

Market Merger Task Force Meeting

November 28, 2007

Meeting Minutes

In attendance:

Task Force Members: Chris Koller, Health Insurance Commissioner; Phil Papoojian (co-chair), Don Nokes, Ted Almon, Sid Goldman, Bill Delmage, Jay Raiola, Jim Borah, Josh Miller, Ed Pacheco, James Joy, Rob Calise, Bill O'Connor, Jerry Meyer, Lauren Conway

OHIC staff: Deb Faulkner, consultant to OHIC; Matt Stark, OHIC policy director; Amy Lischko, Merger study project consultant; Patrick Tigue, intern to OHIC

Others: Danielle Kraus, John Lynch, Terrance Martiesian, Eli Zupnick

Introduction

- Phil Papoojian welcomed the group to the 5th meeting of the Market Merger Task Force, reviewed the meeting agenda, and the goals for the meeting.

Reminder: Conclusions from Last Time

Amy Lischko walked through a presentation of slides reminding the committee of the conclusions from last time

- Direct Pay appears to be relatively stable
- A merger does not appear to be beneficial under any scenario tested
- Ms. Lischko provided a variety of reasons for this conclusion
- Ms. Lischko then asked the group to confirm the recommendation NOT to pursue a merger. There was general agreement in the committee on this point.

Overview of Policy Options

Based on the meeting conversation from last time, Ms. Lischko outlined three areas of focus for the committee going forward. She emphasized that these were not mutually exclusive:

- Stabilize small group: This anticipates that small employers will “stay in the game” for at least the next five years. This includes a review of current small group rating rules, as well as some other steps that could be considered: product simplification, distribution process, regulatory oversight. She emphasized that rating rules would be addressed today, but the other issues would be discussed at future meetings
- Encourage growth in direct pay: This path anticipates that more and more individuals will be purchasing insurance directly. This includes two primary paths discussed at the prior meeting. First, groups of one, and whether or not to transition them to direct pay, and if so how to make that work. Secondly, transitioning small group (or some subset) to direct pay.
- Encourage insurance take-up: An individual mandate. This anticipates that insurance take-up and purchase will decline unless people are required to buy.

The committee confirmed that these appear to be the right policy options to consider, in follow up to prior meeting discussions. There was some discussion regarding transitioning small group to a more regulated, direct pay-like model, and whether that idea was captured here. Ms. Lischko explained that this concept was consistent with the idea of transitioning small group to direct pay – and would be covered in that discussion.

1. Stabilizing Small Group

Amy Lischko walked through an analysis of the impact of four possible changes to the small group rating rules:

- Tightening compression to 3:1 or 2:1: The key impact of tightening compression was reduced volatility – which many committee members pointed out was critical to employers – however, it was also pointed out that this change could result in more young healthy groups exiting the pool. There was additional discussion of an individual mandate, as a mechanism to keep young healthies in the pool, if the group recommended to move toward a tighter compression.
- Loosening compression to 6:1: One committee member pointed out the value of a looser compression in attracting young, healthy enrollees, and the challenge of forcing young healthies to subsidize the older, sicker groups, who, theoretically could afford to pay.
- Eliminating health status factor: There was significant discussion of the health status factor – and the subjective nature of this variable vs. alternatives such as group size factors. The point was made that the health status factor was a significant driver of volatility – much more significant than compression.
- Adding a group size factor: Analysis was presented on the impact of a 5% factor for groups of one, based on the evidence that the MLR for this population was 98%, significantly higher than the small group average of 87%

Amy explained that all of these changes would have no affect on average premiums nor trend – they simply trade-off winners and losers. One committee member pointed out that volatility is, in his opinion, the most important issue for small employers – they need to know how much health insurance is going to cost so that they can plan for it.

A framework of options were presented – with a few committee members actively recommending moving toward a tighter compression with no health status factor, and most committee members silent, with the understanding that there were additional factors to be presented later, after which members would be asked again for their recommendations.

Encourage Growth in Direct Pay

a) groups of one

There was some discussion of whether or not to redefine small group as 2-50, thereby requiring groups of one to transition to direct pay (however existing groups of one would be grandfathered into small group and not required to move, in accordance with HIPAA).

Some committee members expressed concern that this limited choice, and that they should be allowed to choose. However, it was pointed out that the ability to choose fragmented the pool, with younger, healthier individuals who could pass medical underwriting going to direct pay and older, sicker groups going to small group. It was also pointed out that small group law was not set up to protect against the adverse selection inherent in individual purchasing.

b) transitioning small group to direct pay

There was significant interest by a few committee members in the idea of allowing small employers to either purchase in direct pay OR in small group. However, Ms. Lischko pointed out that this would result in a fragmented risk pool, where the younger healthier groups choose direct pay and the older, sicker groups choose small group, ultimately destabilizing small group.

The next idea discussed was a mandatory transition, whereby small employers no longer purchased on behalf of their employees, but simply provided employees access to pretax income to use to purchase health insurance on their own. A few committee members expressed significant interest in this type of model. Ms. Lischko pointed out that this was an approach that required careful analysis – there were a number of issues, highlighted in the presentation, that would need to be worked out for this option to be viable.

Individual Mandate

Ms. Lischko then presented data on the impact of an individual mandate on the number of insureds, and on the direct pay and small group marketplaces. Mr. Koller pointed out that this was an initiative that likely made sense under any scenario of rating rules and market structure. Many committee members commented on the importance of such a requirement in bringing in, and retaining insureds. Others pointed out that there were a variety of other legislatively directed steps that could be taken toward this goal of keeping insureds “in the pool” – increasing the dependant age limits, student health insurance mandates, etc.

Conclusions and Next Steps

Ms. Lischko presented three key options, as packages of reforms along the three areas discussed above, that the group could consider. There was significant group discussion regarding directionally, which option to consider. At the extreme of one end of the spectrum: a community rated model, coupled with an individual mandate, and building on the individually based, regulated direct pay structure. At the other end of the spectrum, a less regulated model, with broader compression, retaining the employer based structure. The pros and cons were articulated by many, and concern that the status quo wasn't working was also highlighted. The group did not come to a recommendation at this meeting. Commissioner Koller pointed out that it would be difficult for this group to come to consensus on the direction, structure of the small group market. However, options would be carefully outlined, with analytic support and pros/cons identified.

Next meeting: The next meeting of the task force will take place on December 12th, from 7:30-9:30 in DOA conference room B.