SPECIAL REPORT

SMALL GROUP MARKET REFORM:
THE WYOMING EXPERIENCE

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Submitted to

The Insurance Commissioner
of
The State of Wyoming

Prepared by

The Wyoming Small Employer Health Reinsurance Program Board of Directors

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WYOMING'S EXPERIENCE AND ITS FUTURE

The Small Employer Marketplace

Under the provisions of § 26-19-309 of the Insurance Code, the Wyoming Small Employer Health Reinsurance Program (WSEHRP) Board of Directors is required to report on the status of the small employer marketplace.

The market in Wyoming appears to be in a state of decline as there has been a net loss in small employers offering group health insurance plans in the past three years. As the size of the market shrinks, the impact of guarantee issue (the insurer must take all comers regardless of health status) and the premium rating restrictions have a major impact on the cost of coverage for all employers, independent of the cost or benefit of the reinsurance mechanism. Small employers cannot continue to accept and absorb double digit premium rate hikes. As a result, greater responsibility for coverage is being borne on the backs of the employees in the form of increased premium cost sharing, reductions in benefits or both.

The cost of providing and maintaining a group health plan seems to be the overarching reason that small employers are not able to offer a group health plan. The premiums charged to small employers, even though limited by statute, are a reflection of what the insurers have to pay in medical claims costs. And, those costs are constantly rising with medical inflation and the introduction of life prolonging and saving technology. In addition, the increased costs needed to support the guarantee issue risks and the premium restrictions must be borne by all employers providing coverage.

The reinsurance program that is designed to let small employer insurers transfer potentially catastrophic losses, as individuals or whole groups, is being utilized by only two insurers, reinsuring a total of twenty eight (28) lives. This is a function of the market share of insurers as well as the rules for ceding and premiums charged to cede a risk. Also, a dated survey of small employer insurers revealed that the reason many insurers are not using the reinsurance program is because they prefer to rely on their own corporate reinsurance contracts. Since inception in 1993, the reinsurance program has received $2.8 Million in premiums and has had $7.1 Million in paid claims.

The limited use of the reinsurance program needs to be addressed. The philosophy of this board has been that premiums, alone, would not be used to offset operating and claims expenses of the reinsurance program. Program expenses are thereby recouped via a combination of reinsurance premiums and assessments (excess of claim reimbursements and administrative expenses over reinsurance premiums) against health insurers providing coverage in the small group marketplace. An insurer is assessed proportionally based upon its direct written premiums in the Wyoming small employer market in relation to the total small employer premiums of all Wyoming small employer insurers. Unlike the state's individual high-risk pool, the insurer is not allowed an offset against premium taxes. Thus, 100 percent of the cost of assessments is borne by the insured segment of the market.

All small employers who have health insurance coverage ultimately bear the cost of the reinsurance program since the funding source is small group health insurance premiums. The Wyoming Reinsurance program is favorable because it allows insurers to attempt to spread the cost of expected high-risk individuals among all insurers operating in the market. Also, the reinsurance mechanism is transparent to the employer and the employee. In other words, high risks are treated exactly the same as their healthy counterparts in terms of access to coverage. However, in its current form, it has no impact on the overall cost of coverage in the small group market.

The reinsurance premiums are based upon the standard market rate. Again, the standard market rate is impacted by the guarantee issue provision and premium restrictions as found in the law. The prospective approach and current rules that require an insurer to decide whether or not to cede a risk within sixty (60) days of enrollment limit the ability of an insurer to spread risk. Perhaps being able to cede on renewal; and a broader funding base for program losses are things that should be explored. The current program isn't helping to reduce the cost of coverage in the small group market and it penalizes those employers who are trying to do the right thing by providing coverage.

Potential Changes

Given the limited use and impact on the small group market, changes must be considered to enhance the program's use and effect. First, consideration should be given to expanding the funding base to reduce the cost of high-risk groups and employees/dependents on the small employer carriers in the Wyoming market. The risks from the reinsurance program are spread only among the small number of small employer carriers who collectively bear the entire risk. Expanding the funding base might allow greater cost sharing of high risk cases thereby providing an opportunity for lower premiums and increased coverage for small employers.

Second, consideration should be given to re-examining the small group reinsurance program law for those aspects that are not favorable to the small employers and insurers and consider changes that might increase the program's use. However these aspects alone, considered without a broad funding base, will not change the underlying dynamic or reduce the cost to employers.

- consider ceding on renewal;
- revisit the variance from the index rate;
- examine retrospective reinsurance;
- examine a combination of prospective and retrospective reinsurance;
- reexamine the current method for assessing pool losses

Third, consideration should be given to a subsidy program for small employers who currently can't afford to offer insurance coverage for their low-income employees and employees who can't afford the employer-sponsored coverage if it were offered. There are other states that have adopted subsidy programs to enhance small employer health insurance affordability.

In conclusion, the subsidy of guarantee issue risk and premium restrictions are major factors in the affordability of coverage in the small group market. If these issues cannot be adequately addressed, a continued decline in the viability of the small group market is likely. In addition, whatever else is done, the issues of rising medical claims costs and the cost shifting created by government programs' reimbursement shortfalls, and the uninsured, must also be addressed on a statewide level.

The Wyoming Small Employer Health Reinsurance Program (WSEHRP) Board is fully cognizant of the efforts being put forth by the Wyoming Healthcare Commission to address the overall healthcare delivery and financing mechanism in the state and to come up with Wyoming specific solutions. We support the commission's diligent efforts.

Respectfully,

The WSEHRP Board of Directors

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