DEPARTMENT OF CONSUMER & BUSINESS SERVICES

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Oregon's New Small Employer Health Insurance Law
Frequently Asked Questions

Small employers in Oregon may see a change in their health insurance costs this spring. While increases in health insurance rates generally reflect the overall rise in health care costs, some employers may see additional changes this year because of a new law that affects how the state regulates their insurance rates.

House Bill 2002, which took effect January 1, 2008, expands small employer health insurance rate regulation, changing the definition of a small employer group from those with 2 to 25 employees to those with 2 to 50 employees. This change makes state and federal regulation of the small group market consistent and is intended in the long run to help insurance rates remain stable and affordable for all small employers.

Why does the state regulate health insurance rates?

The state regulates health insurance rates for Oregonians who purchase individual insurance, and for Oregon employers with 50 or fewer employees. The rate regulations require insurers to pool risk in these groups so that insurance remains affordable for those who might otherwise be priced out of the market because of health problems. For small employers, Oregon law limits how much rates for any group can vary from the average of the pool. Without regulation, a small group would be subject to rate volatility, and a single employee's health problems could have a dramatic impact on rates.

Why did the state change the law for small employer health insurance?

Before the new law, Oregon's small group rating regulations applied only to employers with 25 or fewer employees. The groups with 26 to 50 employees had no rate protection. Carriers were free to set initial rates and to apply rate increases as they wished, including very large increases to groups that filed many claims.

HB 2002 extends the same rate regulation to employers with 26-50 employees as smaller employers have had. This includes protection against large rate increases based on their employees' claims experience.

At the same time, the law allows insurance companies, in setting rates, to take additional factors into account so they can price insurance coverage more appropriately. For example, the prior small group law had allowed only age and geography to be used as rating factors. Under the new law, insurers can consider several other factors, such as how many employees are enrolled in the plan, whether dependents are covered, how much the employer contributes to premiums, and whether employees participate in wellness programs.

Why did rates change?

The general increase in health care costs is pushing up health insurance rates for small employers this year. Insurance rate filings in the second quarter of the year show small employers renewing their plans are seeing an average rate increase of almost 13 percent. But in part because of the new law, some employers are seeing their own rates change more or less than the average this year. This is because insurers are using new factors to determine rates in the small group market and they are offering these rates to a bigger pool with a different mix of companies than before.

The intent of the new, larger pool is to spread the risk so that rates are more consistent and predictable among small employers over the long term. While the intent is to make insurance rates more fair to everyone, this means employers with healthy employees and comparatively low rates may have seen an increase – in some cases a very substantial increase – to bring them closer to the average. However, employers who have traditionally seen the highest rates may see their rates decrease, or stay flat even while health care costs are going up.

For example, although the average rate increase is currently almost 13 percent across the plans, nearly 4,000, or 17 percent, of employers with between 2 and 25 employees have seen their rates decrease this year, according to the most recent data the Insurance Division received from insurers. At the other extreme, about 1,550, or 7 percent, of these small employers have seen a rate increase of more than 30 percent. Of employers with 26 to 50 employees, about 290, or 15 percent, have received a rate decrease and approximately 400, or 22 percent, have received a rate increase of more than 30 percent.

Will rates continue to change each year?

Insurers are allowed to phase in the new law over three years to spread out the impact on employers. Different insurance companies have taken different approaches to this phase-in. Depending on the insurance carrier, a small employer may see the biggest impact of the rate changes this year or a lesser impact over the three years. However, the new law is expected to stabilize rates after the three-year phase-in period. Keep in mind, though, that as long as health care costs continue to rise, we likely will see an ongoing increase in insurance rates every year.

What options do employers have?

Employers that have seen large rate increases should talk to their insurance agent to see if there are other plans that would be more cost-effective. Oregon has a competitive insurance marketplace, so there may be options for employers to keep their rates affordable.

On the other hand, small employers who have not been able to afford health insurance in the past may want to talk to their agents because the rates may be affordable under the new law.

If employers see a rate change that is particularly extreme and have questions about their situation, they can call the Oregon Insurance Division toll-free at 888-877-4894 or 503-947-7277.