

  
*Colorado Legislative Council Staff Fiscal Note*  
**STATE**  
**FINAL FISCAL IMPACT**

**Drafting Number:** LLS 07-0814 **Date:** June 7, 2007  
**Prime Sponsor(s):** Reps. McGihon, Massey **Bill Status:** Signed into Law  
Sen. Hagedorn **Fiscal Analyst:** Gary J. Estenson (303-866-4976)

**TITLE:** CONCERNING THE LIMITATION OF SPECIFIC CASE CHARACTERISTICS THAT MAY BE USED BY AN INSURANCE CARRIER TO DETERMINE THE PREMIUM RATE FOR SMALL EMPLOYERS, AND, IN CONNECTION THEREWITH, CHANGING THE REQUIREMENTS FOR REPORTS BY THE INSURANCE COMMISSIONER TO THE GENERAL ASSEMBLY CONCERNING THE EFFECT OF LIMITATIONS ON CASE CHARACTERISTICS IN THE SMALL GROUP MARKET.

Fiscal Impact Summary	FY 2007-08	FY 2008-09
<b>State Revenue</b>		
<b>State Expenditures</b>	Unknown	
Cash Funds Exempt - Unclaimed Property Trust Fund	Unknown	
<b>FTE Position Change</b>	0.0 FTE	0.0 FTE
<b>Effective Date:</b> The bill was signed into law by the Governor on June 1, 2007, and unless a referendum is filed, the bill will take effect August 3, 2007.		
<b>Appropriation Summary for FY 2007-08:</b> None required.		
<b>Local Government Impact:</b> None.		

**Summary of Legislation**

Under current law, several demographic characteristics may be used to determine health insurance premiums for small employer groups. Among those are age, family size, smoking status, geographic location, claims experience, and health status.

The bill eliminates claims experience and health status as characteristics that may be used for determining health insurance rates for small employers and Multiple Employer Welfare Arrangements (MEWAs). On and after January 1, 2008, health insurance rates may decrease no more than 25 percent of the filed rate. On and after January 1, 2009, no deviations from the filed rate are allowed. No later than March 15, 2011, the Insurance Commissioner must submit to the business committees of the General Assembly a report that analyzes the impact of the elimination of these characteristics in the small group health insurance market. To the extent possible, the report shall include trend data related to coverage availability, insurance cost, and the number of persons insured in the small group market. The report is also required to include an analysis of cost-shifting from publicly-funded health coverage to small group plans and any other factors impacting the change in the number of persons insured in the small group market.

## **State Expenditures**

*Department of Regulatory Agencies, Division of Insurance (DOI).* The DOI will need to update the regulation concerning small group rating to remove outdated references. The DOI will also begin to collect data in preparation for completing the report on the small group health insurance market. It is estimated that the workload associated with these tasks is minimal and can be absorbed within existing resources.

*CoverColorado.* The bill may impact state expenditures for CoverColorado from the Unclaimed Property Trust Fund in FY 2007-08 and FY 2008-09. However, such impact cannot be quantified at this time.

CoverColorado primarily provides health insurance to individuals who are unable to obtain private health insurance due to a pre-existing medical condition. CoverColorado premiums are paid by individuals insured through the program and are partially subsidized by moneys in the Unclaimed Property Trust Fund. Expenditures from the Unclaimed Property Trust Fund may be impacted if the elimination of claims experience and health status as rating factors changes the number of persons covered through CoverColorado, as small group plans either become more or less affordable.

Currently, claims experience and the health status of small groups may be used to adjust the premium rate paid by group members. If group members are relatively healthy and file few claims, a downward adjustment may be made in the final premium rate. Conversely, premiums may increase if a small group is deemed unhealthy or has a history of filing numerous claims.

Based on 2005 and 2006 data provided by the Department of Regulatory Agencies, Division of Insurance, the six (6) current rating factors decreased premiums for 50.13% of all small groups and increased premium rates for the remaining 49.87%. Since these percentages are roughly equal, the impact of removing two (2) rating factors (claims experience and health status) cannot be quantified at this time.

*Medicaid and the Children's Basic Health Plan (CBHP).* Since eligibility for Medicaid and the CBHP is based on an applicant's income and not his or her demographic characteristics, the bill is not expected to have a significant impact on Medicaid or CBHP expenditures.

## **Departments Contacted**

Regulatory Agencies

Health Care Policy and Financing