



Pooling Arrangements

**Commission Meeting
October 8, 2009**

» **Small Group Priorities**

- Affordability
- Predictability

» **Pooling of Risks**

- Rate Fluctuations
- Lower Premiums

» **Affordability**

- High claims costs and rating limitations lead to high premiums for many groups

» **Predictability**

- Fluctuating rate increases make budgeting health care costs challenging

» **Advocates Say- Pool small groups together and allow them to function like a large employer**

- Capitalize on lower administrative and distribution costs to achieve better rates from carriers
- Less fluctuation in rate increases
- Lower premium rates

Capitalize on lower administrative and distribution costs to achieve better rates from carriers?

- » Lower administrative costs and distribution costs possible through streamlined benefit, enrollment, renewal processes and more group level self service

» Understanding Rate Fluctuations

- Changes in the makeup of the workforce (e.g., age of employee) can cause significant rate changes for small groups
- Reason: Older employees on average have higher costs than younger employees

Rate Fluctuations



Example 1: Employee turnover in a small group can cause significant rate fluctuation (Group 1)

<u>Employee</u>	<u>Age</u>	<u>Type of Contract</u>	<u>Premium</u>
A	21	Single	\$160
B	27	Single	\$200
C1	29	Single	\$200
D	35	Single	\$220
E	35	Single	\$220
			\$1,000
Average Premium Per Employee			\$200

<u>Employee</u>	<u>Age</u>	<u>Type of Contract</u>	<u>Premium</u>
A	21	Single	\$160
B	27	Single	\$200
C2	62	Single	\$580
D	35	Single	\$220
E	35	Single	\$220
			\$1,380
Average Premium Per Employee			\$276

increase to group premium **38%**

Leaves

Replacement

Rate Fluctuations



Example 2: Employee turnover in a small group can cause significant rate fluctuation (Group 1)

<i>Leaves</i>	<u>Employee</u>	<u>Age</u>	<u>Type of Contract</u>	<u>Premium</u>
	A	21	Single	\$160
	B	27	Single	\$200
	C1	62	Single	\$580
	D	35	Single	\$220
	E	35	Single	\$220
				\$1,380
	Average Premium Per Employee			\$276
<i>Replacement</i>	<u>Employee</u>	<u>Age</u>	<u>Type of Contract</u>	<u>Premium</u>
	A	21	Single	\$160
	B	27	Single	\$200
	C2	29	Single	\$200
	D	35	Single	\$220
	E	35	Single	\$220
				\$1,000
	Average Premium Per Employee			\$200
	Decrease to group premium			-28%

Large groups feel smaller impact of employee turnover

Example 1

**Before
Termination**

**After
Replacement**

<u>Group Size</u>	<u>Avg Premium per Employee</u>	<u>Avg Premium per Employee</u>	<u>Percent Change</u>
5	\$200	\$276	38%
25	\$200	\$215	8%
50	\$200	\$208	4%
500	\$200	\$201	0.4%

- » Illustrative demographic effect to premium of *one* employee termination/replacement for group sizes
- » Larger groups use the same beginning proportionate demographics and assume the same loss of a 29 year old employee and replacement of a 62 year old employee

Large groups feel smaller impact of employee turnover

Example 2

**Before
Termination**

**After
Replacement**

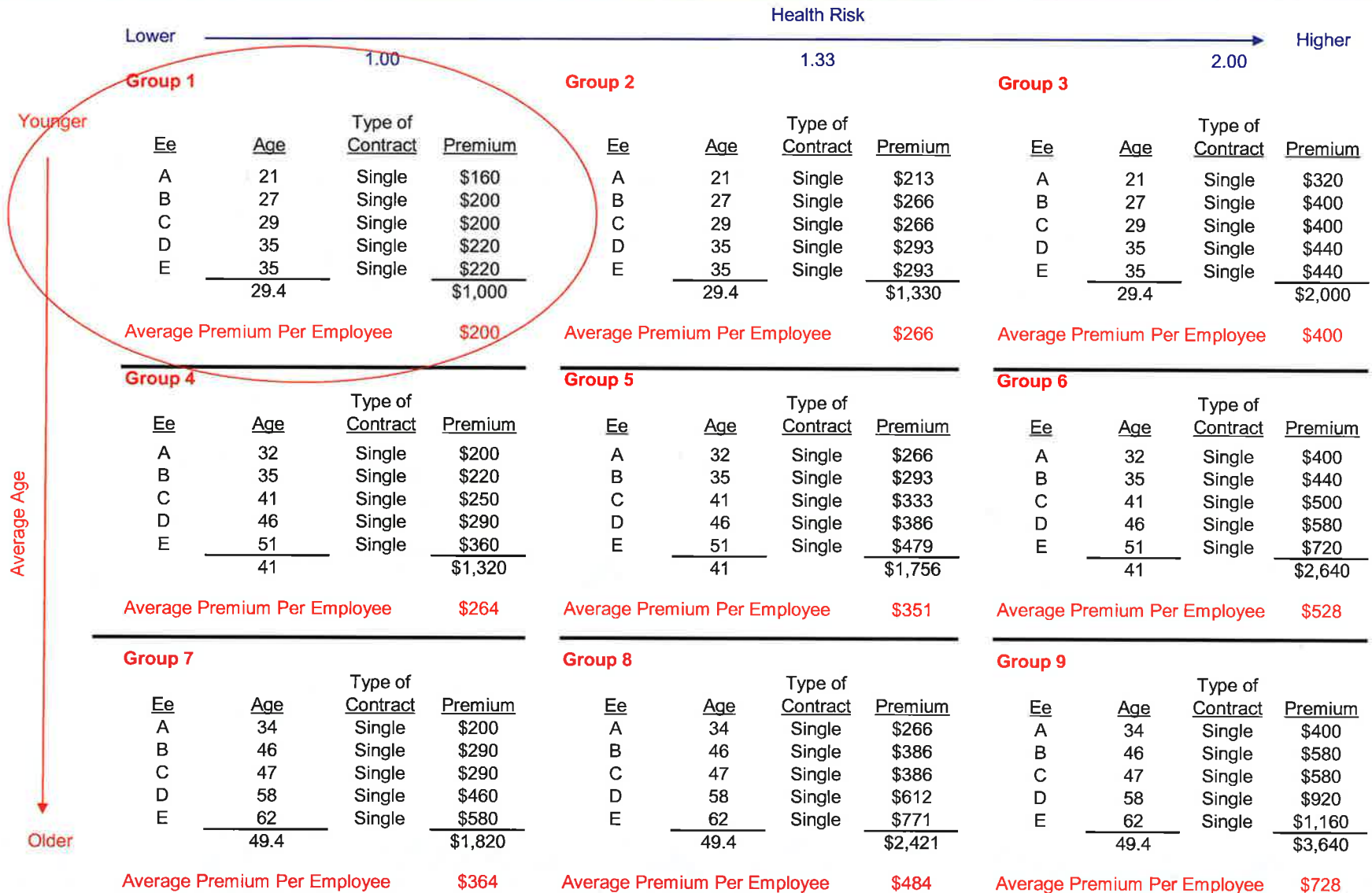
<u>Group Size</u>	<u>Avg. Premium Per Employee</u>	<u>Avg. Premium Per Employee</u>	<u>Percent Change</u>
5	\$276	\$200	-28%
25	\$276	\$261	-6%
50	\$276	\$268	-3%
500	\$276	\$275	-0.3%

- » Illustrative demographic effect to premium of *one* employee termination/replacement for group sizes
- » Larger groups use the same beginning proportionate demographics and assume the same loss of a 62 year old employee and replacement of a 29 year old employee

» Answer: For Some...

- Attractive option: Older and higher risk small groups that currently pay a higher premium under the current system would likely be attracted to a larger pooling arrangement
- Unattractive option: Young and healthy small groups would not want to lose their identity and credit for lower premiums by joining a larger pool

General Stratification of Risk



» Considerations for groups purchasing insurance through the State employee plan:

- **Lower administrative and distribution costs**: Possibly for the groups through streamlined processes but may increase burden to the state
- **Less fluctuation in rates**: Likely
- **Lower premiums**: Likely for some groups that move (difficult to generalize without more details about a group) but will increase the cost to the state plan

State Employee Plan Basics



2009 Plan Offerings

	<u>Deductible</u>	<u>OPM</u>	<u>Coinsurance</u>	<u>Office Copay</u>	<u>Drug Copay</u>
Program 3 Plus	\$300/\$400	\$600/\$800	20%	\$15	\$5/\$15/\$30
Deductible 3 Plus	\$300/\$400	\$600/\$800	20%	\$15	20% after ded
Iowa Select PPO	\$250/\$500	\$600/\$800	10% (In)/20% (Out)	\$15	\$5/\$15/\$30
Blue Access	\$0	\$750/\$1,500	varies	\$10	\$5/\$15/\$30
Blue Advantage	\$0	\$750/\$1,500	varies	\$10	\$5/\$15/\$30

2009 Premiums

	<u>Single</u>	<u>Family</u>
Program 3 Plus	\$643.23	\$1,505.17
Deductible 3 Plus	\$646.46	\$1,512.76
Iowa Select PPO	\$640.92	\$1,499.75
Blue Access	\$398.49	\$932.47
Blue Advantage	\$383.30	\$896.94

Illustrative Example



Considerations for movement to state employee plan

<u>Total Block</u>			<u>State Plan</u>	<u>Remaining Block</u>
	<u>Single Rate</u>			
Group A	\$900	→	\$900	
Group B	\$615	- - - - - →	\$615	
Group C	\$470			\$470
Group D	\$340			\$340
Group E	\$310			\$310
Group F	\$290			\$290
Group G	\$260			\$260
Group H	\$220			\$220
Group I	\$215			\$215
Group J	\$200			\$200
Average	\$382		\$758	\$288

Considerations Include: Current Premium, Benefit Plan, Expected Future costs

Expected Impact: State plan would draw risk greater than or equal to current
 Remaining small group market would lose higher risk groups

Questions?