health Policy Program Issue Brief No. 3, December 2006; Len M. Nichols and Peter Harbage, "Estimating the 'Hidden Tax' on Insured Californians Due to the Care Needed and Received by the Uninsured," New America Foundation Health Policy Program Policy Memo, May 21, 2007.

In 1996, California became one of 47 states with tough new financial responsibility laws requiring liability coverage for vehicles. But a loophole remained. People were required to show proof of insurance when registering a vehicle, but could drop coverage the next day unbeknownst to the DMV. Uninsured motorists only risked being caught in two circumstances—when they were stopped by law enforcement or involved in an accident.

Health Access, a California-based consumer advocacy organization, released a health care brief that summarizes the challenges faced by the previous auto insurance requirement, saying that it, “is enforced when car registration is renewed: people skirt the requirement by buying coverage for a month and then canceling it or buying other kinds of substandard policies. Others fail to buy or are unable to buy insurance and drive as uninsured motorists.”⁴

DMV statistics bear out the result of a weak and random review process. There are more than 23 million licensed drivers in California who operate almost 30 million vehicles. Since 2001, more than 1.9 million drivers have been suspended for driving without insurance coverage, and 760,000 drivers have been suspended for failing to have liability insurance when in a collision.⁵

Changes to Improve Efficiency of Auto Insurance Enforcement

In 2004, the Legislature passed SB 1500 to improve the auto insurance mandate system. Sponsored by Senator Speier and supported by the California Department of Insurance, the bill passed unanimously.

In a complete change from random checks, insurers must now electronically transmit insurance verifications to the DMV on a set schedule such that the state is aware within 30 days of when someone enrolls in auto insurance and 45 days from when auto insurance is dropped. That information is then tracked in an electronic database, which state officials use to verify a vehicle’s insurance status. DMV is required to notify a vehicle owner if the vehicle is not insured and can then suspend the registration.

California is one of several states relying on advanced technology to crack down on uninsured motorists. Many are building on the success seen in Georgia when it implemented its Electronic Insurance Compliance System in 2001. In less than two years, Georgia cut its uninsured motorist rate from 20 percent to 2 percent.⁶ The new system has already enjoyed some success in California. In the first two months, 350,000 registrations were suspended because they lacked proper insurance.⁷

Impact of SB 1500 Program

Between November 15, 2006 and April 30, 2007, the state mailed more than 1.7 million warning notices to vehicle owners whose insurance was not found on the electronic database, out of a universe of approximately 33.9 million vehicles, of which approximately 28.3 million require insurance.⁸ This does not necessarily mean that they did not have insurance; rather, it means that the information had not yet been reported by the insurance company to DMV.

Of these, 564,000 responded with insurance prior to the suspension notice. An additional 257,000 responded with information that precludes the requirement for insurance (such as that the vehicle sold was

⁴ Health Access, “An Individual Mandate for Health Insurance: Unwise, Unwarranted, and Unworkable,” December 4, 2006.

⁵ California Department of Motor Vehicles Financial Responsibility Uninsured Motorist (UM) Rates and 16028 Convictions Report.

⁶ Andy Opsahl. “No more hiding.” Government Technology. June 2, 2006.

⁷ Vehicle Registration Financial Responsibility Program Statistical Report. Please also see: Marc Lifsher, “State starts crackdown on uninsured drivers Hundreds of thousands of car owners must buy coverage or face losing their registration.” Los Angeles Times. December 6, 2006.

⁸ Author conversation with the California Department of Motor Vehicles. Approximations are as of May 2007.

sold or is being operated out of state). Another 80,000 had a subsequent transaction that eliminated the requirement (change in vehicle ownership or vehicle reclassification).

The SB 1500 Approach—A Snapshot

- Eligible drivers can use the Low Cost Automobile Insurance Program to purchase insurance.
- Insurance companies share with the state information on all private-use vehicle liability policies and any cancellations of these policies with DMV in legally specified timeframes.
- A DMV vendor tracks this data in specified timeframes. The vendor checks for the presence of insurance.
- If insurance is present, then the process ends.
- If there is no insurance, a “warning letter” is sent to the registered owner that documentation of insurance must be timely submitted or that vehicle registration will be suspended.
- If insurance documentation is not timely submitted, a “suspension notice” is mailed informing the registered owner the vehicle is no longer registered. The letter explains the reinstatement requirements (evidence of insurance and the payment of the reinstatement fee).
- If the vehicle is stopped by law enforcement, information on insurance and registration will be readily available.

As a result, through April 30, 2007, nearly 800,000 vehicle registrations have been suspended for lack of insurance. Of these, about 193,000 or 24 percent of suspensions have been lifted because the driver responded with insurance. That leaves roughly 2 percent of vehicles with a suspended registration for lack of insurance.

Therefore, of the total warning notices, just over one-third of the vehicle owners have not demonstrated compliance with insurance. The registration for these vehicles has been suspended. The owner must provide evidence of insurance and pay a reinstatement fee, notifies the department of the status of the vehicle (junked, sold, etc.), or change of ownership. Under the program, the state will take no further action until the owner responds. If the vehicle is stopped by police, normal penalties for driving with a suspended registration will apply.⁹ For the initial part of the program, approximately 180,000 per month are being suspended.

Challenges Faced by SB 1500

A major challenge in the system are the false-positives. The state has found that insurance companies incorrectly report that a person is without insurance are approximately 9 percent of insurance companies were reporting inaccurate data. This results in the state contacting a person with a warning letter to an individual that is legally insured—needlessly costing both the state and the individual time and money.

In addition, no data are available on the number of false-negatives (people reported as insured who are not). Significant additional research would be needed to determine the level of false-negatives, and this work would also be needed in the health insurance realm.

California Low Cost Automobile Insurance Program

To help low-income people meet the insurance mandate, the state created the California Low Cost Automobile (CLCA) Insurance Program to offer auto insurance at subsidized rates. The CLCA approach at least reflects the general principles of the New America Foundation’s goal of making sure that health insurance is available and affordable prior to implementation of the mandate, although it is not as comprehensive as efforts around health insurance would need to be.

Under CLAC, premiums vary by each of the 22 participating counties, but liability insurance is generally available for less than \$400 annually (\$33 a month), with a 25 percent surcharge for unmarried, male

⁹ Failure to provide evidence of financial responsibility when requested by a peace officer may result in a citation with fines that could reach \$1,000 or more.

drivers ages 19–24. CLCA also offers additional coverage, such as for medical payments, at a discounted price. Installment plans can have payments made for as small as 15 percent of the whole, every other month.

According to the Department of Insurance website, to be eligible for the program, individuals must:

- Be at or below 250 percent of poverty;
- Meet the “good driver” standard of no more than one at-fault, property damage only accident or more than one point for a moving violation in the past three years;
- Be at least 19 years old;
- Have been continuously licensed to drive for the previous three years; and
- Have a vehicle valued at less than the \$20,000.

This raises an important difference with the New America Foundation approach. Within health care, New America would not have these types of restrictions on the availability of subsidies, though one could imagine smaller subsidies being made available to smokers. In addition, while the 22 CLAC counties are among California’s largest, and while more counties are being added, this piecemeal approach is inconsistent with New America’s recommendation that affordable and accessible insurance be available to all prior to implementation of the mandate.

Lessons for Health Reform

In November 2005, the New America Foundation outlined a plan showing how California could maintain insurance for all children. Under an approach called “seamless coverage,” the new system would monitor coverage and ensure that parents obtain affordable, comprehensive coverage for their children. As part of that system, New America called for a system of data tracking and regular information transfers between insurers and the administrator of a health insurance marketplace or purchasing pool through which people would buy insurance.¹⁰

With the implementation of SB 1500 in auto insurance, California now has a precedent for understanding that tracking and compiling data is a viable approach in the insurance industry.

Far from being an example of why the state would fail in the implementation of a health insurance requirement, the auto insurance experience in other states, such as Maine and Georgia, shows that success is possible under a mandate. However, before any requirement can be implemented for health insurance, individuals must have access to affordable health insurance. Once that happens, then systems like SB 1500 that implement consistent and routine review of insurance can be applied to health insurance. These systems will track coverage status, reduce the rate of uninsurance, and guarantee seamless health coverage.

¹⁰ Len M. Nichols, Peter Harbage, and Cindy Zeldin, “Shared Responsibility to Cover California’s Children: A Key Step on the Road to Universal Health Insurance,” New America Foundation Health Policy Program California Working Paper No. 1, November 2005; Len M. Nichols, Peter Harbage, and Cindy Zeldin, “Ensuring Health Coverage for California’s Immigrant Children,” New America Foundation Health Policy Program California Working Paper No. 2, November 2005; Len M. Nichols, Peter Harbage, and Cindy Zeldin, “Ensuring Seamless Insurance Coverage for California’s Children,” New America Foundation Health Policy Program California Working Paper No. 3, November 2005.