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Options for Expanding Health Insurance in Texas– Small Employer Market

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Small Employer Market Current Situation

- ✓ Large Number of Uninsured are Employed by Small Employers
- ✓ Rating and Marketing Reforms Passed in Early to Mid 1990s
- ✓ Small Employers Are Not Aware of Reforms
- ✓ Affordability is Key Issue



Higher Cost on Average than Large Group

- ✓ Higher Administrative Costs
 - Lack Economies of Scale
 - Higher Underwriting Costs
- ✓ Guaranteed Issue and Rating Requirements



Small Employer Program/Policy Options

1. Improve Effectiveness of Small Employer Standard Plans
2. Revise Rating Requirements
3. Publish a Small Employer Rate Guide
4. Design a Small Employer Purchasing Alliance
5. Explore Other Changes to Small Employer Legislation
6. Provide Low Wage Worker Subsidy



Option 1: Improve Effectiveness of Small Employer Plans - Background

- ✓ Standardized Plans Introduced in 1993 (Current Basic and Catastrophic in 1996)
- ✓ Enrollment Extremely Low
- ✓ Small Employers Still Indicate an Interest in Lower Cost Standard Plans



Small Employer Plans – Findings and Impressions

- ✓ Priced at a Discount, But May Not Be as Low As Benefits Warrant
- ✓ Most of Rate Differentials Due to Cost Sharing Differences Rather than Removal of Mandated Benefits
- ✓ Employers May Not Be Interested in Stripped-Backed Plans
- ✓ Plans Are Not Encouraged By Carriers



Small Employer Plans – Findings and Impressions

- ✓ Small Employers Not Aware of Standard Plan Offerings
- ✓ No Consensus on Plan Desired
- ✓ Uninsured Employers Not Willing to Contribute Substantial Amount



Option 1: Improve Effectiveness of Small Employer Plans - Methods

- ✓ Education / Oversight Options
 - Educate Employers
 - Guidelines or Monitoring of Premiums Charged for Standardized Plans
 - Publish a Rate Guide
- ✓ Revise the Basic and Catastrophic Plans



Current Basic and Catastrophic Plan Goals

- ✓ Standardized Plans for Market Comparison
- ✓ Basic: Guarantee Availability of Plan with Low Cost Sharing at a Reasonable Price
- ✓ Catastrophic: Guarantee Availability of Plan with Low Overall Cost that Covers Catastrophic Events



Standardized Plans

Issues	Potential Solutions
Basic Plan Deductible Becoming Lower than Market Offerings	Increase Allowed Deductible Ranges on Basic Plan
Inside Limits Inconsistent With Carriers', Minimal Pricing Impact	Allow Rather Than Require Current Internal Limits
Basic Plan Requires Exclusion of Most Transplants – Bad PR, Small Cost Impact	Allow Carriers to Include Own Transplant List (consistent with their other offerings)
The Mandated Benefits Excluded from Standard Plans are Instead Required Offerings (Riders) – Potential Adverse Selection	Include the Alcohol/Drug Abuse and Mental Health Rider Benefits in the Base Plan or Exclude
Carriers Must Offer 4 Different Catastrophic Plans	Limit Required Offerings to 2



Expected Impact of Changes to Plans

- ✓ Carriers May Be More Inclined to Sell Revised Plans
- ✓ More Affordable Alcohol/Drug Abuse and Mental Health Coverage if Spread Risk
- ✓ Slightly Less Comparability From Carrier to Carrier, But Not Material
- ✓ See Expected Cost Impact Table



Expected Cost Impact – Per Member Per Month

	Basic PPO Plan	Catastrophic PPO Plan
Current 2002 Premium	\$174.45	\$125.31
Remove Internal Limits	.62	.01
Expand Transplants	.55	.01
Include ADA	.82	.69
Include MH	5.82	5.24
Increase Deductible \$250 →→\$500	-17.04	N/A
Revised 2002 Premium	\$165.22	\$131.26



Additional Plan Revision Option – Individual Supplement to Catastrophic

- ✓ Guarantee or Promote Availability of an Individual Catastrophic Supplement Plan That Fills in the 1st Layer Below the Catastrophic Group Plan
- ✓ May Encourage Small Employers to Offer Something (Catastrophic Plan) Rather Than Nothing



Option 1: Improve Effectiveness of Small Employer Plans - Questions

- ✓ Would Minor Adjustments to Standard Plans Help?
- ✓ Is There a Need for the Basic Plan?
- ✓ Are There Other Changes That Would Improve the Effectiveness?
- ✓ Should the Supplement Option be Explored?
- ✓ Other Ideas?



Option 2: Revise Rating Requirements for Small Employer Carriers - Background

- ✓ Carriers Can Adjust for “Case Characteristics” Within Limits – e.g., age, sex, area, industry, group size
- ✓ Can Also Adjust for Health Status By +/- 25%
- ✓ Maximum Rate is 67% Higher than Minimum Rate for Group With Same Case Characteristics



Rating Requirements - Background

- ✓ Texas Requirements Similar to Many States
- ✓ Other States Are More Restrictive
 - +/- 10% for Health Status
 - +/- 0% for Health Status (Modified Community Rating)
 - Community Rating (No Case Characteristics or Health Status Adjustments)



Impact of Current Requirements

- ✓ Fairly Broad Spread of Rates for Groups With Same Case Characteristics
- ✓ Very Large Range of Premium Rates Across All Groups
- ✓ Carriers Allowed to Reflect Expected Relative Costs, Within Limits
- ✓ Cross-Subsidies of Costs
- ✓ Additional Claim Costs Due to Limits, Guaranteed Issue Spread Across All Groups (5% Estimate)



Impact of More Restrictive Requirements

- ✓ Tighter Range of Rates
- ✓ More Cross-Subsidizing
- ✓ Risk of Adverse Selection Spiral
- ✓ Degree of Impact Dependent on Allowable Rate Factors and Ranges
- ✓ Higher Average Premiums (6% Estimate for States Not Allowed to Adjust for Case Characteristics)

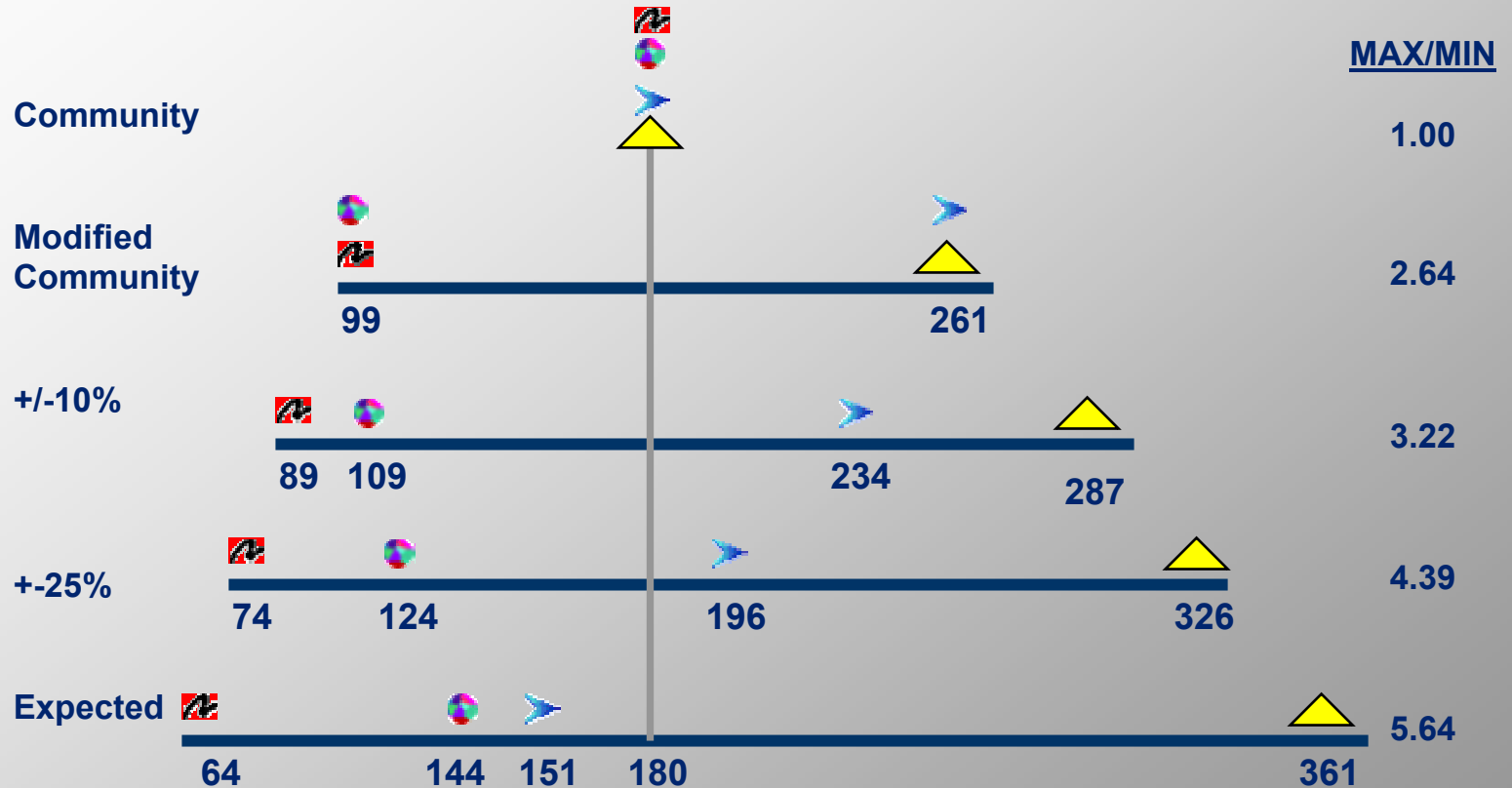


Impact of Various Rating Requirements - Example

- ✓ Four Sample Groups
 1. Young Low Risk
 2. Young High Risk
 3. Older Low Risk
 4. Older High Risk
- ✓ Four Types of Rate Restrictions
 - Community Rating
 - Modified Community Rating
 - +/- 10% for Health Status
 - +/- 25% for Health Status (TX)



Impact of Various Rating Requirements Example Results



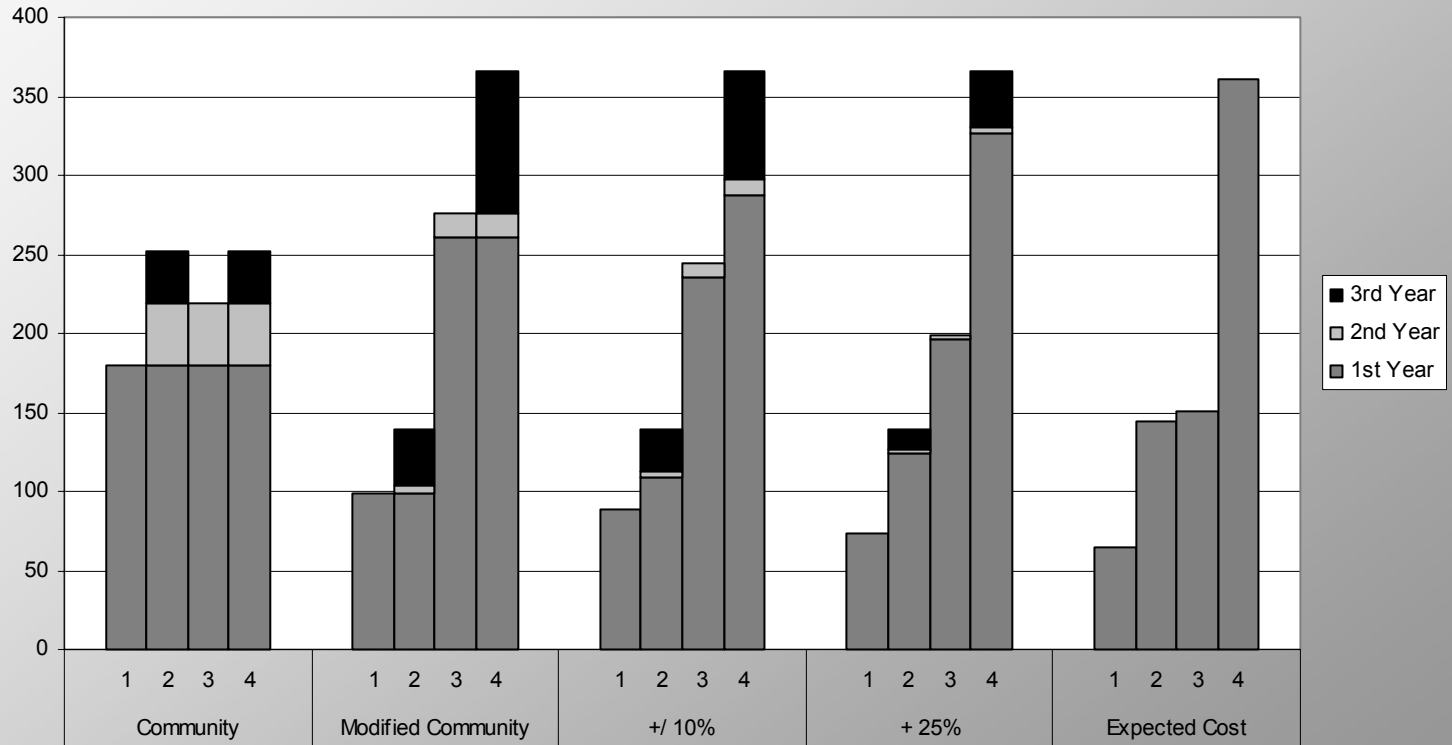
All Methods Average is Equal to 180



Impact of Various Rating Requirements

Years 2 and 3 Rate Increases

Example



2 nd Year rate increase	21%	6%	4%	2%	0%
3 rd Year rate increase	15%	33%	23%	10%	0%
Combined 2-year rate increase	40%	40%	28%	12%	0%



Conclusions

- ✓ Tighter Rating Restrictions Allow High Risk/Cost Groups More Affordable Rates
- ✓ Additional Costs Must Be Subsidized by All
- ✓ Tighter Rating Restrictions Will Not Lower Average Premiums and May Increase Them
- ✓ May Make Insurance Less Affordable in Small Employer Market in the Long Run



Option 2: Revise Rating Requirements for Small Employer Carriers - Questions

- ✓ Any Broad Consensus for a Change?
- ✓ Questions on the Impact of Rating Restrictions?



Option 3: Publish a Small Employer Rate Guide - Background

- ✓ Small Employers Find it Difficult to Shop for Insurance
- ✓ Final Rate Quote Requires Submitting Detailed Information
- ✓ 1 Month Premium Generally Required With Application
- ✓ Difficult to Compare Different Carriers and Plan Options



Obstacles

- ✓ Lack of Uniformity Among Carrier Rating Methodologies
- ✓ Lack of Uniformity Among Benefit Plans
- ✓ Due to Health Status Adjustment, Can't Get to "Final" Rate
- ✓ Due to Multiple Case Characteristic Adjustments, Difficult to Get to Rate Prior to Health Status Adjustment
- ✓ Difficult to Keep Current
- ✓ Legislation Required



Small Employer Rate Guide— Sample Format for Each Plan

Company	Male Eee Only Age 22	Family Male Eee Age 22	Female Eee Only Age 37	Family Female Eee Age 37	Male Eee Only Age 57	Family Male Eee Age 57
A	62	306	198	496	412	977
B	56	276	178	446	371	879
C	100	337	317	545	660	1075



Small Employer Rate Guide – Sample Format

- ✓ Basic, Catastrophic, and Company Plans
- ✓ Requires Supplemental Information Regarding Rate Basis and Potential Adjustments
- ✓ See Sample In Notebooks



Rate Guide Sample – Positive Features

- ✓ Allows Employers to Get “Ballpark” Rates
- ✓ Some Ability for Employers to Compare Carriers
- ✓ Relatively Easy for Carriers to Report
- ✓ Easily Summarized and Updated
- ✓ May Promote Enrollment in Catastrophic Plans by Currently Uninsured Employers



Rate Guide Sample - Limitations

- ✓ Still Not a Final Rate
- ✓ May Show Incorrect Relative Rates Among Carriers for Particular Employer
- ✓ Carrier Resistance
- ✓ Cost to State to Develop and Keep Current



Option 3: Publish a Small Employer Rate Guide - Questions

- ✓ Other Formats to Consider?
- ✓ Other Positives/Negatives of Sample Form?



Option 4: Design a Small Employer Purchasing Alliance - Background

- ✓ Rates for Small Employers are Higher than Large Employers
- ✓ Majority of Difference is due to Additional Administrative Costs Due to Smaller Group Size
- ✓ Purchasing Alliance May Allow Small Businesses to Purchase Insurance at Closer to Large Group Rates



Purchasing Alliances – Past Experience

- ✓ Several State-Created Alliances Have Failed (including in TX)
- ✓ Design Element Recommendations
 - Limit Number of Plans, Carriers
 - Work With Agents/Brokers
 - Negotiate With Carriers for Rates
 - Adequate Funds for Marketing, Outreach
 - Elements Geared to High Enrollment, Streamlined Administration, Carrier Participation, Not Higher Risk Than Market



Purchasing Alliance – Estimate of Premium Savings

- ✓ **If** Assume Purchasing Alliance Designed to Achieve Economies of Scale of Large Group Insurance
- ✓ 5 – 20% Potential Savings Once Operational (Rough Estimate)
- ✓ In Practice, Past Efforts Have Resulted in Little Cost Savings



Purchasing Alliance – Additional Advantages

- ✓ Allow Small Employers to Offer Multiple Options
- ✓ May Allow Easier Comparisons Among Carriers
- ✓ Vehicle for Subsidized Plan



Purchasing Alliance – Limitations

- ✓ Program Design a Challenge
- ✓ May Not Reduce Premium Levels Enough to Significantly Impact Uninsured Number
- ✓ Statewide Public Alliance Would Require Legislation, Start-Up Funds
- ✓ Past Efforts Have Generally Not Been Effective, Especially With Respect to Reducing the Number of Uninsureds



Option 4: Design a Small Employer Purchasing Alliance - Questions

- ✓ Design Ideas?
- ✓ Are Potential Cost Savings Sufficient for Large Endeavor?



Option 5: Explore Other Changes to Small Employer Legislation – Background and Questions

- ✓ Small Employer Legislation Has Been In Effect for a Number of Years Without Significant Revisions
- ✓ What's Working?
- ✓ What Could Be Improved?
- ✓ What's Adding to Costs?



Option 6: Provide Low Wage Worker Subsidy - Background

- ✓ Affordability Is Main Reason Small Employers Do Not Offer Health Insurance
- ✓ Other Program Options May Help Achieve Lower Costs
- ✓ Even With Other Changes, Cost May Be Prohibitive to Uninsured Employers/Employees



Worker Subsidy – Conclusions

- ✓ Addresses Affordability Issue for Employers/Employees
- ✓ Taps Tax-Deductible Dollars from Employers
- ✓ Requires Substantial Funding
- ✓ Logistics Regarding Funding Distribution
- ✓ Additional Costs/Logistical Requirements if Create New Insurance Product (Private or Public)



Option 6: Low Wage Worker Subsidy - Questions

- ✓ What Are Potential Funding Sources?
- ✓ How Would Program Be Designed?



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