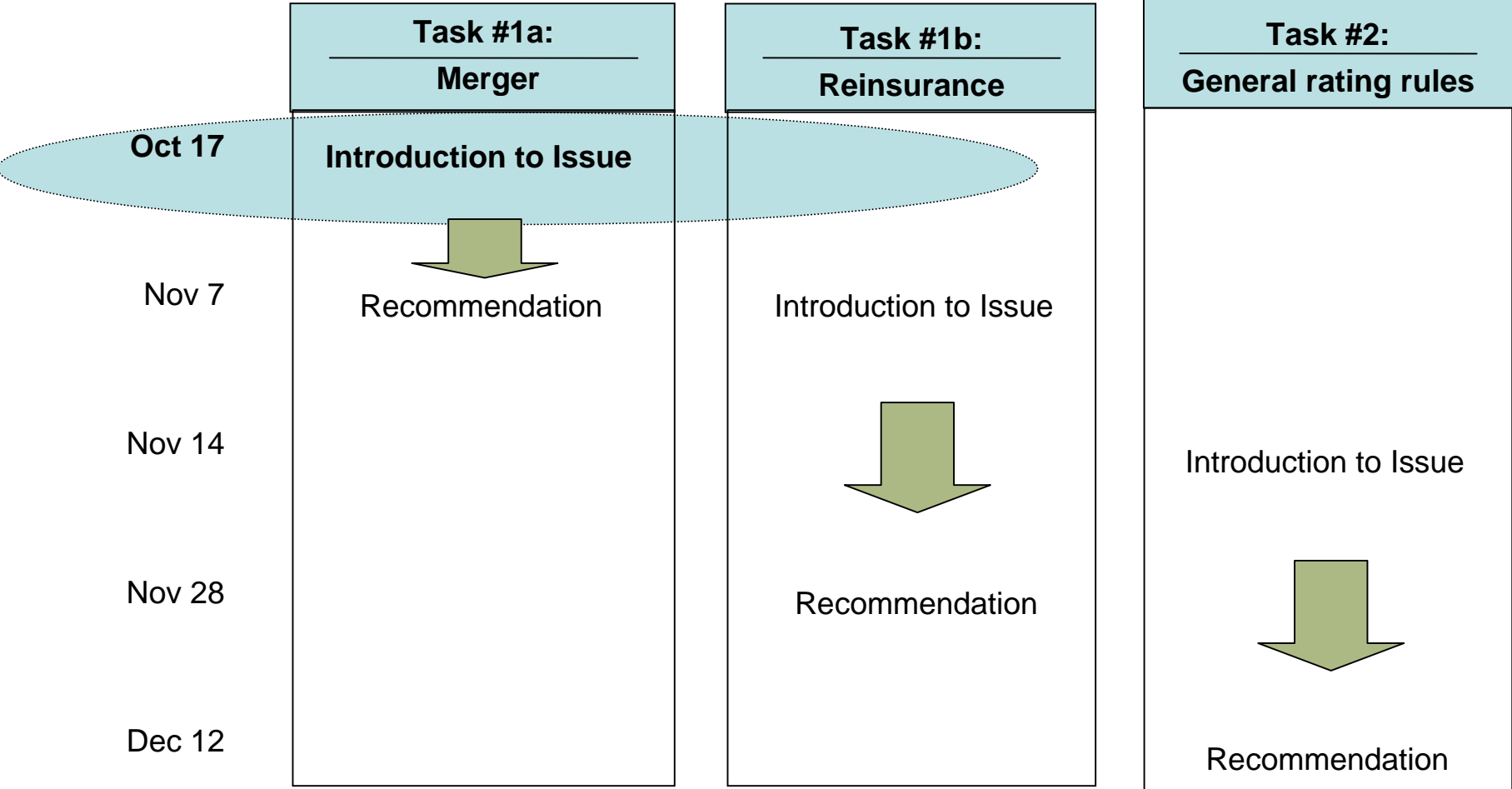


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# Insurance Market Merger Taskforce Meeting 2

October 17, 2007

# Reminder: Where we are



# Today's Topics

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- Massachusetts Merger
- RI Challenges
- Policy Options & Discussion

# Why did Massachusetts merge markets?

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- Stabilize the direct pay market
- “Level the playing field” : rates much more expensive in direct pay market than small group for similar risk-profile
- Allow for more portability and choice for individuals
- Connector products sold to individuals and small employers
- Commissioned a study to assess impact

# Massachusetts markets by the numbers

Summary of 2005 Data							
	Groups / Purchasers	Subscribers	Members	Average Family Size	Average Premium PMPM	Average Claims PMPM	Average MLR
Non-Group	42,500	42,500	66,000	1.55	\$413	\$375	91%
Small Group	112,000	350,000	700,000	2.00	\$304	\$262	86%
Combined	154,500	392,500	766,000	1.95	\$313	\$272	87%

Note: Summary based on data received from the carriers. It has not been normalized to reflect the size of the entire market.

Source: Gorman Actuarial, LLC



# MA small group market by group size

Group Size	Number		Claim PMPM	Premium PMPM	MLR	Age Factor	Industry Factor	Plan Value	
	of Groups	Subscribers							Members
1	52,000	52,000	112,000	\$296	\$305	97%	1.20	1.01	0.870
2 - 5	28,000	82,000	152,000	\$273	\$323	85%	1.03	1.01	0.890
6 - 10	8,000	60,000	117,000	\$250	\$309	81%	0.94	1.00	0.890
11 - 25	6,000	96,000	194,000	\$251	\$298	84%	0.94	1.00	0.900
26+	2,000	59,000	119,000	\$250	\$287	87%	0.93	1.00	0.900

# MA market overview

## Small Group Overview

- Groups from One to Fifty
  - Membership relatively stable 2003-2005
  - Medical loss ratio (MLR) has been increasing
  - Claims trend of 10% to 12% over study period
- Groups of One:
  - 45% of groups, 15% of subscribers
  - Older than average, with higher family size and medical costs
  - Plan value 2.5% lower than other groups
- Groups of 2-5 Have Higher Than Average Medical Costs
- All Other Groups Have 5% Lower Costs Than Average

## Non-group Overview

- Approximately 42,500 Subscribers, or 11% of Combined Market in 2005
- Non-group Membership Decreased by 10% 2003-2005
- Benefit Plans - Lesser Value than Small Group
- Average PMPM Claims 40% Higher than for Small Group
  - Older Population
  - Fewer Dependents, Fewer Children
  - Higher Average Morbidity
- MLR Increased from 83% in 2003 to 91% in 2005

# Rating rules in MA markets

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

	Small Group Market	Individual Market
<b>Compression</b>	2:1	2:1
<b>Basis Type</b>	Individual, Family	Individual, Family
<b>Age?</b>	Yes	Yes
<b>Other Rate Factors?</b>	Geography, Employer Size, Industry	Geography
<b>Benefits</b>	Variety of Products	2 Products: Standard, Advantage
<b>Distribution</b>	Direct, Broker, Intermediary	Direct Sale Only
<b>Regulatory Oversight</b>	File and Use	DOI Approval Required

# New rules for merged market

- **Small Group and Non-group risk pools to merge**
  - Individuals considered groups of one
  - Merged pool rating based on current Small Group
  - Group size adjustment for smallest groups increased from 1.05 to 1.10
  - Group size adjustment moved OUTSIDE the 2:1 band
  
- **Connector empowered to arrange for sale of products to individuals and small groups**
  - Commonwealth Care available for those at 300% FPL or below
  - “Seal of Approval” products to small groups or individuals above 300% FPL
  
- **Young Adult plan available for purchase to those 19 to 26**

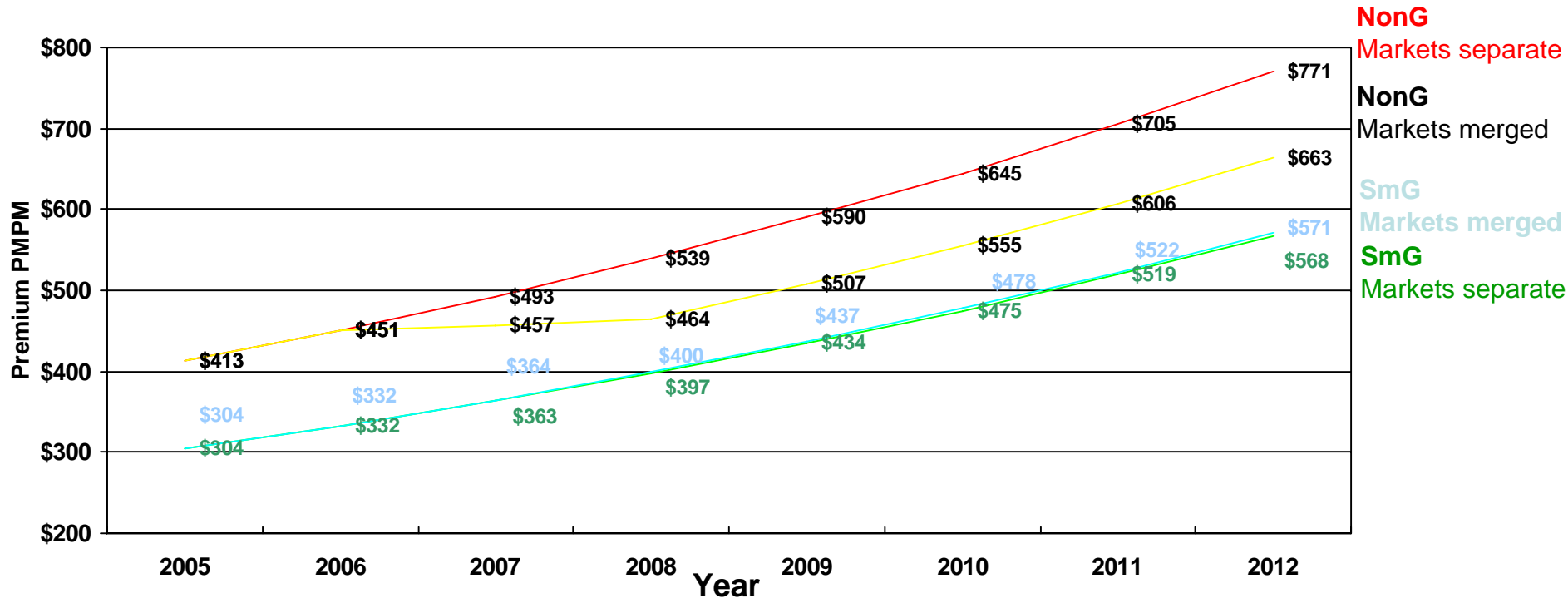
# Summary of merger study

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- **Merger will lead to a decrease in Non-group rates of approximately 15% and an increase in Small Group rates of approximately 1 to 1.5%**
- **Average book of business rate impact will vary substantially by carrier**
  - Non-group: -2% to -50%
  - Small Group: +1 to +4%
- **Adding currently uninsured will lead to rate impacts of from approximately -3% to +6%, depending on:**
  - Current number of uninsured
  - Number of uninsured purchasing coverage
  - Morbidity of the newly insured
  - Presence or absence of 10% group size load on groups of one

Source: Gorman Actuarial, LLC

# Premium projections over time



## Key Assumptions:

- **Medical Trend:** 11% annual
- **Benefit Buydown:** 1.5% annually + one-time adjustment for these groups that receive high premium increase due to merger
  - 1.5% buydown if increase between 2.5% and 5%
  - 3% buydown if increase greater than 5%

# Reinsurance

- Reinsurance model goal: To determine amount necessary to eliminate projected increase in small group rates, under different reinsurance models
- Consultants noted that to decrease premium, reinsurance must be funded from outside the health insurance system (and no source of funds had been identified)
- Reinsurance Structure:
  - Specific reinsurance (vs. aggregate)
  - Claims in excess of \$xx
- Key Findings
  - To fund 50-80% of claims in excess of \$150,000 would cost \$30 to \$45 million
  - To fund 80% of all claims in excess of \$75,000 would cost \$100 to \$125 million
  - To fund 50% of all claims in excess of \$50,000 would cost a similar amount
- Based on 2005 costs and membership



# Today's Topics

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- Policy Options & Discussion

# Key Challenge: direct pay market unsustainable?

**Precarious balance in recent years**

**Anticipate further disruption**

Pool 1 costs rising at a substantially higher rate

Cross subsidies not 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**

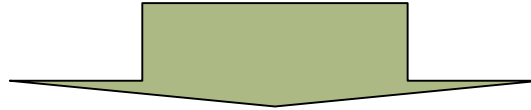


**Key Challenge:**

**How best to stabilize the market for individual insurance?**

# Key Challenge: Affordability

- **Fact: Rhode Island small group health insurance rates have been increasing 7-16 percent annually**
- **Fact: ~5% of members typically account for ~50% of annual costs**



**Goal: Identify strategies that go beyond basic cost shifting to address the underlying cost of care, in accordance with the following principles:**

- Focus on primary care, prevention and wellness
- Actively manage the chronically ill population
- Use the least cost, most appropriate setting
- Use evidence based, quality care

# Rating rules in RI markets

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

	Small Group Market	Individual Market
<b>Compression</b>	4:1	
<b>Basis Type</b>	Four Tier (I, I+S, I+C, I+S+C)	Four Tier
<b>Health status?</b>	Yes (+/- 10%)	Yes: Pool 1 vs. Pool 2 depending upon Health Status
<b>Age?</b>	Yes	In pool 2
<b>Other Rate Factors?</b>	Gender	In pool 2: Gender
<b>Benefits</b>	2 carriers Over 50 products per carrier 75% of members in top 5	1 carrier Four products
<b>Distribution</b>	Mostly Broker	Direct Sale Only
<b>Regulatory Oversight</b>	File and Use	Regulated

# Today's Topics

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# Three possible options in Rhode Island

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- Maintain separate markets, enhance direct pay market with competition, and a mechanism for spreading risk equitably
- Merge markets, adjust rating rules, and add a mechanism for spreading risk equitably
- Merge Markets with new rating rules, and add groups of 51-100. and add a mechanism for spreading risk equitably

# Discussion

At Nov 7<sup>th</sup> meeting, we will see preliminary data on: Merger, Adding 51-100

What do we need to see/know to make a decision?

## Premium Trends

Decreases in direct pay premiums (enough?)  
Increases in small group premiums (too much?)

## Winners and losers

Range of impact by employer size

## Distribution of Risk Across Carriers

BCBSRI vs. UHC risk profile

## Underlying Cost of Care

How does the underlying cost trend vary for different populations

What additional mechanisms should we consider?

## Reinsurance

To spread the direct pay risk more equitably across market

## Rating Rule Changes

To minimize rate disruption to small group employers

## Care Management Programs

To “flatten the trend” for pool 1/high risk individuals

## Other?

# Reactions to MA example?

## Premium Impact

Direct Pay: Decrease 15%

Small Group: Increase 1 to 1.5%

Average book of business rate impact to vary substantially by carrier

- Non-group: -2% to -50%
- Small Group: +1 to +4%

## Reinsurance

Recommended at least \$30 Million in outside funds to offset SmG rate impact

Structured as a specific reinsurance model, covering claims in excess of \$xx

## Rating Rules

Group size adjustment for smallest groups increased from 1.05 to 1.10

Group size adjustment moved OUTSIDE the 2:1 band

*The MA merger addressed premium trends and winners/losers but DID NOT address risk distribution by carrier or underlying cost of care*

# Next Steps

