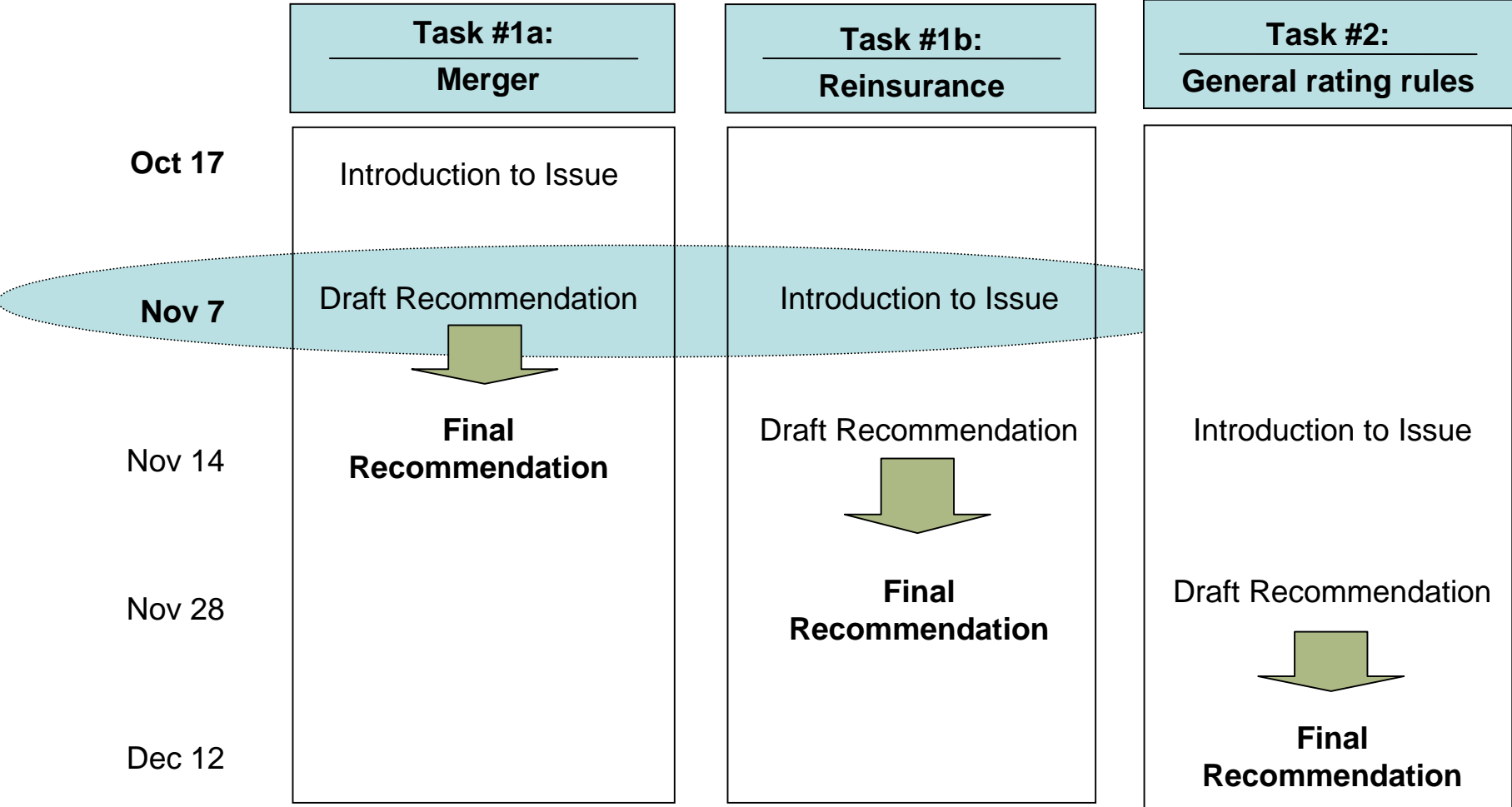


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# Insurance Market Merger Task Force Meeting 3

November 7, 2007

# Reminder: Where we are



# Today's Agenda: Task #1

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- **Background and Context**

- **Key Findings from Initial Merger Analysis**

1. Stability of the Direct Pay Pool
2. Preliminary Results from Direct Pay/SmG Merger Analysis

- **Conclusions and Next Steps**

# Context: Task #1 Goals

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- **Stabilize the Direct Pay market (14,000 members)**
- **Identify strategies that go beyond basic cost shifting to address the underlying cost of care**
- **Stem the erosion in private insurance (125,000 uninsured)**

# Status of the Analysis

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- Analyzed all claims for BC direct pay and small group
- Normalized it for benefit design, average age factor, and estimated health status
- Re-priced direct pay using small group rules and base premium rates, age group, and 4-tier family status
- Calculated new premiums under “merged market”

# Baseline Data: RI Market by the Numbers

## Market Overview

	Groups	Contracts	Members
<b>Direct Pay</b>	<b>9,300</b>	<b>9,300</b>	<b>13,800</b>
Pool 1	4,700	4,700	7,200
Pool 2	4,600	4,600	6,600
<b>Small Group</b>	<b>13,900</b>	<b>55,300</b>	<b>106,000</b>
51-99	600	28,000	55,100
<b>Total</b>	<b>23,800</b>	<b>92,600</b>	<b>174,900</b>

# Baseline Data: RI Market by the Numbers

## By Carrier

	Blue Cross		United		Total	
	Groups	Members	Groups	Members	Groups	Members
<b>Direct Pay</b>						
Pool 1	4,700	7,200	N/A	N/A	4,700	7,200
Pool 2	4,600	6,600	N/A	N/A	4,600	6,600
<b>Small Group</b>	11,700	87,500	2,200	18,500	13,900	106,000
<b>51-99</b>	400	34,200	200	20,900	600	55,100
<b>Total</b>	<b>21,300</b>	<b>135,500</b>	<b>2,500</b>	<b>39,400</b>	<b>23,800</b>	<b>174,900</b>

# Baseline Data: Demographic Comparison

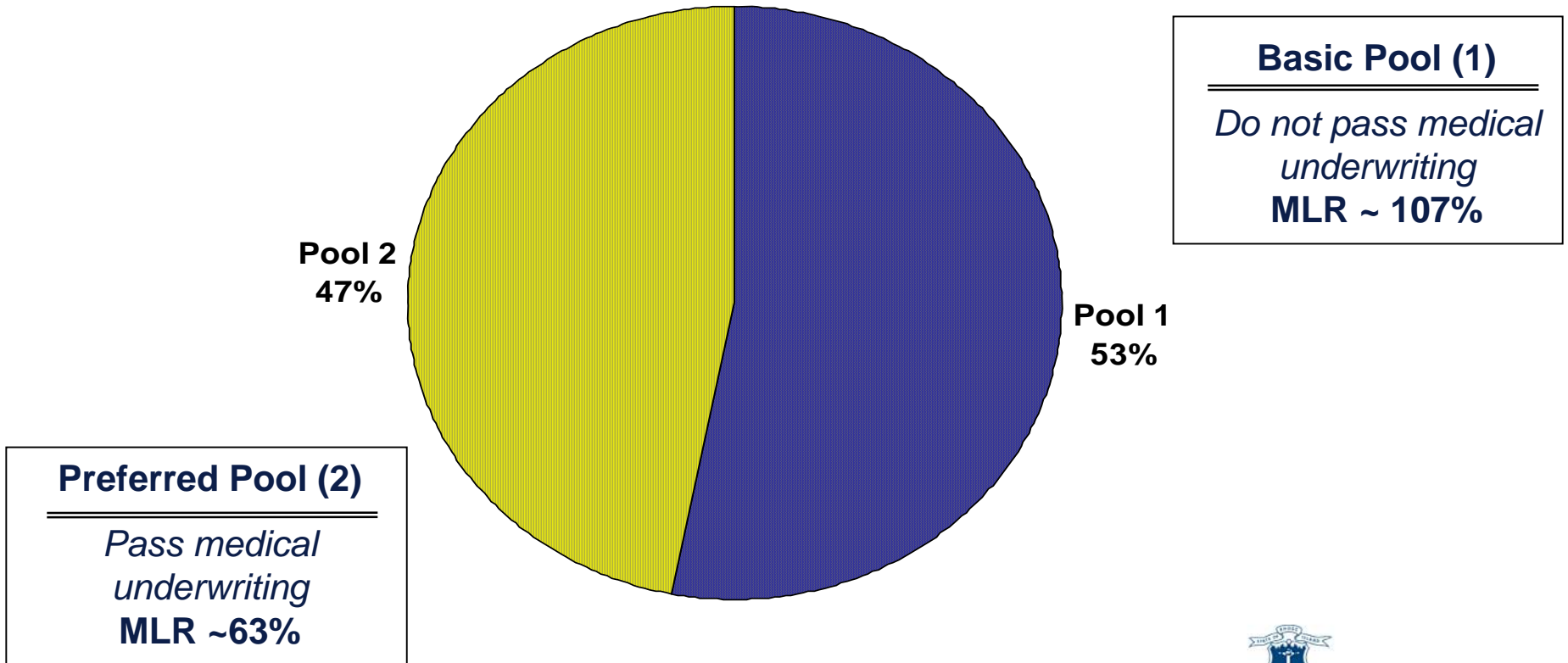
	Age Factor	Contract Size
<b>Direct Pay</b>	<b>1.29</b>	<b>1.5</b>
Pool 1	1.52	1.5
Pool 2	1.00	1.4
<b>Small Group</b>	<b>1.05</b>	<b>2.0</b>
51-99	TBD	2.0

# Reminder: Basic Structure of Direct Pay Market

- **Total Enrollment: ~14,000 (2% of Rhode Island Market)**
- **“Guaranteed Issue”**
- **Single Carrier**
- **Four Products**
- **Use of Medical Underwriting**
- **Regulated cross-subsidies**

# Background: Direct Pay Pool 1 vs. Pool 2

There is significant cross-subsidization between Pool 1 and Pool 2



Overall MLR = 93%



# Today's Agenda: Task #1

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➤ **Background and Context**

➤ **Key Findings from Initial Merger Analysis**

1. Stability of the Direct Pay Pool
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➤ **Conclusions and Next Steps**

# Is the Direct Pay Market Sustainable?

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**Precarious balance in recent years**

**Anticipate further disruption**

- Pool 1 costs rising at a substantially higher rate
- Cross-subsidies may not be sustainable – pool 2 membership at risk
- Anticipate new entrants, risk fragmentation

**As employer-based insurance market erodes, a well functioning , affordable direct pay market becomes even more critical**



***Key Challenge: How best to stabilize the market for individual insurance?***

# Stability of Direct Pay: What We Found

## Findings

## Implications

1. Direct Pay membership mix is not shifting over time -- relatively stable ratio of Pool 1 to Pool 2



*Younger, healthy members not dropping out at higher rate than older, sicker members*

2. Average Direct Pay premium is \$322 pmpm vs. \$334 in Small Group.



*Premiums not significantly higher than Small Group. In fact, Direct Pay's average premium is ~4% lower*

3. Trends are estimated to be the same in Small Group and Direct Pay.



*There is no evidence of "death spiral" in Direct Pay*

4. Rhode Island's Direct Pay market compares favorably to the individual market in other states.



*Rhode Island's Direct Pay model appears to serve our policy goals better than is often thought*

## **Key Implication:**

***Rhode Island's Direct Pay market appears to be relatively stable.***



\* Direct Pay benefit packages have actuarial value of .70 compared to .85 for small employer.

# Direct Pay Membership: Stable Over Time

## Enrollment Trend

Year	Pool 1 (Basic)	Pool 2 (Preferred)	Total	% Pool 2 (Preferred)
2003	7,159	5,303	12,462	42.6%
2004	8,274	6,126	14,400	42.5%
Apr-06	8,413	6,717	15,130	44.4%
Sep-06	7,834	6,522	14,356	45.4%
Mar-07	7,466	6,614	14,080	47.0%
Mid-07	7,184	6,621	13,805	48.0%



# Direct Pay and Small Group: Comparable Premiums

## Premium and Benefit Comparison

Average Premium pmpm		Benefit Package
<b>Direct Pay</b>	<b>\$322</b>	<b>Actuarial value = .70*</b>
Pool 1	\$406	
Pool 2	\$232	
<b>Small Group</b>	<b>\$335</b>	<b>Actuarial value = .85</b>
51-99	\$342	
<b>Total Market</b>	<b>\$336</b>	

\* Estimate to be confirmed



# RI Compared to Other State's Direct Pay Markets

<p><b>Rhode Island</b></p> <p>Access ✓</p> <p>Affordability ✓</p> <p>Choice</p>	<p><b>Massachusetts (pre reform)</b></p> <p>Access ✓</p> <p>Affordability</p> <p>Choice</p>
<p><b>Connecticut</b></p> <p>Access</p> <p>Affordability ✓</p> <p>Choice ✓</p>	<p><b>Minnesota</b></p> <p>Access</p> <p>Affordability</p> <p>Choice ✓</p>



# Today's Agenda: Task #1

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- **Background and Context**
  
- **Key Findings from Initial Merger Analysis**
  1. Stability of the Direct Pay Pool
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# Direct Pay and Small Group Merger: Findings

## 1. **Direct Pay: + 14-15%**

Pool 1 average premium increase of 14% if rated under Small Group rules

Pool 2 average premium increase of 15% if rated under Small Group rules

## 2. **Small Group: -2%**

Average premium decrease due to direct pay merger

## 3. **Winners and Losers**

Pool 1 subscribers < 50 would see significant premium decreases; those 50 and older would see significant increases. Nearly all Direct Pay Pool 2 subscribers would see significant increases.

## 4. **Health Status Factor?**

If SmG health status factor were eliminated, the merger impact would be different.

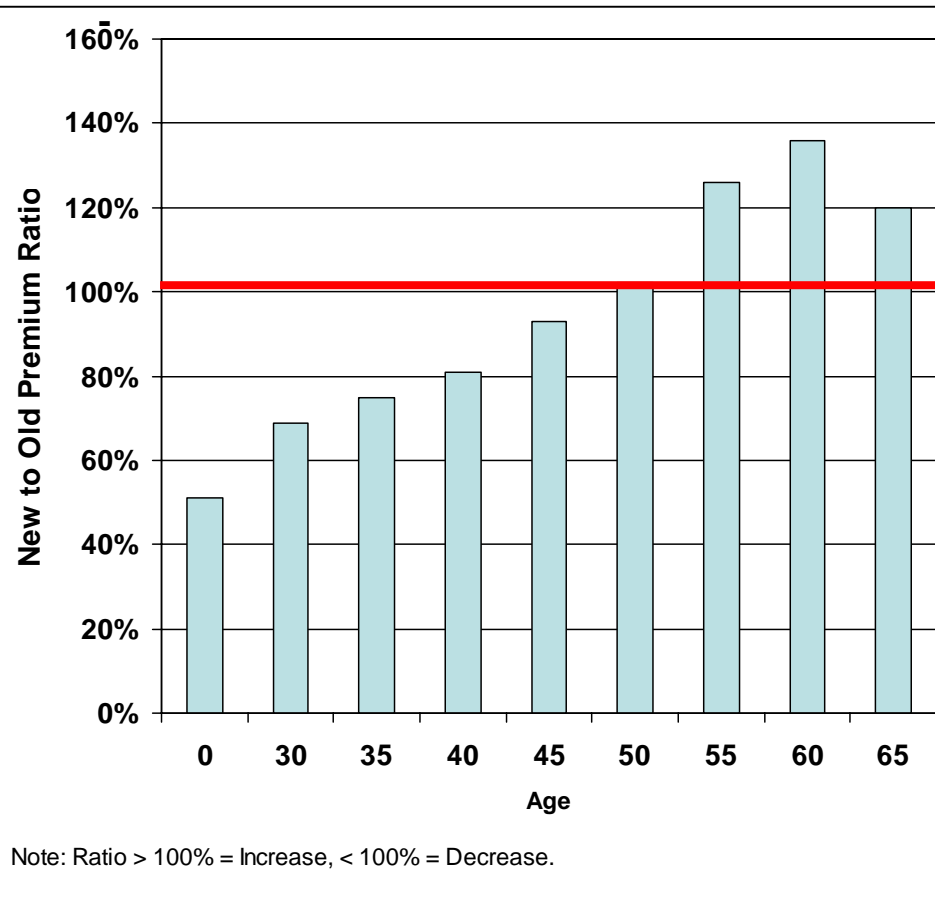
### **Key Implications:**

- ✓ Under current SmG rating rules, a merger may encourage more young healthies to exit the pool or go to other carriers, and make premiums less affordable for older, sicker
- ✓ Changes to Small Group rating rules could be vital in determining whether or not a market merger should take place

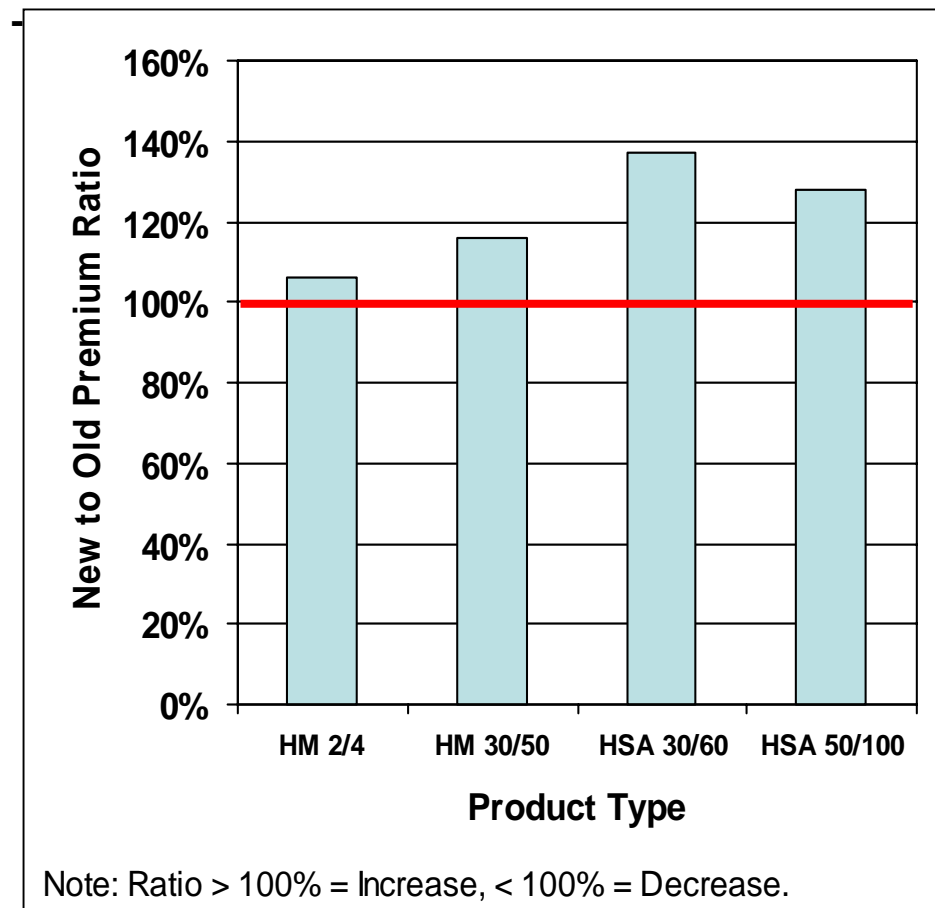
# Direct Pay Winners and Losers: Pool 1

Pool 1 will see an average premium increase of 14% in a merged market. However, there will be variation by age and product type including premium decreases for many younger members.

### Average Pool 1 Premium Variation by Age

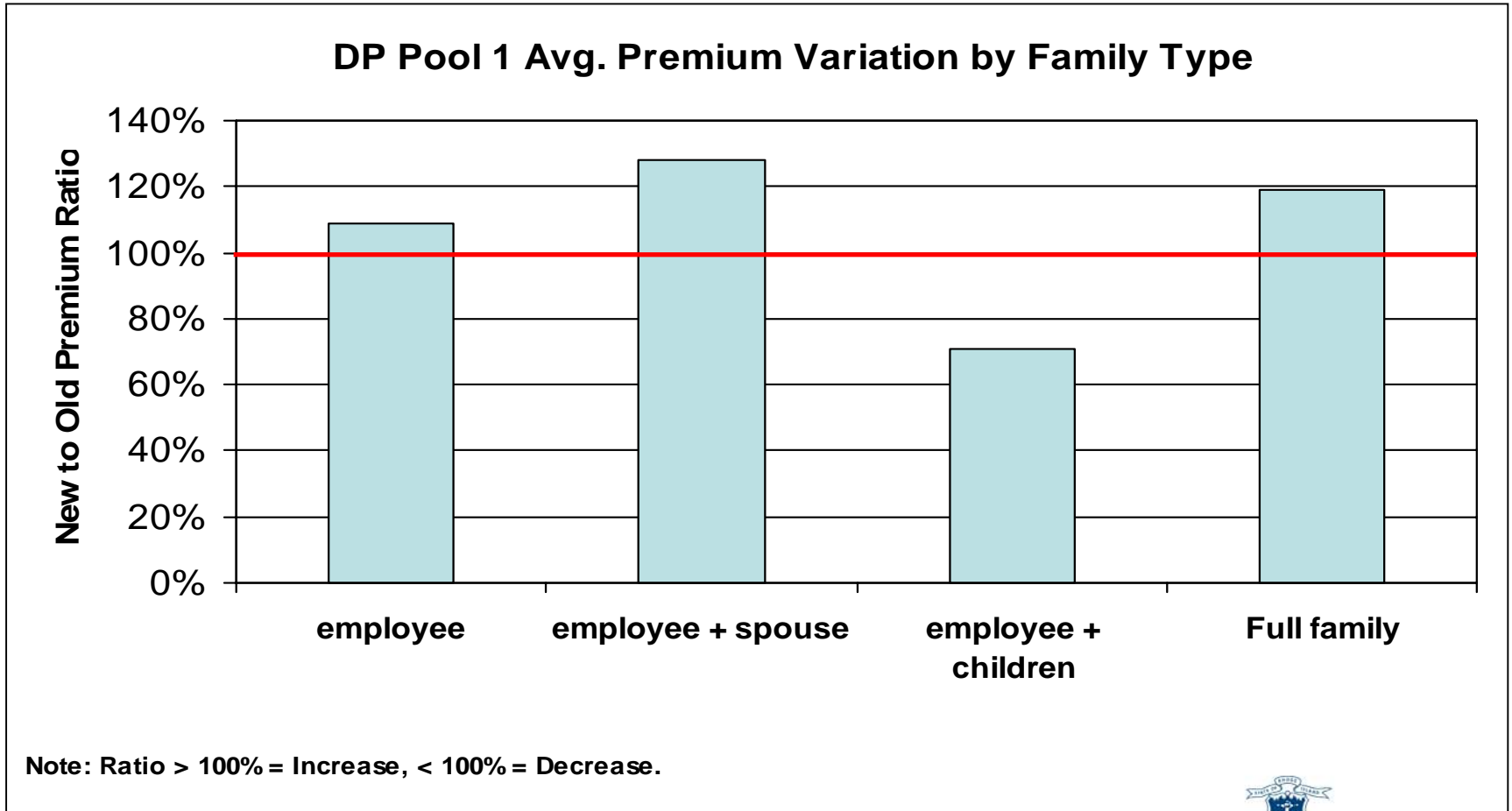


### Average Pool 1 Premium Variation by Product Type



# Direct Pay Winners and Losers: Pool 1

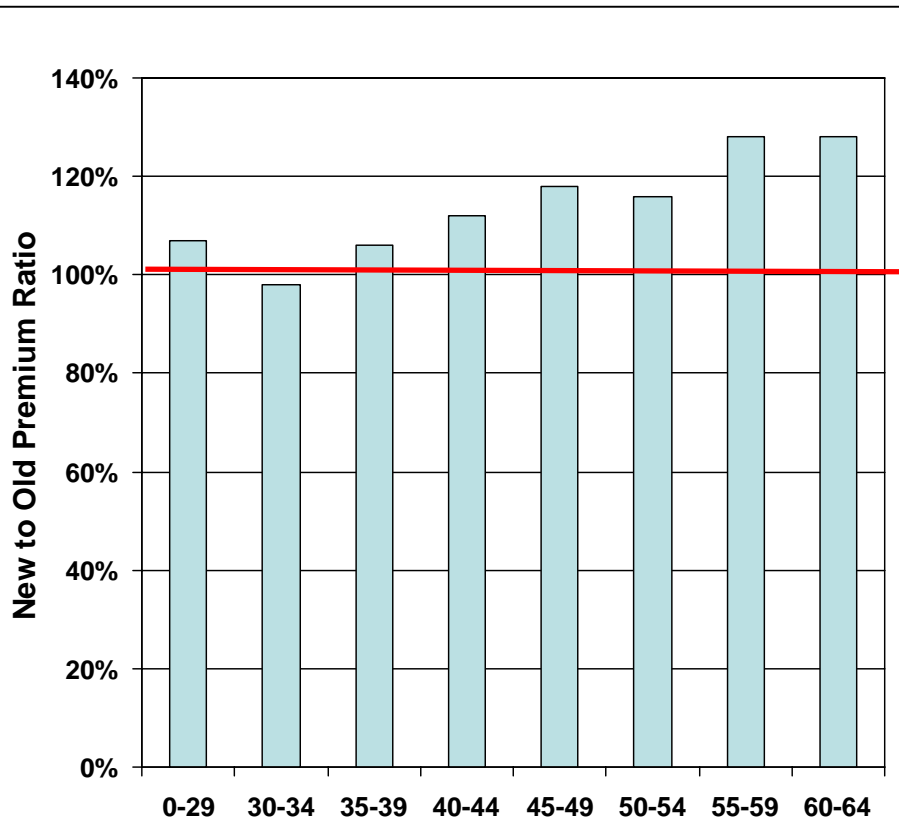
Most family types in Pool 1 would see premium increases under a merged market



# Direct Pay Winners and Losers: Pool 2

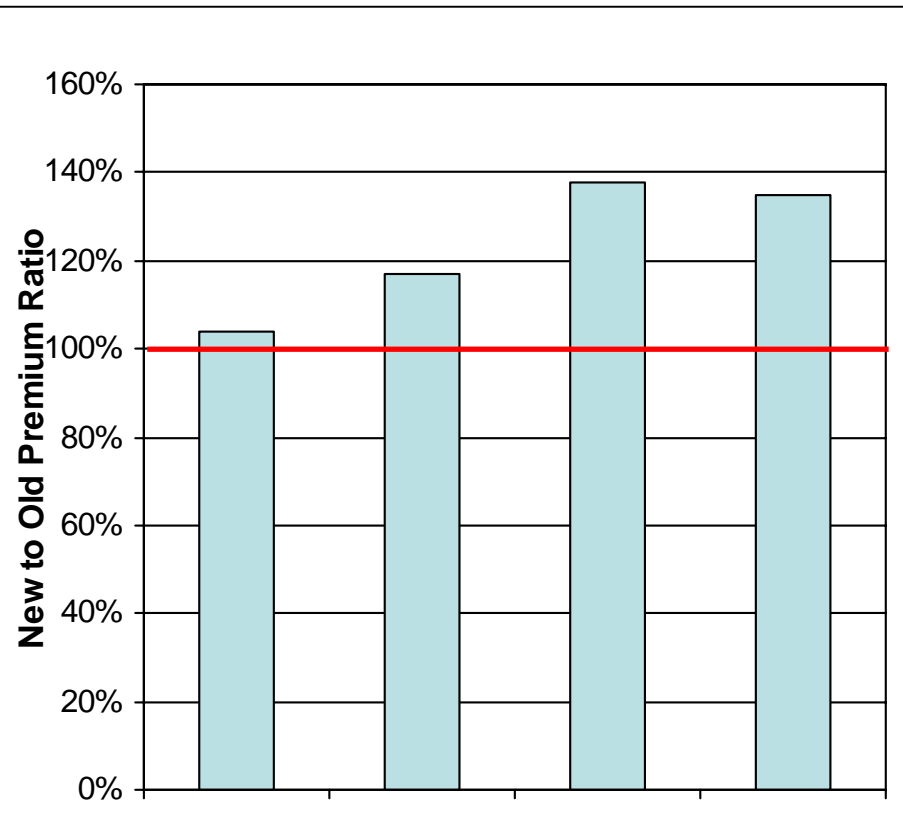
Average Pool 2 premium increase: 15%. In contrast to Pool 1, nearly all members here will see an increase. The amount of the increase will vary by age, product type, and family type.

### Average Pool 2 Premium Variation by Age



Note: Ratio > 100% = Increase, < 100% = Decrease.

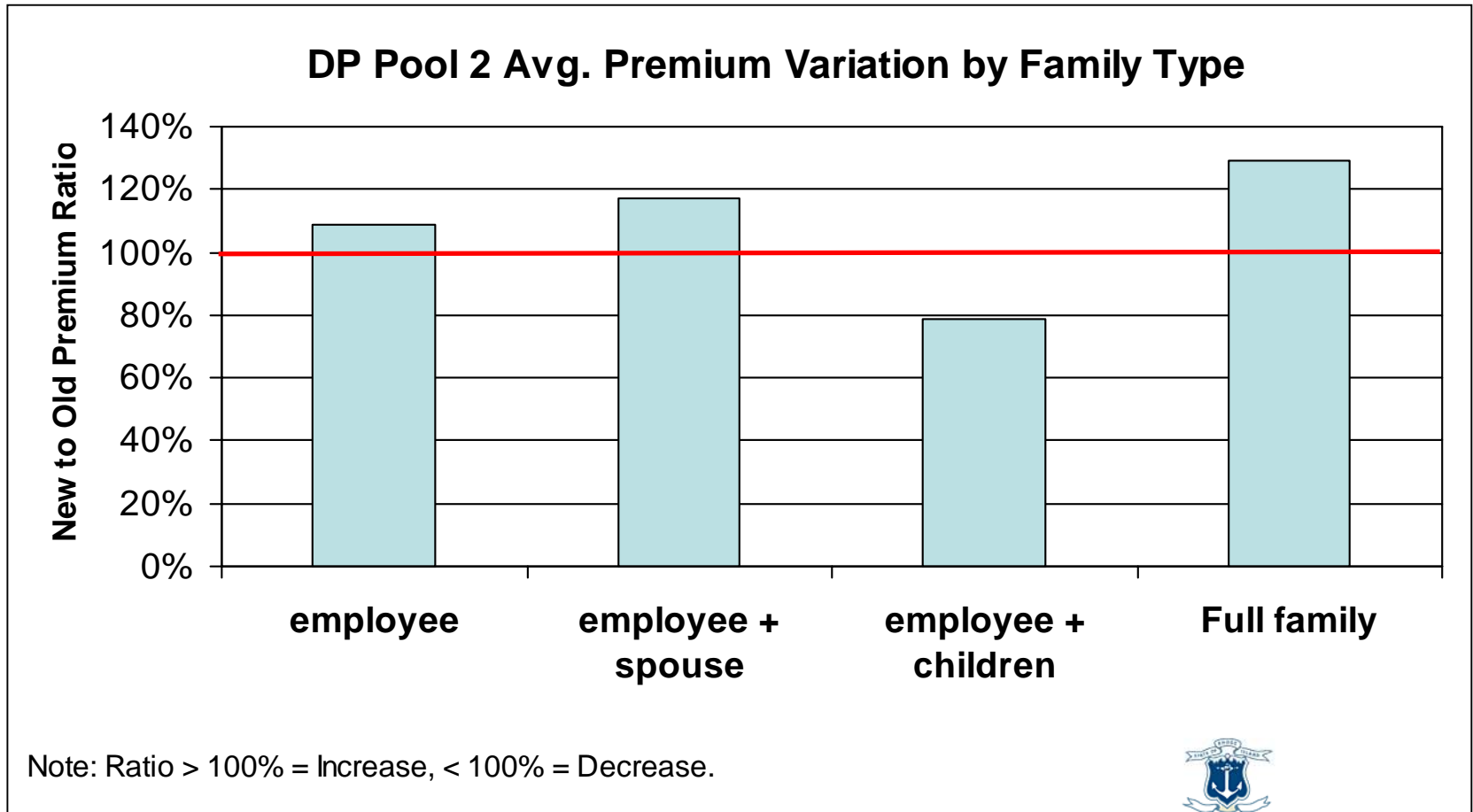
### Average Pool 2 Premium Variation by Product Type



Note: Ratio > 100% = Increase, < 100% = Decrease.

# Direct Pay Winners and Losers: Pool 2

As in Pool 1, most family types in Pool 2 will generally see premium increases.



# Why might rates go up in merged market?

- **Additional administrative, broker costs in small group**
- **Rate regulation**
- **Small Group market sicker?**  
Small group market includes groups of one  
Guaranteed issue (everyone is in)
- **Richer SmG benefits**
- **Health status factor**

# Today's Agenda: Task #1

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- **Background and Context**
  
- **Key Findings from Initial Merger Analysis**
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# Summary of Group Recommendations (Task #1)

## Reminder: Task #1 Goals

- **Stabilize the Direct Pay market**  
(~15,000 members)
- **Identify strategies that go beyond basic cost shifting to address the underlying cost of care**
- **Stem the erosion in private insurance to address the number of uninsured**  
(125,000 uninsured in RI, 65% of them are working)



## Group Recommendation: How best to achieve these goals?

1. **Merge DP and small group**  
Create a bigger pool, build on SmG regulatory model
2. **Retain existing separate markets**  
Consider modest changes (“tweaks”) to SmG underwriting rules, DP cross subsidies
3. **Explore strategies to build on Direct Pay as first step toward more comprehensive reform**
  - Groups of One?
  - Individual Mandate?
4. **Shift focus away from SmG and direct pay toward more comprehensive reform**



# Follow-up: Additional Considerations related to the Small Group Merger Question

- **Merging groups of 51-100 in to Small Group**
- **Groups of One:** How should groups of one be dealt with between the Small Group and Direct Pay markets going forward?
- **Health Status Factor:** The Task Force will consider concerns with the health status factor in the Small Group market during the upcoming rating rules discussion.
- **Additional Analysis:** Does the Task Force see the need for any further analysis on any relevant issues?

# Next Steps: Where We Are Headed

