'hen the authors
ere turned
)wn for a policy,
eir anxiety
)on turned to
)ger as they
und themselves
st in a
ureaucratic
aze with no exit.

Singled Out

A warning to the self-employed: Even affluence and good health may not matter when you shop for health insurance.

By Jody Miller and Matt Miller

It was simple enough — or so we thought until the letter came. A local broker had suggested we consider obtaining our health insurance as individuals. We had been covered in a group plan thanks to Matt's fellowship at Occidental College, a post he held while at work on a book. But the two of us were increasingly structuring our work lives as entrepreneurs. Jody worked part time in venture capital, served as lead director of a public company and was thinking of launching her own business; Matt had added consulting to column and book writing and his weekly radio show. The agent we had spoken with had recommended getting into the individual market for health insurance while we were in our early 40's and healthy. That way, he said, we could pursue such freelance lives with the assurance that we would always have health coverage. Once you are in the system, he said, you will only be subject to the annual premium increases the insurers apply to everyone. But trying to move from group coverage into the individual market when we were older might be much harder. If you think you are headed in an entrepreneurial direction, he concluded, it's best to make the shift as soon as you can. It seemed straightforward.

Until it didn't. The letter from Blue Cross of California was three pages of dense boilerplate, but the message was clear: "Enrollment Declined." We might want to apply to the state's "major risk" insurance program. Here were phone numbers we could call for more information. Oh, and P.S., Blue Cross would be pleased to offer coverage to our 6-year-old daughter.

Both of us paced around the kitchen that night after putting our daughter to sleep. There had to be some mistake, we said. We're healthy people! We'll get this fixed, but what a ridiculous hassle it's going to be. At least we have Cobra until we straighten this out, we thought. But it's $1,300 a month! And what if we don't get this reversed . . . ? That's when the sinking sensation began.

For starters, one of us might need to hold down a "real" job with an employer who offered health benefits. (So much, we thought, for our entrepreneurial

Photograph by Colleen Rentmeester

ambitions.) But beyond that, we felt the disorientation of being relabeled. We had always thought of ourselves as healthy people — scratch that, we were healthy people — and suddenly we had been informed that by official standards, no, we were not in fact healthy at all. We presented undue risks that the company could not afford to bear. A wave of self-doubt came over us, as if we had had a secret exposed and the image of vigor and health we had been projecting to the world had been revealed as a fraud.

Maybe there really was something wrong with us. We had been judged uninsurable — branded with a Scarlet U, by one of the most reputable firms in the business. And the fact that we were reasonably well off financially couldn't help us fix this problem.

It was only when we got past the shock and focused on the reasons we were being denied coverage that anxiety turned to anger. Though the insurance company hadn't asked us to take physicals, it had asked us to disclose every conceivably relevant aspect of our medical histories on the application form. Now, it seemed, the most innocuous-seeming facts had been turned against us.

Jody's Flonase? She used that nasal spray for sinus problems before flying — like a million other people. Her skin creams? They were totally cosmetic — and she paid for them herself anyway. Her neck spasm, which she woke up with one morning a few months earlier, went away with minor treatment. Most people think Jody is much younger than she is. Blue Cross made her sound as if she were falling apart.

And Matt's eye? It was true. Matt had a weird episode three years earlier. A little wispy something in his field of vision. Nothing major, but annoying enough when reading to have checked out. It turned out to be a tiny blood clot behind his retina, which went away by itself. He takes a baby aspirin every day as a precaution. Our doctors say it's fine. Now Blue Cross said it meant it couldn't offer him insurance. If that's the case, we thought, could it be offering insurance to anyone who is over 35?

WE DECIDED TO appeal, though the signs were not promising. We had mentioned in our application, for example, that Jody had briefly observed some extra hair coming out in her hairbrush. Our doctor said this was not uncommon for women in their 40's. On our denial letter this became the ominous-sounding "hair loss with etiology undetermined" — part of the catalog of Flonase-like infirmities that made Jody a walking time bomb. On one call, a 40-something female Blue Cross rep was sympathetic, telling Matt that she had experienced a minor hair episode herself.

"So are you uninsurable?" Matt asked her.

"With Blue Cross of California, probably!" she said cheerfully.

Blue Cross's responses to our appeal left us downhearted. Matt's eye episode had been labeled a "retinal vein occlusion" and, we were told, this meant he would never be eligible for any form of coverage under its guidelines. But it did ask for more information on Jody, which gave us some hope. After three months of going back and forth — and plenty of gallows humor around the house about which of us had really dragged the family down — our places switched. An ophthalmogist's letter, along with a three-page handwritten note from our primary care physician, had swayed the underwriting supervisors: Matt's eye had been reconsidered, and he was being offered the P.P.O. plan for which we had applied.

But no such luck for Jody. The most Blue Cross would offer her was its "basic," or catastrophic, plan. It didn't cover prescription drugs, maternity costs or many professional services — and we were not interested in such a slimmed-down policy.

Worse, the "guidelines" the agent kept citing during a surreal hour on the phone seemed as if they had been hatched in some underwriting Twilight Zone. Jody's cholesterol was two points too high, and this inherited trait (which our doctor said was not a concern) meant she was ineligible for any kind of noncatastrophic coverage, period. Recently, Jody had also spoken with a doctor about a jaw ache, which came from some teeth-grinding at night when a company she was advising faced a crisis. Because the doctor had scribbled the letters TMJ (temporomandibular joint) in a file, she was again ineligible — even though the ache had gone away in three days and was never diagnosed as TMJ. If her jaw went symptom-free for six months, we were told, she could reapply. But there was a catch, thanks to that single complaint: if she were approved, she would be stuck with a 20 percent higher premium — not to mention the 50 percent that would be tacked on because of the cholesterol! Occasional Flonase use meant a further 20 percent markup. And Jody's neck spasm (which went away with one treatment of steroids) meant that she shouldn't bother reapplying in any event for at least two years.

Even more incomprehensible was the fact that Blue Cross had forgiven Matt his one-time eye episode but would not forgive Jody her one-time episode of jaw pain. Much as we hate to second-guess the second-guessers, everyone (including our doctors) seems to agree on one thing: a tiny blood clot behind the eye is a more ominous sign than a little stress-related teeth grinding at night. Though — to be fair to Blue Cross, Matt's circulatory woes would probably kill him instantly (and inexpensively) at some point via a stroke, while Jody's stress would make her a chronic and costly albatross for some insurer down the road.

But we could worry about the insurance company's rationality only up to a point. That point came when an imperfection showed up on Matt's colonoscopy that we would rather not discuss. He's fine, but there's no way it would have passed the vigilant actuaries at Blue Cross. At that point, we made the obvious choice to proceed with the group coverage that was available through a think tank Matt had joined while our appeal was under way. The affiliation was not only exciting for professional reasons but had also come to seem medically essential.

Who coordinates our coverage in Los Angeles for the Washington-based think tank's insurer? Blue Cross of California.

As our experience makes plain, people enter the market for individual health insurance at their peril. Yet some 15 million Americans buy their coverage in that market. They include the self-employed (both rich and poor), workers whose firms don't offer benefits and young adults and children. (Many parents who may not be covered themselves find that their healthy kids are easy — and relatively cheap — to insure.)

As big firms cut back on coverage and more and more workers leap from one benefit-free job to another, the individual market is clearly growing. One survey found that 1 in 4 adults had looked for coverage on their own in recent years. It is not surprising, then, that politicians are giving fresh attention to the issue. President Bush has called for new subsidies to help people seeking coverage on their own, as have some Democrats.

It is hard to judge how typical our own experience was, the insurance companies have the relevant data, but they are not sharing. Some studies suggest that with enough patience, a relatively healthy individual is likely to find an insurer. But in 2001, Karen Pollitz of Georgetown University and other researchers asked 19 insurance companies and H.M.O.'s in eight markets to consider the applications of seven hypothetical coverage-seekers. Only 10 percent of the responses were "clean offers": that is, offers that did not link benefit limits or future premium increases to the medical history of the applicant. Some 35 percent of the responses were outright rejections. One fictional applicant, Alice, was a 24-year-old waitress in perfect health whose only "ailment" was her hay fever: she took Allegra to control the sneezing. Alice received only three clean offers out of 60 applications; five insurers simply turned her down. Pollitz's conclusion: "Don't think, even if you believe yourself to be healthy, that you're going to be able to just walk out and get coverage."

How did things come to such a pass? Insurers start with four facts:

Jody Miller is a part-time venture capitalist and consultant. Matt Miller is a Los Angeles-based senior fellow at the Center for American Progress and the author of "The 2 Percent Solution: Fixing America's Problems in Ways Liberals and Conservatives Can Love."

1. Buying health insurance is voluntary.

2. Twenty percent of the population incurs 80 percent of health costs.

3. In order to set premiums that reflect actual costs, insurers need between 20,000 and 75,000 people in a pool to generate the necessary predictive models.

4. People who have reason to believe they will have higher health costs have stronger incentives to buy coverage.

In the individual market, these facts create a risk of what insurers call "adverse selection" — that is, unless the situation is somehow managed, the pool of the individually insured will become overstocked with sicker, costlier people. In extreme cases, adverse selection creates a classic insurance "death spiral" in which the higher costs associated with a sicker pool force insurers to raise premiums, which leads healthier (often younger) people to drop coverage, which in turn makes the remaining pool even sicker and costlier on average, driving premiums up again, and so on. The vicious cycle continues until premiums are sky-high and only the sickest are insured, at exorbitant rates.

No one thinks this is a good result. So from the insurers' point of view, serving the individual market is a balancing act. As several executives told us, they are trying to keep prices as low as possible, but lower prices depend on insurers' ability to keep higher-risk individuals out of the pool or at least price their coverage in ways that reflect higher costs. When you toss in the fact that the individual market is more costly to serve than group markets — the cost of administering and selling policies can come to 35 percent of premium dollars versus 5 percent for larger groups — you see why insurers might reject even marginal risks (like us) or offer policies with fewer benefits as well as higher deductibles and co-pays.

But even if most insurance companies are acting reasonably, a number of their practices are unsavory, and some may even skirt the law. "There are a variety of games that can be played," one longtime industry participant told us. "You know, we'll insure you as long as you're healthy and then make it so expensive that you can't get insurance or can't afford it."

A common pricing strategy, for example, is called "durational rating." That means the longer you hold your policy, the faster your rates increase every year at renewal, and when these rates start to hurt, the insurer offers you the option to apply for another policy that is much cheaper. For this new policy, however, you need to go through medical underwriting again. If you can pass muster, the insurer will let you back into a more favored pool with lower rates. If you can't pass through underwriting, well, then you just have to stay in this ever-costlier policy. (This stratagem doesn't run afoul of state laws because the rates aren't being hiked on individuals but on a whole class of beneficiaries who have had policies for some time — a nice nondiscriminatory way to distinguish between those who are aging expensively and those who aren't.)

Many insurers rationalize their aversion to unhealthy customers by saying they support state-run "high risk" pools — the initial place that Blue Cross told us to turn. But at least as structured today, these last-resort ghettos are no answer at all. Only 30 states offer "high risk" catastrophic programs, and funds are so scarce that they serve just 170,000 people nationwide. (Only California and Minnesota serve more than 2,000 each.) Premiums can be nearly double normal rates, and here's the kicker: pre-existing conditions (i.e., the very troubles that landed you in the high-risk pool in the first place) are typically not covered for 6 to 12 months.

Now there's a compelling advertising pitch to America's unluckiest souls: "You cover your cancer (or diabetes or heart condition) for 12 months — we'll pick up the rest!"

IS THERE A CURE for these ills? Reformers on the left often champion "guaranteed issue" and "community rating" laws — these regulations require all applicants to be offered policies at basically the same premium, no matter their health status. But in today's voluntary and unsubsidized markets, such well-intended rules can hurt some of the people they are meant to help. In New York (and elsewhere), insurers respond by setting community rates higher than they otherwise would be, since the requirement to serve all comers means the pool will tend to be sicker.

As a result, while New Yorkers in our situation today could purchase a policy in the individual market, they owe their good fortune to a regulatory scheme that assures that thousands of their poorer but healthier neighbors can't afford coverage at all. Insurers love to mock the unintended consequences of well-intended laws. "Find out why it costs less to lease this Ferrari than get a $500 deductible health care policy in New Jersey," shouts the Web site of an industry group called the Coalition Against Guaranteed Issue.

But whatever free-market advocates might say, community rating, though controversial in theory, is actually the norm in America today. Employees of large companies enjoy it on a de facto basis, as health risks are spread among thousands of workers. A big company is essentially a socialized health republic in which the young subsidize the old and the healthy subsidize the sick — and everyone pays the same premiums for the same plans.

Ultimately, what is disturbing is not the idea of community rating but the idea that millions of people are denied the community rating now enjoyed by the vast majority of Americans — a denial due only to the accident of where they are employed or to health woes that are largely accidents of birth.

Providing a form of community rating to everyone requires two essential steps. The first is to make sure that everybody has access to some kind of group coverage; insurance simply doesn't work for the isolated individual. (John Kerry wants to let individuals and small firms buy into the federal employees' health plan; others, including some conservatives, have suggested allowing churches, synagogues or similar organizations to establish their own insurance pools.) Second, everybody has to buy health coverage. If states can require car owners to buy auto insurance, why can't they require all of us to purchase health insurance?

Once we require coverage and subsidize those who need help to buy it, we have come a long way. The health insurance industry would look more like a regulated utility than a business in which people can get rich by making sure the sickest Americans are someone else's problem.

To be sure, taking these steps is not easy, and reasonable people have different notions of how to fashion the cure. But our Scarlet U persuades us that the ground may be shifting. As we learned once we started sharing our story, there are a lot more upscale uninsurables out there than you would think. The trend toward freelance work among the well-to-do means a powerful new constituency for health reform is taking shape. It is one thing for politicians to address the uninsured out of a liberal-minded generosity to poor workers. That makes for nice speeches. But this is different. If even healthy members of the professional class are just an entrepreneurial itch away from discovering they are uninsurable, maybe they will decide it is time to really fix things. And when that happens, perhaps they will fix them for everyone. ■

We had been judged uninsurable — branded with a Scarlet U. And the fact that we were relatively well off financially was of little help.