# SPECIAL REPORT

# SMALL GROUP MARKET REFORM: THE WYOMING EXPERIENCE

**Inception Through 12/31/01**

**Submitted to**

**The Insurance Commissioner**
**of**
**The State of Wyoming**

**Prepared by**

**The Wyoming Small Employer Health Reinsurance Program Board of Directors**

**December 2002**

**Report of the Effectiveness of the Wyoming Small Employer Law**

**For the Period from Inception Through 2001**

The Wyoming Small Employer Health Insurance Availability Act was enacted in July 1992. W.S. § 26-19-309 of the Insurance Code directs the Small Employer Health Reinsurance Program Board of Directors, in conjunction with the Health Benefits Plan Committee, to report at least every three years to the Insurance Commissioner on the effectiveness of the Act. This report looks at the effectiveness of the Act in promoting rate stability, product availability and coverage affordability. The report also addresses whether small employer carriers and producers are actively marketing or issuing health benefit plans to small employers.

The report continues the experience of this market from the previous **Special Report, Small Group Market Reform: The Wyoming Experience, Inception through 1998,** submitted to the Commissioner in December 1999. The report looks at previous experience and draws a comparison with the most recent three-year period.

**Promoting Rate Stability**

The Act implemented the rating provisions of the National Association of Insurance Commissioners Model Act. The premium restriction provisions are intended to make rates more predictable for small employer groups with health problems and to narrow the difference in premiums paid by high and low risk enrollees, with lower premiums for high risk groups, and, conversely, low risk groups bearing a greater premium burden. The percentage variation allowed within a class of business is 25 percent of the index rate (the arithmetic average of the lowest and highest premium rate) and 20 percent between classes of business. The limit for any annual renewal adjustment for claim experience, health status or duration of coverage is 15 percent. The report uses in-force premium as an indicator of rate stabilization. **Figure 1.**, below, compares the in-force premium for all years since inception.

**Figure 1.**
**Small Employer In-Force Premium ($M)**

| 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|---|
| $48.9 | | $49.7 | | $66.2 | | $70.2 | $73.7 | $80.0 |

As can been seen from the above, the market experienced a 19.4 percent increase in in-force premiums between the end of 1998 and 2001. Also, in-force premium from the end of 1999 to the end of 2001 increased some 14.0 percent. This picture reflects the present environment in Wyoming and, nationally, where medical claims costs are continuing to outpace the medical component of the Consumer Price Index. During this past three years, however, we saw a flurry of consolidations and mergers and the exodus of carriers from the small employer market. The market has significantly less carriers (a 58 percent reduction) than the previous three year period, but in-force premium has steadily risen.

Increasing premiums reflect the underlying medical claims costs and that trend has resulted in small employers realizing high double digit premium rate increases.

## Promoting Product Availability

The most recent period has experienced a significant reduction of carriers serving the market. The numbers have shrunk due to consolidations/mergers and carriers leaving a market in which they cannot compete nor make a profit. For the period ended 1999, there were 33 participating carriers; as of 12/31/01 there are 14. A small employer carriers listing is included in the back of this report. Annually, each small employer carrier files a report of new and renewal sales with the Commissioner. **Figure 2.**, below reflects this activity.

**Figure 2.**[1]
**New Business, Renewals and In-Force Groups**

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|---|---|
| **Grps Issued** | 576 | 563 | 524 | 561 | 554 | 581 | 680 | 906 | 536 |
| **Grps Renewed** | 1,752 | 1,932 | 1,875 | 1,801 | 2,057 | 2,426 | 2,575 | 2,674 | 2,395 |
| **Grps In-Force** | 2,171 | 2,535 | 2,368 | 2,683 | 2,492 | 2,985 | 3,318 | 3,163 | 2,888 |

The above may be the result of the drop off of carriers now serving the market. The spike in new sales in 2000 may be reflective of remaining carriers picking up business from exiting carriers. The 2001 figure represents a settling down of the market and an indication that small employers may be finding it more difficult to continue to offer a health plan to employees.

The Health Insurance Portability and Accountability Act (HIPAA) of 1996 afforded greater choice of plans to a small employer. However, it has not been as favorable toward small employer carriers with its guarantee issue of all products, and its Health Insurance Privacy and Administration Simplification provisions which have imposed added administrative burdens upon the carriers. HIPAA may have also contributed to carriers leaving this market.

## Providing Coverage Affordability

1 Figure 2. reflects only the activity of small employer carriers who are actively marketing. There is a classification of "participating" carriers, those with in force business but not actively marketing, whose enrollment is not captured. Hence, the in force levels are understated.

Even with rate restrictions in place, the small employer market is experiencing significant premium rate increases. Premium rates are impacted by market forces on a cyclical market, the general state of the economy and trend. Health insurance premiums are a reflection of historical medical claims costs, increasing medical technology, services utilization, unfunded benefit mandates, premium taxes and other assessments. Most of these factors are outside of the control of the carriers and the consumers they serve. Health care costs are not something that small group reform was designed to address. As long as medical claims costs continue unabated and the federal government inserts itself in the design of benefit plans, we can expect to see health insurance premium increases.

Annually, a small employer carrier files an Actuarial Certification that its rates charged small employers are based upon rating methods that are actuarially sound and that they are in compliance with the Wyoming Insurance Code and Regulations. The Commissioner accepts this attestation as deemed compliance.

**Health Benefits Plan Committee (HBPC)**

The Committee last met on April 10, 2001. The HBPC reviewed the Small Employer Group and Wyoming Health Insurance Pool (WHIP) health benefits plans structures with respect to legislation passed by the 56th Legislature: HB 0026, *Health insurance - cancer screenings* and HB 0185, *Health insurance coverage for diabetes.* A copy of the Minutes is included as an attachment.

**Reinsurance Program**

The Act provides a reinsurance program to permit small employer carriers to cede new business risks (on an individual or whole group basis) to fairly share the risk and improve the efficiency and fairness of the small group marketplace.

Since inception, only carriers with new business written in the Wyoming market are permitted to cede risks to the program. The smaller players in the market have not used the reinsurance pool, perhaps because of limited or no new business written by them.. Generally, the carriers favor the continued existence of the pool as the reinsurance market has hardened, especially as a result of the events of September 11, 2001.

A major reason given for not availing themselves of the pool is a lack of a big Wyoming presence which translates to little or no new business written which can in turn be reinsured with the pool. Since the current ceding level is less than one-half of 1 percent (0.43 percent), one would expect that carriers with small market share will have few or no opportunities to cede.

Other reasons are limited trained personnel, and administrative effort required to cede risks.

The small employer Board is currently assessing proposed changes presented at a national reinsurance forum, to increase the pool's utility and generate greater interest.

As of December 31, 2001, four carriers are ceding eighty-five lives to the pool. Of this total, seven whole group plans cover 20 lives and 62 individual plans cover 65 lives.

After operating now for nine years, the pool is experiencing claims and administrative expenses in excess of revenues and experiencing losses. The board's philosophy has been that reinsurance premiums, alone, will not be used to sustain it. Pool losses are assessed among insurance companies reporting direct earned accident and health insurance premiums in proportion the insurer's earned premiums bear to the total earned premiums.

The following assessments have been levied against accident and health insurance companies since inception of the pool:

$ 85,000 in 1994 to cover start-up expenses and working capital

2. $500,000 in 1998 to cover aggregate pool losses
3. $325,000 in 1999 to cover aggregate pool losses
4. $250,000 in 2000 to cover aggregate pool losses
5. $450,000 in 2001 to cover aggregate pool losses
6. $700,000 in December 2001 as an interim assessment to cover aggregate pool losses

TOTAL: $2,310,000 in assessments

Small employer carriers are not permitted to offset these assessments against premium taxes.

As of December 31, 2001 the pool has collected $1,655,999 in paid premiums and had accepted claims of $3,363,572. Accepted claims does not include claims which have been incurred but not reported.

**Wyoming Comparison to Peer Pools**

The Wyoming program began operating in 1994 with 40 lives ceded by the end of that year. It is now considered a medium-sized program in terms of the number of lives ceded as a percentage of the state's uninsured small employer population. For the purpose of this evaluation, we used information from the State Level Data-Book on Health Care Access and Financing by the Urban Institute. The closest match for relevant uninsured population was chosen as people aged 18 to 64 and employed by firms with 25 or fewer employees (the book was published before HIPAA raised the employee level to fifty). The relevant statistics for Wyoming and three other programs (Massachusetts, North Carolina, and Tennessee) classified by Pool Administrators Inc. as medium size pools follows:

**Medium Size State Small Employer Health Reinsurance Pools**

| Relevant Population | Massachusetts | North Carolina | Tennessee | Wyoming |
|---|---|---|---|---|
| **No. Uninsured** | 153,520 | 248,825 | 195,560 | 19,412 |
| **% Uninsured** | 19.0 % | 26.9 % | 31.5 % | 21.1 % |
| **% Firms < 25** | 26.4 % | 27.5 % | 26.0 % | 38.8 % |
| **% Ceded / Uninsured 12/31/98** | .13 % | .10 % | .03 % | .20 % |
| **% Ceded / Uninsured 12/31/01** | .03 % | .08 % | .03 % | .43 % |

The key performance indicators in the eight years of operation for the Wyoming program were compared to the average of the other three programs of medium size.

**Wyoming Comparison by Triennial Report Year to Other Medium Size Pools**

| Key Performance Indicators | Wyoming 1998 Report | Wyoming 2001 Report | Other Medium 1998 Report | Other Medium 2001 Report |
|---|---|---|---|---|
| **Number of Reinsured Lives** | 38 | 85 | 191 | 283 |
| **Paid Premium per Reinsured Life** | $ 4,164 | $ 5,239 | $ 4,306 | $ 4,472 |
| **Claims Paid per Reinsured Life** | $ 15,188 | $ 14,934 | $ 9,136 | $ 3,585 |
| **Administrative Fees per Reinsured Life** | $ 711 | $ 313 | $ 269 | $ 395 |

The comparison shows that Wyoming fares well, primarily due to the increase in reinsured lives which went from 38 to 85 between report years. That number has once again decreased because a major pool participant has withdrawn from the Wyoming market. On the other hand, the two carriers with the largest market share have increased their use of the pool between report years. There continues to be a higher than expected level of claims per reinsured life between report years. There has been a notable decrease in the administrative fees per reinsured life and that amount compares favorably to other medium size programs.

## Fair and Active Marketing

As previously mentioned, annually, small employer carriers file a report of new sales and renewals and whether they are actively marketing. As **Figure 2.**[1] previously pointed out, new sales are occurring but the numbers have returned to the levels experienced prior to 1999. For the period from 2000 to 2001, the market has experienced a 41 percent reduction in new sales which correlates to the 58 percent reduction in carriers serving this market since 1998.

Although intrusive, HIPAA has done much to level the playing field regarding guarantee issue, guaranteed renewability and standardized definition and application regarding a pre-existing condition. The small employer carriers who remain have widely accepted HIPAA and the market reforms have been fairly easy to administer. There are still indications that attempts have been made to circumvent the law. Some health plans, with very low stop-loss levels, are encouraging small employers to self-fund their programs to skirt state mandated benefits and the like. However, the practice has not been sufficiently substantiated to raise it to a level of major concern.

[1] Figure 2. reflects only the activity of small employer carriers who are actively marketing. There is a classification of "participating" carriers, those with in force business but not actively marketing, whose enrollment is not captured. Hence, the in force levels are understated.

**In summary....**

The Wyoming small employer health insurance market has experienced a dramatic reduction in the number of carriers serving the market since the last reporting period. Mergers, consolidations exoduses of carriers, based upon prudent business decisions that they cannot compete nor make a profit, and an increasing federal burden under HIPAA have had this effect.

However, this is not an event that is isolated solely to the Wyoming market place. Most states, nationally, are experiencing this same trend.

The market has also seen a corresponding reduction in the number of lives insured in this market. Fewer carriers serving the market, the impact of double digit medical trend upon premiums and the performance of the general economy have made it more difficult for small employers to be able to afford to maintain a group health plan.

If we do not see a dramatic turnaround in these factors affecting the market, we can expect to see this trend continue.