

BENEFITS CORNER



Legislation to Increase Small Group Rates

The Colorado Legislature passed and the Governor signed into law House Bill 1355 during the 2007 legislative session. This bill will begin to take effect on January 1, 2008. This law will impact how your group insurance carrier will determine the premium rates for your health plan. The ultimate impact will be to raise your premiums more quickly than they otherwise might have.

Let me take a moment to review the current rating restrictions in Colorado and then review the new law. In 2003, legislation was passed to allow carriers offering health insurance plans to small employers (groups with 1 to 50 employees) some rating flexibility based upon the overall health status and claims experience associated with that employer's employees. Colorado requires health carriers to establish an "index rate" from which rates can be adjusted upwards to a maximum of 10 percent above the index or to a minimum of a 25 percent discount. This provides a 35 percent rate-band for all small employer groups with a particular carrier. Upon renewal, the maximum movement from the current rate due to claims experience is 15 percent.

To give you some perspective, forty-two other states provide some type of rate-

banding based upon health and claims experience. The majority of these states provide a range of fifty percent or more (+25 to -25 percent).

Colorado has been on the low end of rate banding.

Currently, over 60 percent of all Colorado small employers receive a discount from the carrier's index rate. An additional 15 percent are rated at the carrier's index rate, while 25 percent receive a rating higher than the index.

HB 1355 will eventually eliminate the carriers rating flexibility based upon health and claims experience. While on the surface this may appear to be a good thing, it will mean higher rates for all small employers offering health insurance in Colorado. Carriers will be forced to rate all employers to the "worst-case scenario" rate.

On January 1, 2008, carriers will no longer be able to "rate up" groups. Carriers will be allowed to provide discounts up to 25 percent until January 1, 2009. These changes will occur on your renewal date in the given year. The carriers will need to raise their base index rate to subsidize the loss of premium revenue from those groups that were above the index rate. You will begin to see this impact with your next renewal on or after January 1, 2008.

Beginning with renewals on or after January 1, 2009, carriers will no longer be able to rate up or down based upon the health status or claims experience of the people covered within a small group. All rate banding will be eliminated and all groups must be given the index rate. If your group had been receiving the maximum 25 percent discount, your renewal for 2009 will be in the 40+ percent range!

I was part of a group that lobbied vigorously to keep this legislation from being passed and signed into law. I firmly believe that HB 1355 was passed to further some misguided broader health care reform agenda. I can not see how any legislation that negatively impacts more than 60 percent of Colorado's small businesses can be construed as fair or a "good thing." I was even more disconcerted by the Governor's statement upon signing the bill into law that "it felt like the right thing to do." In speaking with representatives from the

Governor's office prior to his signing the bill, they were not aware of the current law's protections for dramatic rate changes or how Colorado compared to other states rating laws.

So what will this mean to you? It is difficult to say exactly what will happen on a case-by-case basis because so many other factors influence the rate, including carrier trends and demographic changes. Here's how it might look if there are no other changes:

Groups With a Rate at or Above the Index Rate. Because the carriers' base rates will increase overall for their entire book of business, groups that currently have a maximum rating of 10 percent will not actually see a decrease of 10 percent. (Though that is what the legislators naively had hoped for!) Rates for healthy groups will need to increase to subsidize the unhealthy groups that are no longer rated up.

Groups Currently Below the Index Rate. Again, because the carriers' base rates will need to increase, all groups will see an additional upward pressure in the rates. The carriers will need to provide an additional increase in their rates in 2008 and 2009 above their regular trend.

I wanted to make you aware of this important legislative change. Additionally, I will post to my Web site (everben.com) the list of the Representatives and Senators voting record on HB 1355. When you receive your renewal in 2008, I would encourage you to contact those legislators who voted in favor of HB 1355 and give them a big "Thank You" (sarcasm intended). I would also encourage you to contact the Governor.

Please feel free to contact me if you would like to discuss this further.

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