



HB454: SMALL EMPLOYER GROUP REINSURANCE POOL

A proven tool to manage risk & stabilize the private market

A Utah Health Policy Project Fact Sheet

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SUMMARY

HB 454 Small Employer Group Reinsurance Pool (Rep. Biskupski) develops a proven tool to manage risk and stabilize premiums in the private market: reinsurance. Essentially, reinsurance is insurance for insurance companies, where insurers purchase an extra layer of insurance to cover their high cost claimants. Following best practices, the pool created in HB454 will include both the small group and the new defined contribution market (the portal). A Board consisting of insurers is charged with:

- developing the plan of operation;
- hiring an administrator for the pool;
- establishing rules for pool membership, ceding risk, and collection of premiums and assessments.

In contrast to HB188, Health System Reform-Insurance Market, and its risk adjustment mechanism, **risk in the HB454 reinsurance pool is adjusted retrospectively** through the submission of claims. Insurers make the initial determination of which covered lives they will cede to the pool. Reimbursement for claims paid can *only* be made on the lives the insurer chooses to cede to the reinsurance pool. The insurer is responsible for the first \$5,000, the *attachment point*, of claims annually and 20% of the claims above \$5,000 to \$55,000, the *risk corridor*.

BACKGROUND

The Health System Reform Task Force has three bills that do not, as Speaker Clark is the first to admit, represent comprehensive reform. If our objective is to stabilize the private market so that it can function as the main platform for reforms, the risk adjuster proposed in the main bill, HB188, will likely disappoint our expectations. The good news is, in our approach to managing the highest risks and costs, Utah does not need to reinvent the wheel (see sidebar). **As Utah moves to a consumer-driven health care system, where individuals choose their health plan, a strong risk adjuster must be in place to support a competitive market.ⁱ One tool proven to stabilize premiums increases is reinsurance.**

Over the past several years Utah has experienced a significant decline in the number of employers offering health benefits. The period from 2001 to 2005 saw an 8.8% decrease in the number of Utah employers offering health insurance, with the bulk of the

PROMISING PRACTICES & PROPOSALSⁱⁱ

New Jersey is looking at utilizing reinsurance to manage risk in conjunction with combining its small and non-group markets. **Actuarial estimates show that 5,000 more people would be able to obtain insurance if the proposed program is implemented.**

Washington passed legislation last year to design a reinsurance program for its small and non-group markets.

In 1990 *Connecticut* created a nonprofit Small Employer Health Reinsurance Pool. The pool has been successful in at least two ways:

1. **stimulating private market competition by ensuring that small insurers can compete in the market, and**
2. **allowing small businesses to continue providing benefits by making premiums affordable.**

All health plans in *Connecticut* must participate in the program, but the plan decides whether it or the pool will take on the risk for the person or the group. Premiums are then paid by the insurer on individuals or groups that will be reinsured.

Created in 2001, *Healthy New York* is a program for small businesses, sole proprietors, and low-wage individuals who were previously uninsured. By setting an appropriate *attachment point* (the point in claims costs where the reinsurance kicks in), insurers were able to **lower their premiums by 17%.**

Healthy New York is a government subsidized program that contracts primarily with HMOs. **Funds are collected through assessments on insurance premiums and other state funds.**

# of Employers Offering Insurance			
	2001	2005	% Change
US	3,582,469	3,552,243	-0.8%
Utah	25,321	23,093	-8.8%

reductions coming from small business. This is *11 times* higher than the national decrease of 0.8%.ⁱⁱⁱ

With the main focus of Utah’s reform efforts on the private market, **our top priority must be to slow the erosion of small business health care coverage.** The best way to do this is through a robust risk

adjustment mechanism –like reinsurance. Given that most of the mass exodus is linked to difficulties around affordability, reforms must lead out with proven methods for managing risk. One accident or sick employee in a given year can cause small businesses premiums to rise by as much as 25%.^{iv} In Utah, premiums for employer-sponsored health coverage increased by 21.5% from \$8,460 in 2001 to \$10,282 in 2005.^v This trend is unsustainable, especially in the current economic climate. **Stabilizing premium increases through a reinsurance mechanism allows small businesses to better plan for their health care costs.**

WHY REINSURANCE?

States with reinsurance pools use them to manage risk for health insurance companies, individuals with pre-existing health conditions, and groups with high-risk individuals. **According to the Heritage Foundation, reinsurance can facilitate comprehensive reforms by creating a smoother-functioning health insurance market.**^{vi}

HB454 will curb the significant spikes in premiums that force small businesses to drop or reduce coverage. Currently a small percent of the population utilize the majority of the health care dollars. The table to the right illustrates that only 3% of the population uses half of the health care dollars, and 13% use almost 80% of the dollars. This means that all it takes is one high cost claimant to price the small group right out of the market. Yet, if these high costs are spread over a larger group, then one high claim will not have a significant impact.

To most effectively spread risk and avoid adverse selection, a risk adjuster must be as large as possible.^{vii} **HB 454 includes the entire small group market both inside and outside the portal. Also and more critically, the proposed reinsurance mechanism employs a retroactive risk adjuster. This type of risk adjusting system is easier to design and administer over the long term than a prospective system because it is based on actual claims.**^{viii}

Claims	Members	%	Dollars	%
Over \$100,000	204	.11%	\$53,200,000	11%
Over \$50,000	445	.24%	\$48,400,000	10%
Over \$25,000	1,112	.6%	\$59,000,000	12.2%
Over 10,000	3,670	1.98%	\$84,600,000	17.5%
Over \$5,000	7,266	3.92%	\$79,800,000	16.5%
Over \$2,500	10,714	5.78%	\$58,500,000	12.1%
Less than \$2,500	161,948	87.37%	\$100,100,000	20.7%
TOTAL:	185,359	100%	\$483,600,000	100%

**Public Employee Health Plan, Twelve Month Claims Distribution June 2008.*

CONCLUSION

As Utah moves to a consumer centered health system where consumers or small groups are given a broad choice of health plans, it will be essential to create a strong risk adjuster that supports a more efficient insurance market. Reinsurance pools have been successfully implemented in many states to stabilize the private market by leveling the playing field so that insurers can focus on managing wellness. HB454 allows insurers to figure out the details of the reinsurance mechanism but provides a structure that ensures Utah businesses and individuals will also benefit over the long term.

Vote Yes on HB 454 to strengthen the foundation for a consumer-driven market.

ⁱ Haislmaier, Edmund F. *State Health Care Reform: A Brief Guide to Risk Adjustment in Consumer-Driven Health Insurance Markets*. Heritage Foundation, No. 2166, August 1, 2008.

ⁱⁱ Wikler, Beth and Fish-Parcham, Cheryl, *Reinsurance: A Primer*. Families USA, April 2008.

ⁱⁱⁱ State Health Access Data Assistance Center and Robert Wood Johnson Foundation, *Squeezed: How Costs for Insuring Families are Outpacing Income*, April 29, 2008.

^{iv} *How are Insurance Rates Regulated? A Guide to Underwriting Laws in Utah & Policy Recommendations*. Utah Health Policy Project Issue Brief, January 2009.

^v *Ibid.*

^{vi} Haislmaier, Edmund F., *State Health Care Reform: The Benefits and Limits of "Reinsurance"*. Heritage Foundation WebMemo No. 1568, July 26, 2007.

^{vii} Haislmaier. *State Health Care Reform*.

^{viii} *Ibid.*