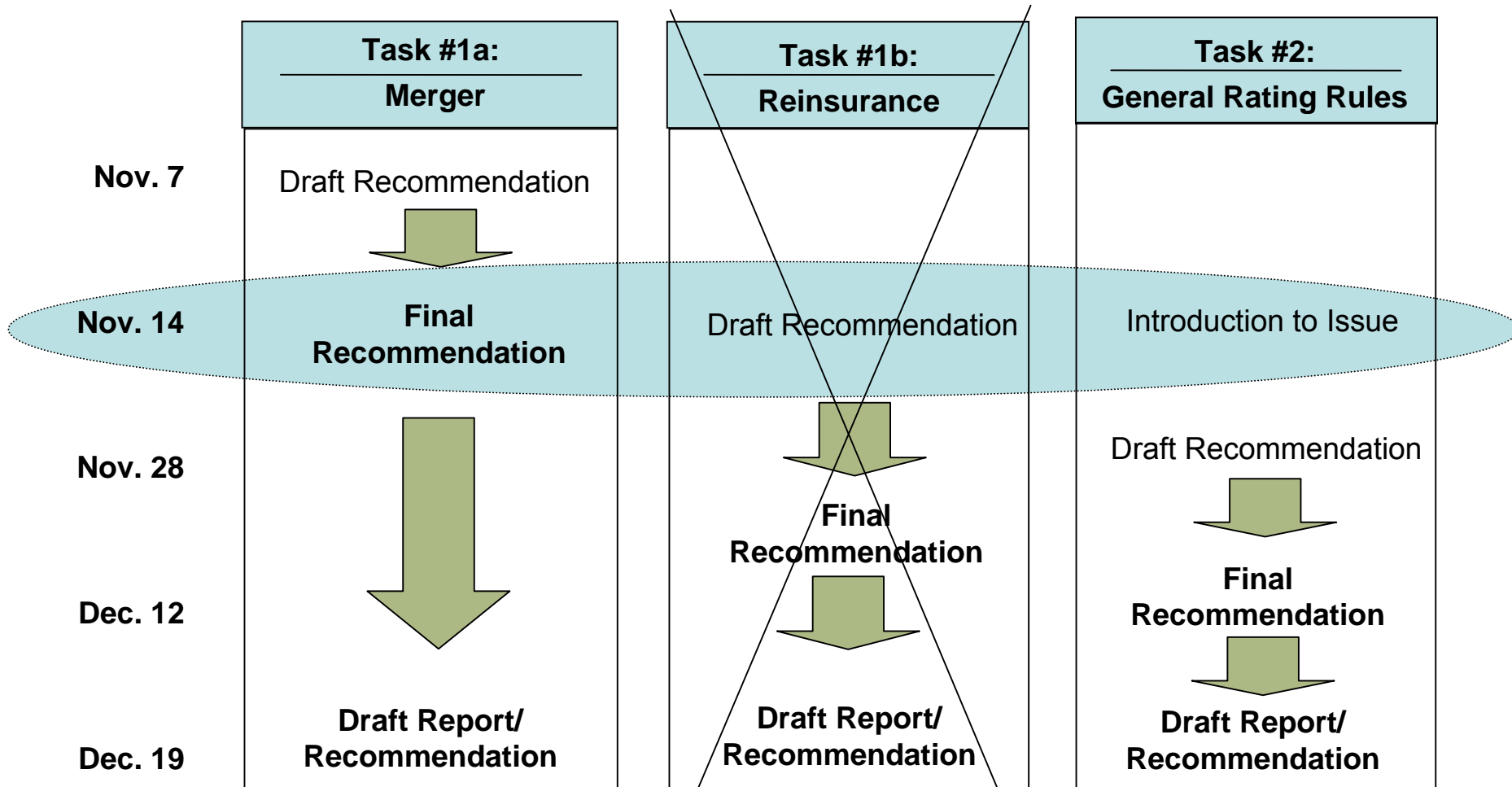


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# Insurance Market Merger Task Force Meeting 4

November 14, 2007

# Reminder: Where We Are



# Today's Agenda: Finish Task #1, Begin Task #2

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- **Reminder: Conclusions from last time**
- **Introduction to Small Group Rating Rules (Task #2)**
- **Changes to the rating rules...and how it might affect the merger analysis**
- **Conclusions and Next Steps**

# Reminder: 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**  
(~107,000 uninsured in RI, 65% of them are working)



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

1. **Merge Direct Pay and Small Group**  
Create a bigger pool, build on Small Group regulatory model
2. **Retain existing separate markets**  
Consider modest changes (“tweaks”) to Small Group underwriting rules and Direct Pay 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.**



# Model refinements/ “cleanup” since last time

There were two significant refinements to the analysis since last time

## Refined Assumption

- 1. Revised benefit plan factors (as provided by BCBSRI):**
  - Factors slightly higher for HM 400
  - Slightly lower for HM 2000, HSA 3000
  - Much lower for plan HSA 5000
- 2. Refined compression ratio methodology**

The compression ratio (4:1) was applied during the analysis to the combination of Age and Health Status factors instead of at the end of the entire analysis

  - Youngest Pool 2s do not get credit for good HS
  - Oldest Pool 1s have lower premiums – already at the limit for compression

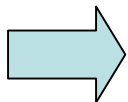
## New Results

- 1. Direct Pay: + 11%**

Pool 1 average premium increase of 10%.  
Pool 2 average premium increase of 13%
- 2. Small Group: - 2%**

Average premium decrease due to merger
- 3. Winners and Losers**

Pool 1 varies by age: under 50 decreases, over 50 increases.  
All Pool 2 subscribers would increase – ranging from very small to up to 30%



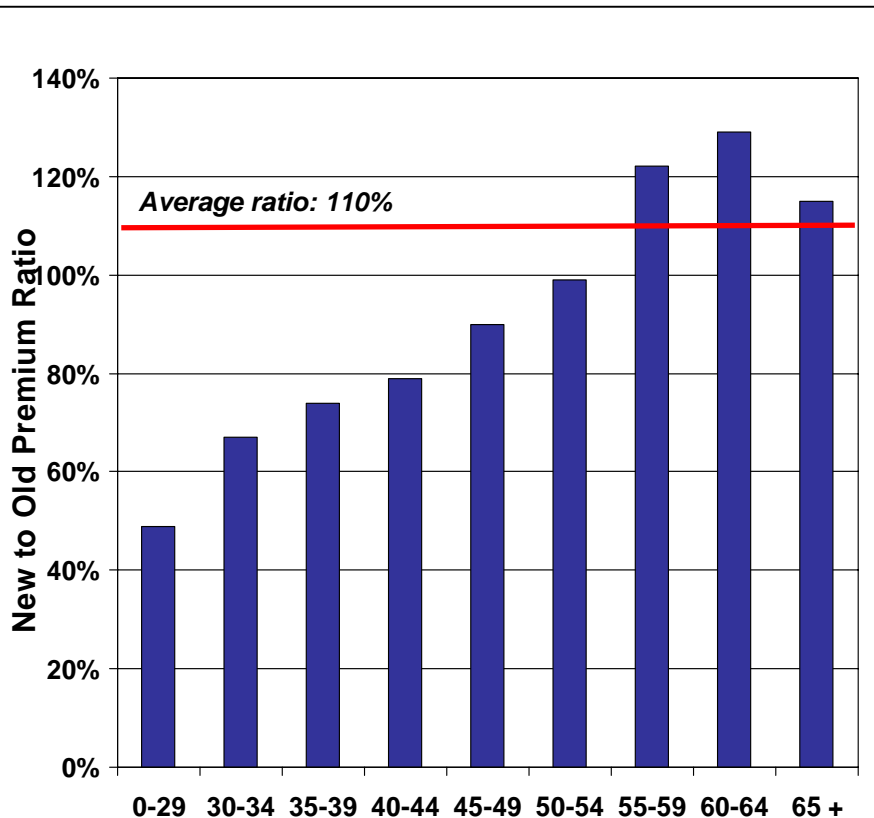
***Results basically unchanged – merger appears to offer little benefit to direct pay subscribers***



# Model Refinements: Direct Pay Winners + Losers

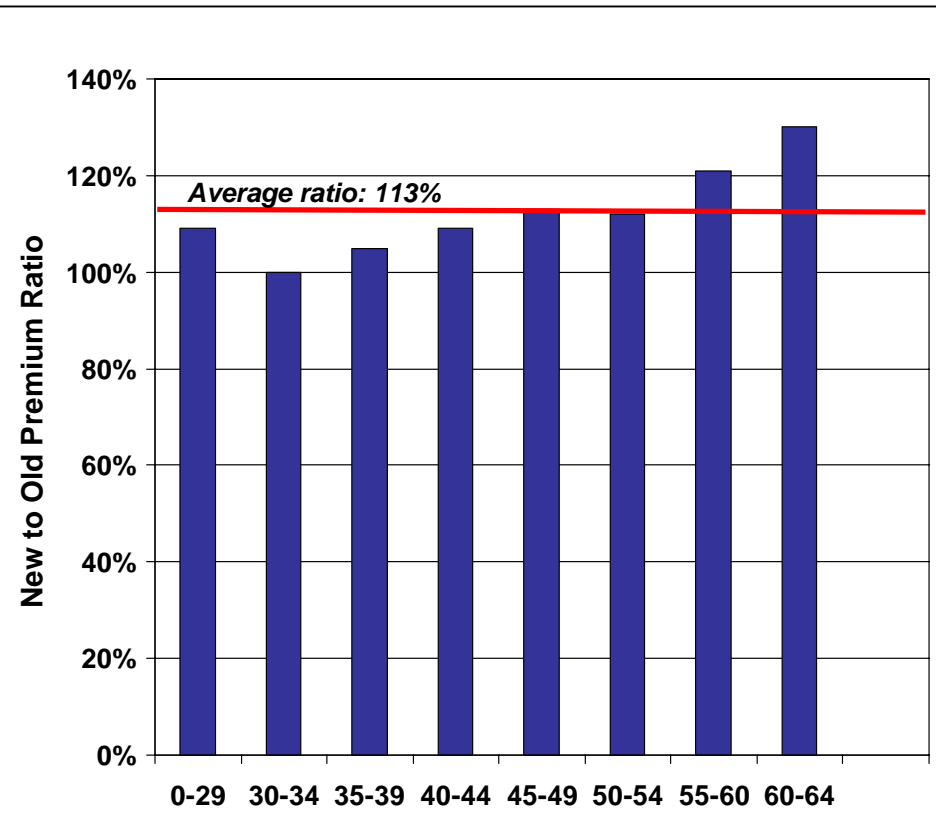
Pool 1 subscribers under 50 still receive significant premium relief in a merged market while nearly all Pool 2 subscribers see increases.

**Average Pool 1 Premium Variation by Age**



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

**Average Pool 2 Premium Variation by Age**



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

# Reminder: Conclusions from last time

- Direct pay appears to be relatively stable
- Merging current direct pay members into the small group pool, under current small group rating rules would have the following impacts:
  - Direct Pay: +10-13%
  - Small Group: -2%
- This transition would likely encourage more young healthy members to exit the pool

***Question from last time: What if we changed the small group rating rules... does that change the answer?***

# Rating Rule Primer

Answering the key question from last time requires a solid understanding of the small group rating rules in Rhode Island

- **The terminology**
- **Why rating rules?**
- **Description of current rules**
- **Comparison to other states**
- **Community Rating: Factors to Consider**

***Question for Discussion: What changes to the small group rating rules should this group consider?***

# Rating Rule Primer: The terminology

- **Rating rules:** For our purposes this is any rule that the state imposes on carriers regarding how they can develop their premium prices.
- **Rating Factors:** Any factor a carrier uses to help determine the premium or cost of insurance. The following factors are used by at least some states: age, gender, geography, group size, employment type, family size, health status, smoking, and participation rate
- **Rate bands:** The amount that a premium is allowed to vary by a particular factor. Typically refers to health status but is used for other rating factors as well.
- **Compression:** The amount (or range) the overall premium for a particular product is allowed to vary from one employer to another or one individual to another.
- **Other insurance rules that matter:**
  - Guaranteed issue
  - Open enrollment
  - Wait-periods and/or coverage for pre-existing
  - Individual mandate

# Rating Rule Primer: Why use rating rules?

- **The small group and direct pay markets don't function as well as large employers regarding cross subsidization**
- **States have an interest in helping the markets work better so more people have access to affordable health insurance and so risk is spread more equitably**
- **States want to keep small employers offering as offer rates are directly tied to uninsurance rates**
- **States can achieve their policy objectives by using rating rules to ensure better performance in these markets**

# Rating Rule Primer: Other States?

- A few states (NJ, NY, VT) use pure community rating which means that everyone in the market pays the average rate which is largely based on the average cost of claims for people in the market
- A larger number of states (CT, ME, MD, MA, OR, WA) use “adjusted community rating” which means they allow the average rate to vary based on factors that are related to health care costs such as age, gender, geography, group size, and employment type.
- Most states use rate bands alone which allow rates to vary by the factors noted above and typically include rating for health status
- In addition to rating rules, most states use compression. This means that they do not allow the premium of one person or one group be more than a certain amount higher than the lowest rate.

# Rating Rule Primer: Community Rating vs. Not

## Pure or Adjusted Community Rating

### **Pros**

Sick, older people who really need health insurance can afford it.

Employers of sick and older employees are not priced out of the market.

In the small group market, the pooling of employers at an individual employer doesn't always work well; community rating allows risk to be spread across the entire market.

Adjusted community rating allows the use of rating factors that are related to health care costs in determining bands and usually retains an overall compression which keeps the overall differences in check.

### **Cons**

Pure community rating could cause young, healthy individuals and/or employers to leave the market because expense  $\neq$  value

## Non Community Rating: Rate Bands

### **Pros**

Rates more closely mirror what an employer or individual's true risk is so the value proposition is better met.

Young, health people and employers with young, healthy employees stay in the market creating better risk pools.

### **Cons**

Rates vary dramatically from employer to employer so there is little stability in rates for people changing jobs.

Employers have less stability in rates over time.

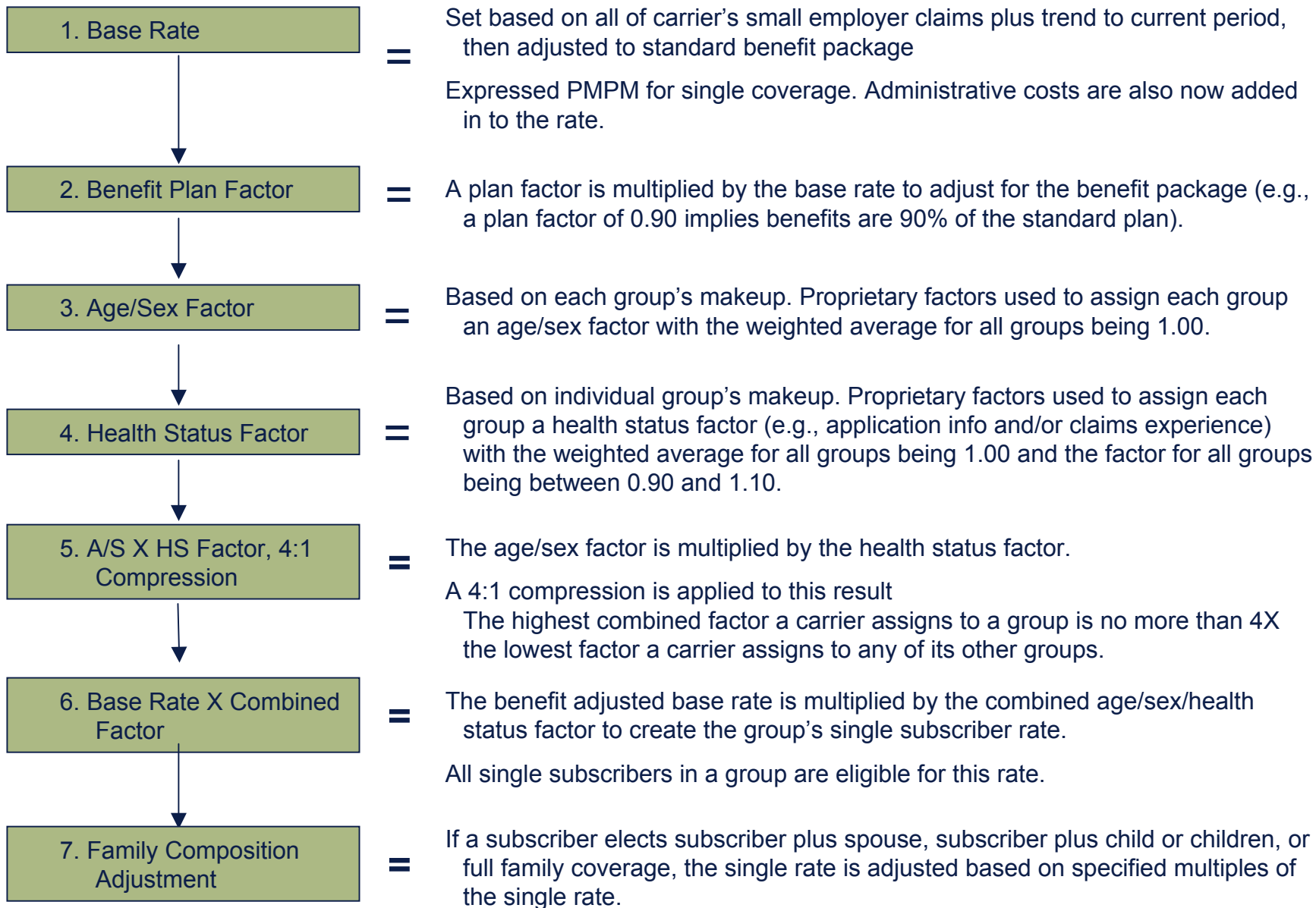
People most needing insurance find it difficult to afford (older, sicker people).

# Rating Rule Primer: Rhode Island Specifics

	Small Group Market	Individual Market
<b>Compression</b>	4:1	Pool 1: Community rated Pool 2: ~ 3:1 (not by law)
<b>Basis Type</b>	Individual, Husband/Wife, Parent/Child(ren), Family	Individual, Family
<b>Age</b>	Yes	In pool 2 only
<b>Other Rate Factors</b>	Gender, family status, health status (+/- 10%)	Gender (pool 2 only), Pool 1 vs. Pool 2 (underwriting)
<b>Benefits</b>	2 major carriers, ~100 products	1 carrier 4 products
<b>Distribution</b>	Mostly Broker, although BC also sells direct	Direct Sale Only
<b>Regulatory Oversight</b>	Periodic Market Conduct Exam	Regulated

***Merger: establishing one set of rules, along the above dimensions, that apply to both markets on an aggregate basis***

# Rating Rule Primer: RI Small Group Process



# What should we look at in RI (after completing task #1)?

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- **Eliminating or changing health status as a rating factor?**
- **Changing compression from 4:1 to something else?**
- **Adding group size as a rating factor?**
- **Adding other factors**
  - “Wellness” (e.g. tobacco)
  - Broker use

# Today's Agenda: Finish Task #1, Begin Task #2

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- **Reminder: Conclusions from last time**
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- **Conclusions and Next Steps**

# Merger Scenarios

Baseline Characteristics	Merged Market	Separate Direct Pay
Premium	xxxx	xxxx
Take-up		
Trend rate		

## Policy Levers: How do these policies affect the merger results?

Rating Rule Changes

Individual Mandate

Section 125

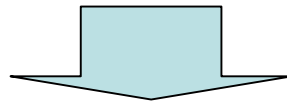
Wellness, DM programs

# Merger Scenarios

## Average Merger Impact on Direct Pay Premiums

Impact shown: Average Change in Premium (pool1/pool2)

Health Status Factor	Compression Ratio		
	2:1	4:1	6:1
Yes	+ 2% (-6/+16)	+ 11% (+10/+13)	+ 13% (+14/+11)
No	+ 3% (-7/+21)	+ 11% (+6/+21)	+ 13% (+10/+20)



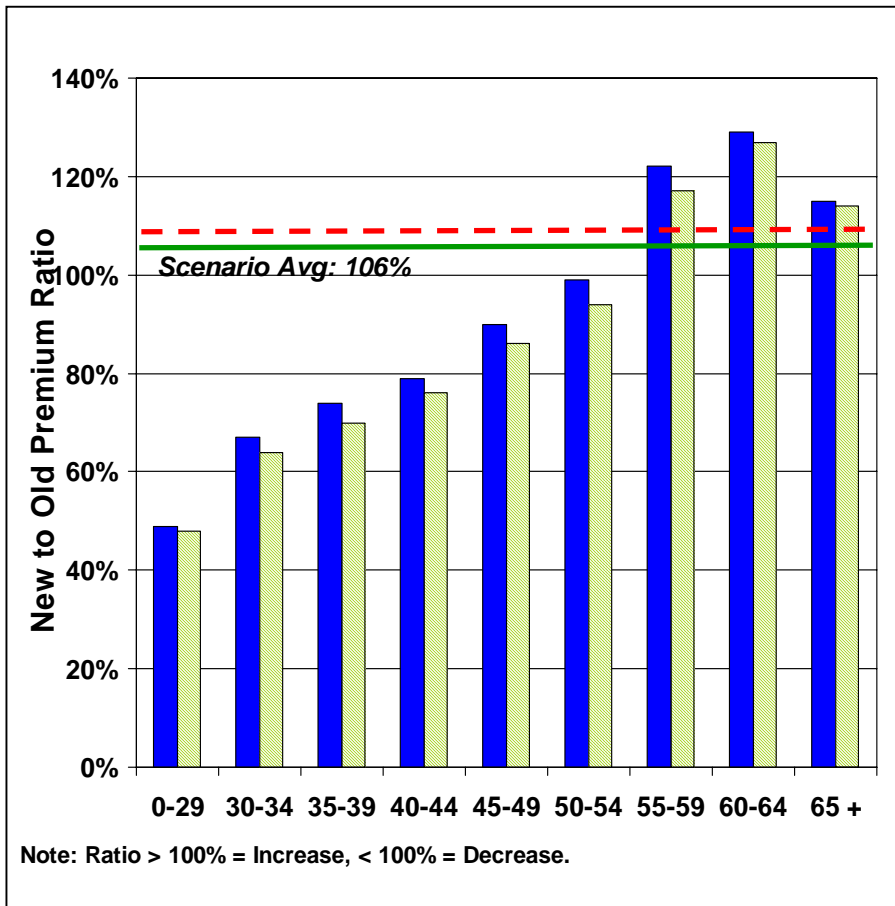
### Key Implications:

- ✓ Direct Payers get the lowest premiums under 2:1 compression, due to older population than SmG. They get the highest rates under 6:1, but it would not be all that different from 4:1.
- ✓ If Health Status is removed, the aggregate effect is small.  
Most beneficial to Pool 1 subscribers, who have worse than average Health Status.  
Least favorable to Pool 2 subscribers, who lose the advantage associated with having passed medical underwriting.

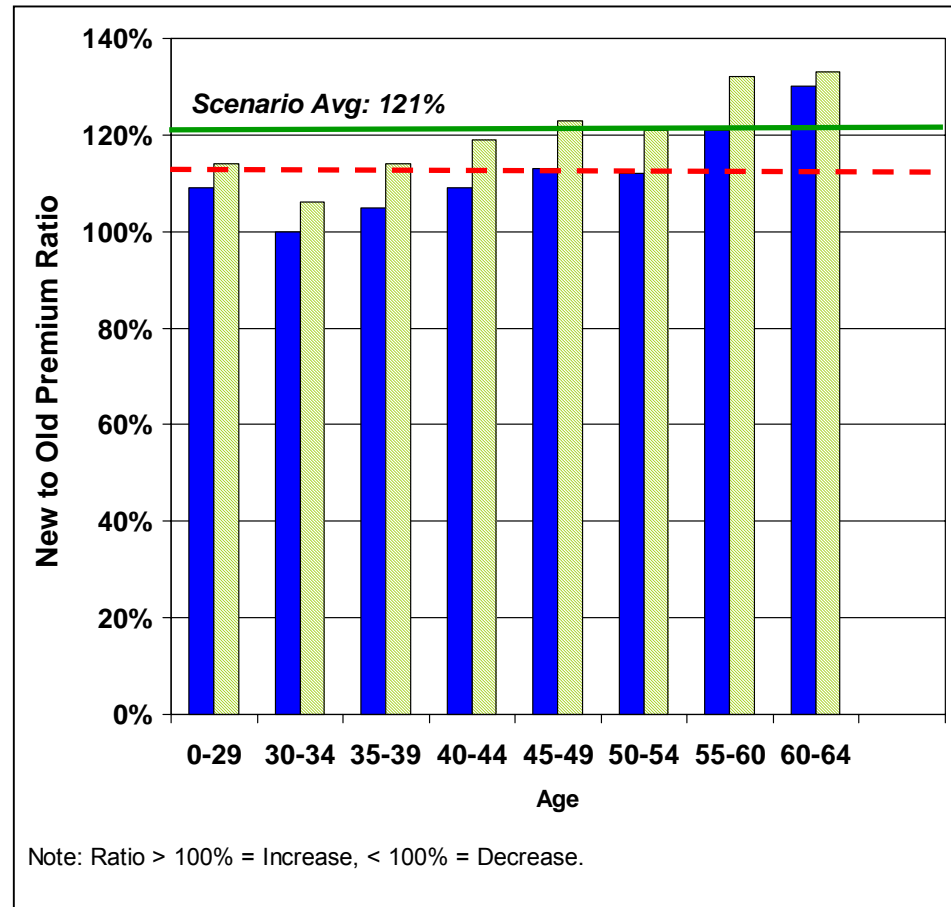
# Scenarios: Direct Pay Winners and Losers

## Baseline vs. 4:1 no health status

### Average Pool 1 Premium Variation by Age



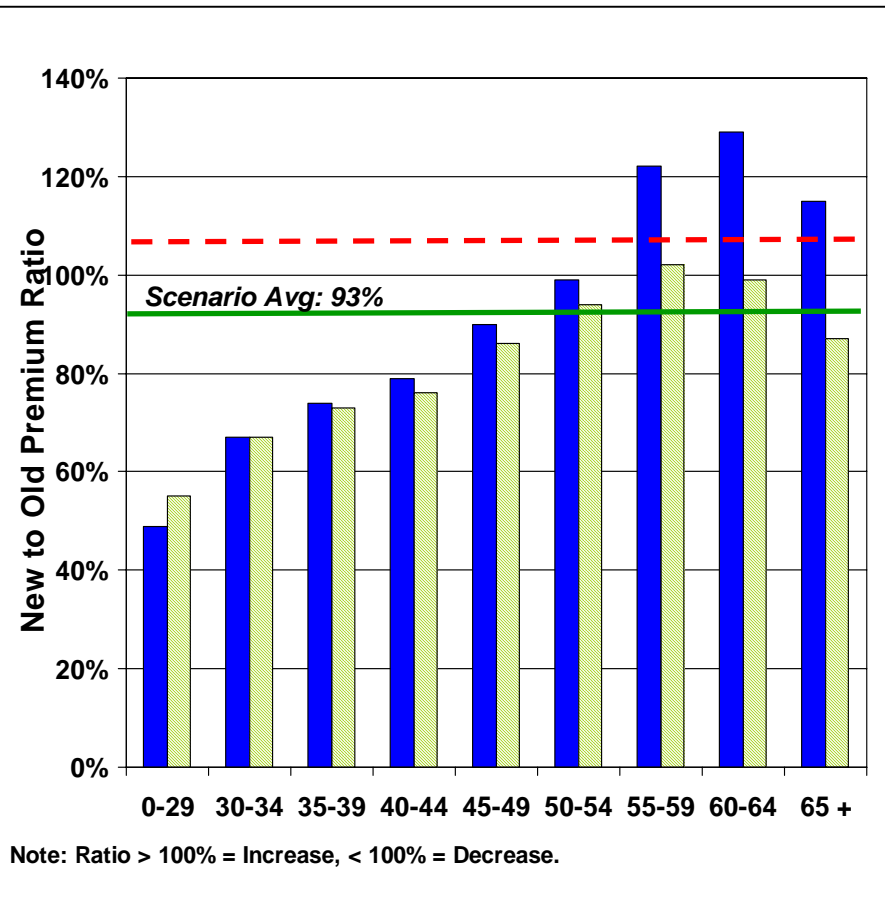
### Average Pool 2 Premium Variation by Age



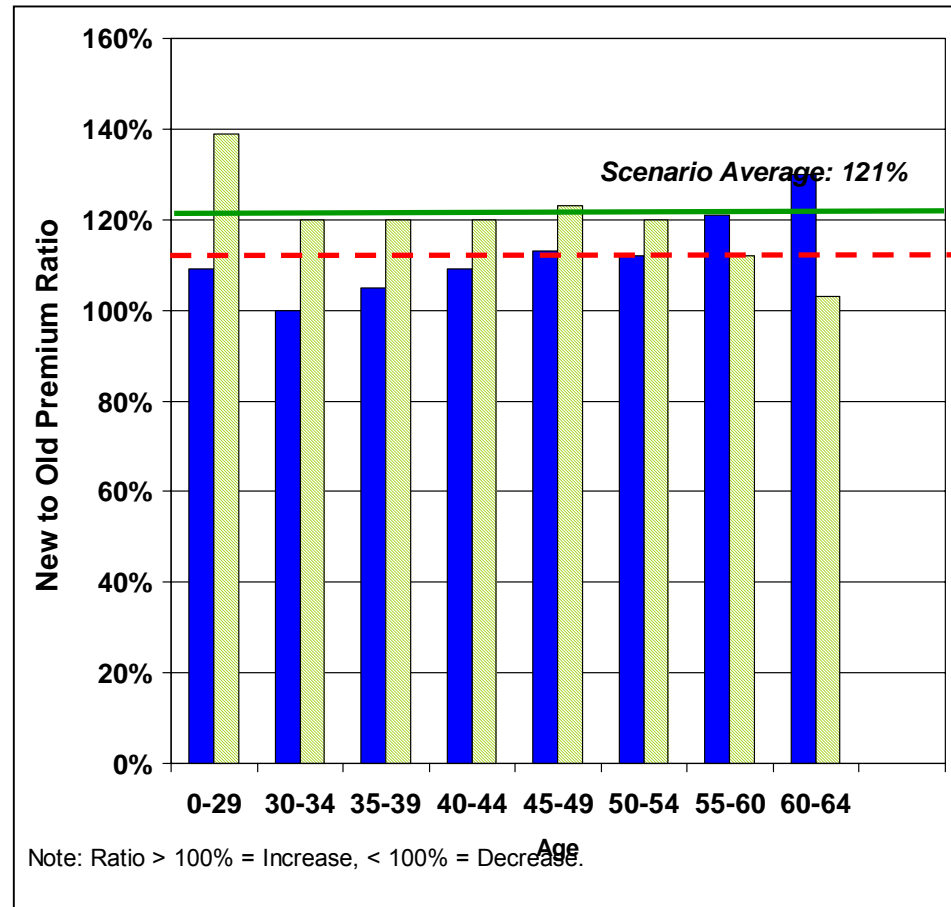
# Scenarios: Direct Pay Winners and Losers

## Baseline vs. 2:1 with no health status

### Average Pool 1 Premium Variation by Age



### Average Pool 2 Premium Variation by Age

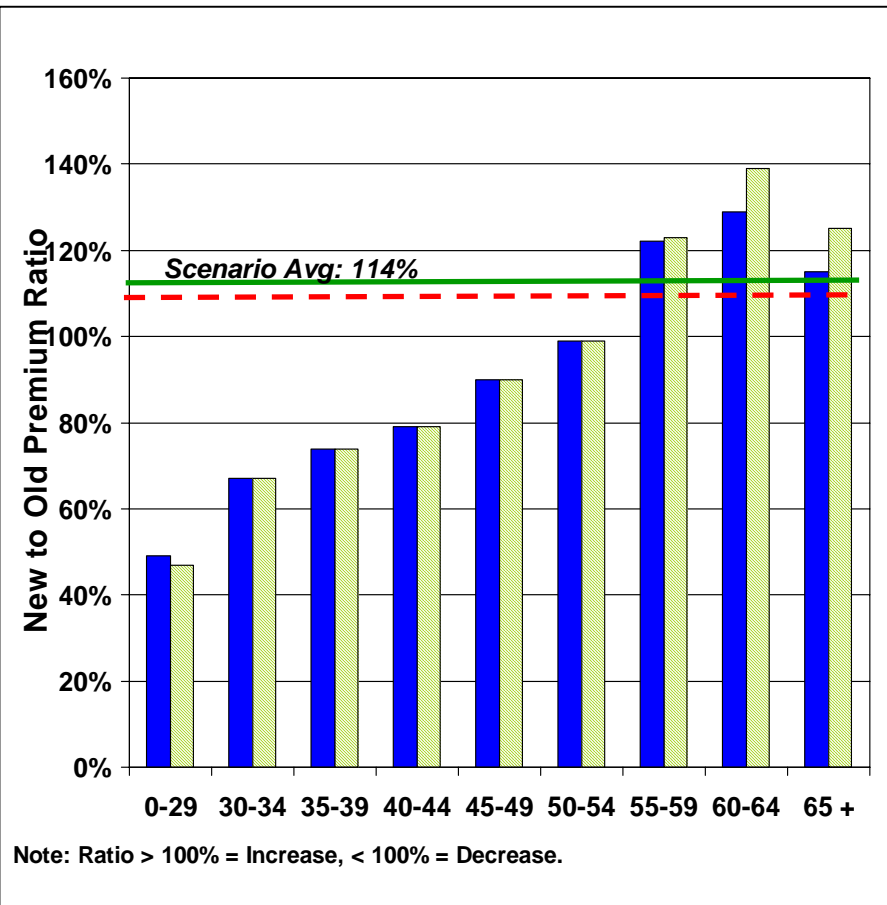


# Scenarios: Direct Pay Winners and Losers

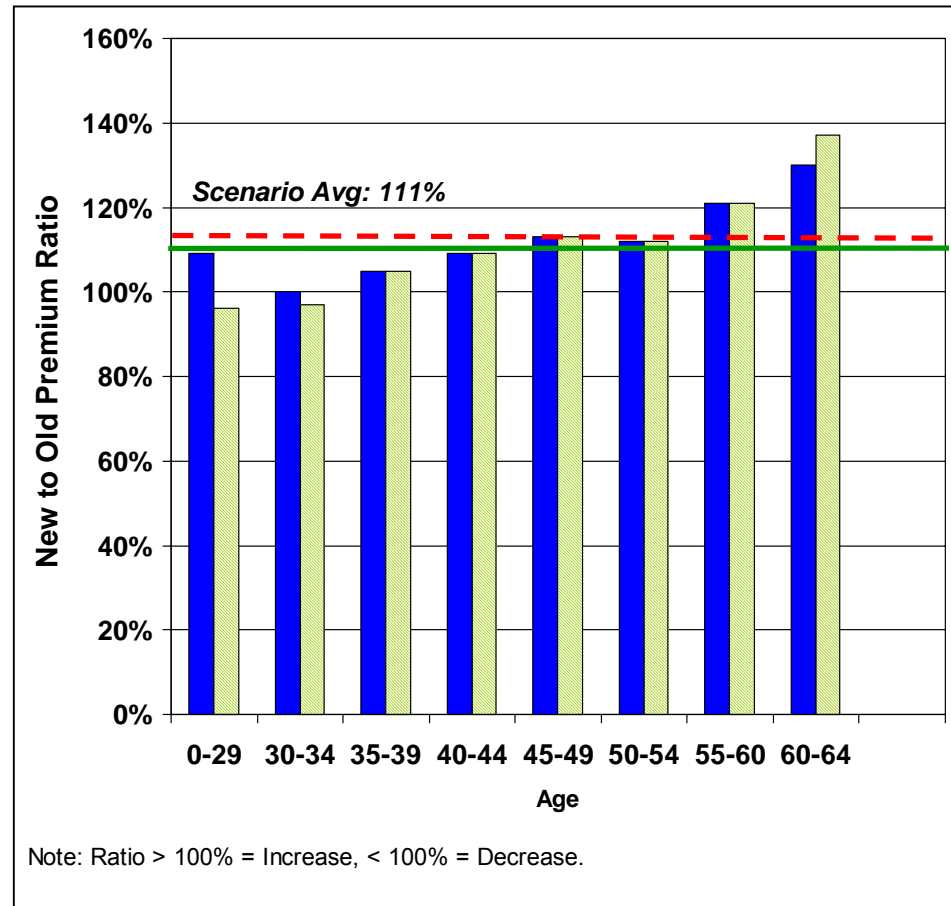
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## Baseline vs. 6:1 with health status

### Average Pool 1 Premium Variation by Age



### Average Pool 2 Premium Variation by Age



# 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**
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(~107,000 uninsured in RI, 65% of them are working)



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

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# Merger Options: Key Considerations

		Likely Impact on Project Goals (Further analysis req'd)		
Merger Options	Possible "End Game"	Current Premiums	Uninsured	Trend
<b>Merge Direct Pay + Small Group</b>	<b>Employer-based/ Regulated Competition</b> <ul style="list-style-type: none"> <li>Broad product portfolio</li> <li>Rate factor regulation</li> <li>Bigger pool, common rules</li> </ul>	<b>Increase</b> due to higher SmG admin, contribution margin	<b>Small Increase</b> <ul style="list-style-type: none"> <li>Likely decline in pool 2 enrollment</li> <li><i>Could be offset by individual mandate</i></li> </ul>	<b>Little/no impact</b> <ul style="list-style-type: none"> <li>unless strong "market maker" role</li> </ul>
<b>Remain Separate</b> <i>(Status Quo)</i>	<b>Employer Based/Status Quo</b> Two separate pools Tweak rating factors	<b>No impact</b> <ul style="list-style-type: none"> <li>Could shift winners and losers based on rating rules</li> </ul>	<b>No impact</b>	<b>No impact</b>
<b>Expand DP</b> <i>(Initially: Individual Mandate + Groups of One)</i>	<b>Individual-based system</b> <ul style="list-style-type: none"> <li>Individual Direct Purchase (think autos)</li> <li>Defined contribution from Employer</li> <li>Regulated Model</li> <li>Single/Multiple carrier</li> <li>Narrow product portfolio</li> </ul>	<b>Could reduce</b> <ul style="list-style-type: none"> <li>Regulation: rate approval, simpler admin</li> <li>Less choice</li> <li>More healthy people in pool</li> </ul>	<b>Marginal/Could Reduce</b> <ul style="list-style-type: none"> <li>if Mandate has teeth.</li> </ul>	<b>Depends:</b> <ul style="list-style-type: none"> <li>Regulatory Oversight role – benefits and payment.</li> <li>Individuals purchase smaller benefits</li> </ul>



# Next Steps

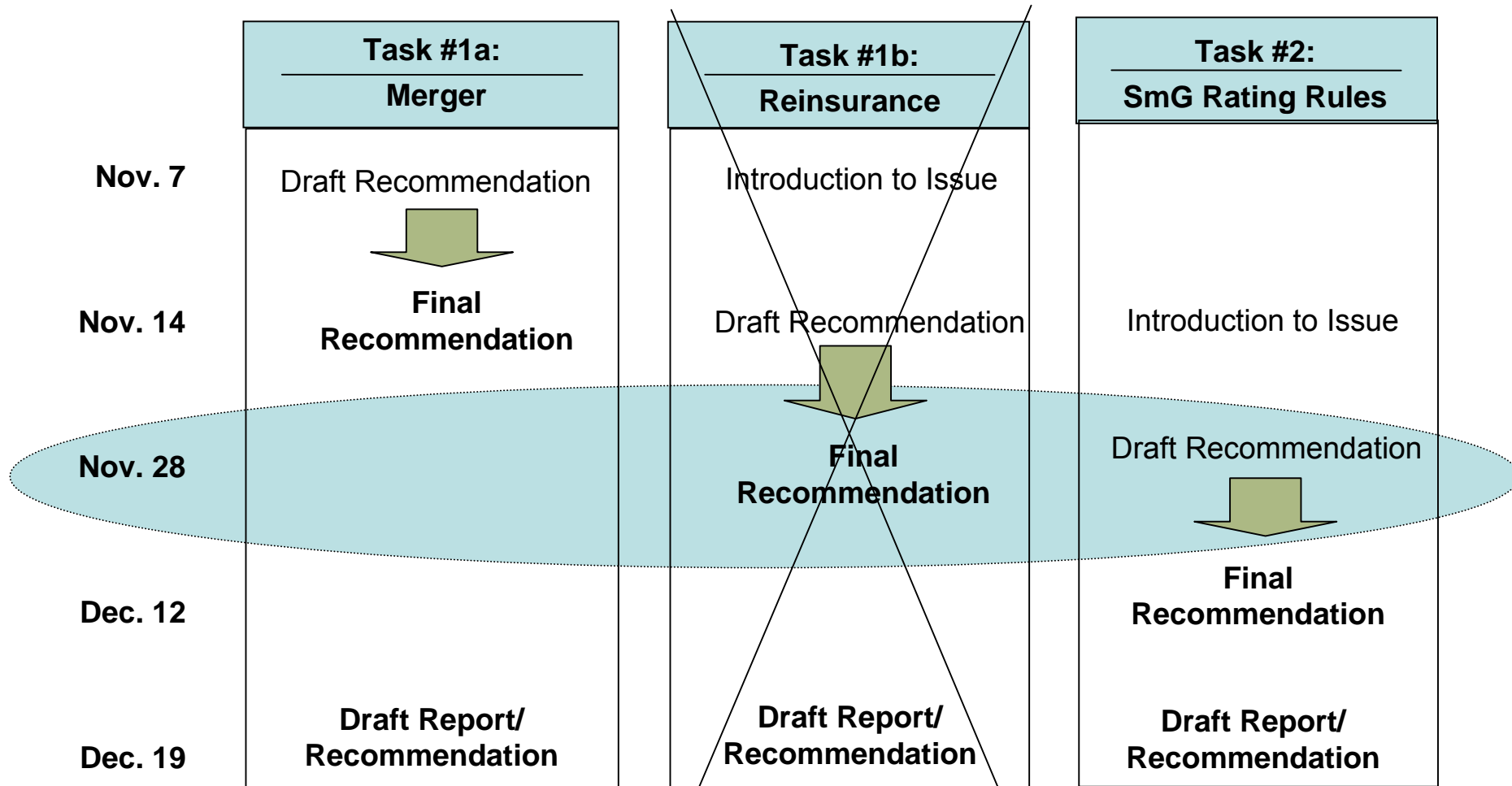
## Task #1: Merger Refinements

- Analyze impact of merging 51-99s into Small Group?
- Building on Direct Pay: Individual Mandate, Groups of One
- Direct Pay: Competition and Reinsurance?

## Task #2: Rating Rules Analysis

- Eliminating or changing health status as a rating factor?
- Changing compression from 4:1 to something else?
- Group size?
- Adding other factors: “Wellness” (e.g. tobacco), Broker use

# Next Steps: Where We Are Headed



# Next Steps: Groups of One vs. Direct Pay

## Membership

	Direct Pay	Gr of 1*	Total	%DP
Contracts	9,368	6,376	15,744	60%
Members	13,805	13,930	27,735	50%

*Membership is about evenly distributed*

## Family Composition

	Single	Husband -Wife	Parent -Child	Family
Direct Pay	78%	8%	1%	13%
Groups of 1*	48%	13%	11%	28%

*Significant variation -- DP mostly individuals, Groups of One mostly families*

## Age

	% >55	% <35
Direct Pay	39%	25%
Groups of 1*	17%	10%

*Significant variation – DP has both ends of age spectrum – consistent with family status*

## Plan Designs: Benefit Richness

	Direct Pay	Groups of 1*
Average Benefit Factor	68%	90%

*Significant variation – SmG plan designs are much richer*

## Health Status, Adj Claims Experience

	Direct Pay	Groups of 1*
Adjusted Claims	\$309	\$321
Average Health Band	0.99	0.98

*Similar health status and adjusted claims experience*

\*Membership includes 909 United contracts and 1781 United members. However, experience data is based entirely on BCBSRI experience.