Premium Multiplier, Guideline and Discount Concept Paper

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Purpose

To illustrate the affects of the premium multiplier, statutory funding guidelines and premium discounts have in developing long-term viable funding of CoverColorado.

Background

History of Multipliers

CoverColorado uses the Standard Risk Rates (SRR), which is a weighted average of the five largest individual carriers premiums adjusted for the value of benefit differences. The multiplier is the factor times the SRR to determine CoverColorado rates.

- April 1991 – Law required initial multiplier to be 1.50
- January 1992 – Law allowed Board discretion but no greater than 1.75
- July 2002 – Law changed to require 1.35
- July 2003 – Law changed to require 1.50
- July 2006 – Law changed to allow Board discretion within range between 1.00 to 1.50
- Board currently uses 1.40 for non-discounted premiums.

Statutory Funding Guidelines

House Bill 08-1390, 10-8-530 provides funding rules for CoverColorado. "The program shall be funded from the following sources, and on and after January 1, 2009, those funding sources shall constitute, as nearly as possible, the percentages of the total funding for the program as specified in paragraph (b) subsection (1):"

I. 25% Unclaimed property fund.
II. 50% Premiums, tax credits, other.
III. 25% Special fees (carrier assessments).

History of Discounts

Prior to 2006, CoverColorado provided premium discounts to approximately 20% of the covered members and the loss ratio was below 145% of earned premium. Premiums also provided about 65% of the total yearly funding of the program.

Since June 2006, the premium discount program was changed based on the following household income:

- Under $40,000
    - Rates are equal to the Standard Risk Rate (29% discount)
- $40,000 to $50,000
    - Rates are equal to 1.17 times SRR (16% discount)
- Over $50,000
    - Rates are 1.40 times SRR (no discount)

Funding Affects

Multipliers
The purpose of the multiplier is to establish a fair rate for people purchasing coverage through CoverColorado. The Standard Risk Rate is a direct reflection of the cost of insurance in the individual insurance market. The individual insurance market in Colorado is fully underwritten meaning the carrier sets rates based on the risk of the person applying for coverage. The carrier can decline coverage, exclude coverage for certain conditions or charge higher rates based on their underwriting criteria. The individual insurance market in Colorado provides the most affordable coverage available in Colorado because carriers can accept or deny coverage to applicants.

The purpose of CoverColorado is to provide access to individuals who cannot obtain coverage in the individual insurance market. It is the safety net that allows the individual insurance market to operate most efficiently and provides assessable coverage to thousands of Coloradoans. As such it is appropriate to charge a higher rate than what coverage would cost in the individual market.

The Small Group market, employers with between 1 and 50 employees, is closer to CoverColorado for comparative purposes than the Individual market. Like CoverColorado, the small group market is guarantee issue and community rated. Carriers providing coverage in the small group market file rates with the DOI and must accept all qualified applicants regardless of health conditions. Both CoverColorado and the Small Group market allow a few premiums adjustments like, age and geographic location, and in most other regards are essentially the same.

The following table's compares monthly non-smoker rates of the individual, CoverColorado and Small Group market effective February 1, 2009:

Table 1

Individual	**Age 25**		**Age 35**		**Age 45**		**Age 55**	
	Male	Female	Male	Female	Male	Female	Male	Female
Anthem	180	232	245	283	329	366	448	452
Humana	159	207	193	275	280	370	464	492
Kaiser	167	167	204	204	257	257	402	402

Anthem: $25/$25 Office Visit, $1,000 Ded., 80/20, $2,000 Max OOP, Rx $15/$40/$60.
Humana: $35/$50 Office Visit, $1,000 Ded., 80/20, $3,000 Max OOP, Rx $15/$35/$55.
Kaiser: $30/$50 Office Visit, 30% Hospital, $3,000 Max OOP, Rx $5/$30/50%.

Table 2

CoverColorado	**Age 25**		**Age 35**		**Age 45**		**Age 55**	
$1,000 Deduct.	207	380	281	442	434	573	740	802

$1,000 Ded: $25/$40 Office Visit, $1,000 Ded., 80/20, $2,000 Max OOP, Rx 20%/40%/60%.

Table 3

Small Group	**Age 25**		**Age 35**		**Age 45**		**Age 55**	
	Male	Female	Male	Female	Male	Female	Male	Female
Anthem	355	355	422	422	575	575	872	872
Aetna	319	319	384	384	504	504	754	754
Kaiser	251	251	306	306	386	386	603	603

Anthem: $25/$25 Office Visit, $150 Hospital, 80/20, $3,000 Max OOP, Rx $15/$30/$50.
Aetna: $20/$40 Office Visit, $1,000 Ded., 80/20, $5,000 Max OOP, Rx $20/$40/$70.
Kaiser: $20/$30 Office Visit, $750 Hospital, $3,000 Max OOP, Rx $15/$30/50%.

The rates are not benefit adjusted, but upon review, you will notice the individual rates are significantly lower than CoverColorado, and the Small Group rates are significantly higher than CoverColorado.

The price difference creates adverse selection between the three markets. Adverse selection occurs when a person makes a buying decision on a product that favors their personal circumstances and against the products being purchased. Individuals always know more about their own health status and personal circumstances than anyone else. Because all of the cost of buying individual health coverage is generally borne by the insured, the amount of adverse selection and poor risk spreading occurring between the individual market, small group market and CoverColorado is very high.

For example, using the above rates, if a healthy 45 year old self employed male wanted health insurance, he would purchase coverage in the individual market. If he was declined for coverage in the individual market for health reasons, it would be more advantageous for him to purchase coverage through CoverColorado than through the Small Group market, even though he is eligible for guaranteed coverage in the Small Group market as a self-employed person. The result is an increase in the number of members in CoverColorado who have options in the private market. This situation was not the intent in of CoverColorado.

Affect of Multiplier for the Task Force to consider:

- Is the multiplier set at the appropriate amount? Funding CoverColorado wasn't problematic when the statutory multiplier was at 1.50. There were fewer people in the program because adverse selection was minimized and those in the program paid rates more comparable to the Small Group guaranteed issue market. The Task Force should consider giving CoverColorado more latitude in setting the multiplier.

- Premiums are the most reliable, sustainable and predictable sources of funding. They are also the greatest portion of funding. Premiums have the greatest effect on funding sources and should be weighed against developing additional sources of funding.

Statutory Funding Guidelines
The Statutory funding guidelines limit the ability of the CoverColorado Board to set premiums and develop viable funding for the program. The combination of the statutory requirement to limit premiums to 1.50 of SRR along with the guideline of premiums to be limited to 50% of total funding, forces decisions on setting premium levels that are lower than the Small Group rates and encourages discounts to lower income members. Both of these situations exacerbate the adverse selection problem described above and limit the amount of funds that could be generated from premiums.

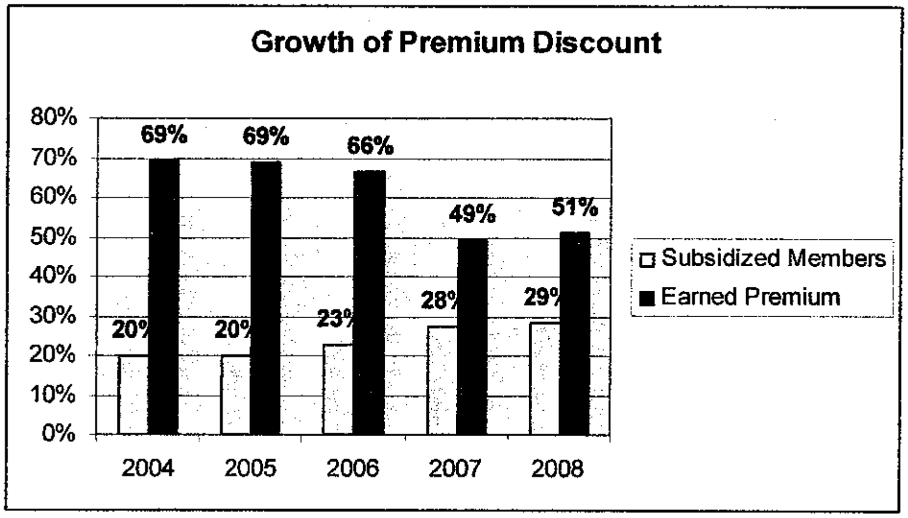
Affect of the Statutory Funding Guideline for the Task Force to consider:

- The Board of CoverColorado should have ability to set the level of total funding from premiums. Funding CoverColorado wasn't problematic when premiums funded 65% of the total funding needs. There were fewer people in the program because adverse selection was minimized and those in the program paid rates more comparable to the Small Group guaranteed issue market.

➢ The 50% premium funding guideline complicates financial modeling as premiums must be coordinated with loss ratios and the 1.50 multiplier. Premiums should be set on market prices to limit adverse selection yet providing access to people who cannot purchase coverage in the private market.

Premium Discount

Since the change of the discount program in June 2006, the percentage of covered members has grown from 20% of the total membership, to 29% at the end of 2008. In addition, the earned premium has reduced from almost 70% of total claims in 2006, to about 51% of total claims at the end of 2008.



The change in both the multiplier and discount program since 2006 has put a strain on funding of the program requiring more funds to be derived from non-premium sources.

In 2005 the unclaimed property fund provided $5,232,579, but has grown to $31,898,271 by the end of 2008, an increase of 510%. In 2005 the fees from carrier assessments were $407,077. Carrier assessments in 2009 are projected to be $24,174,430, an increase of 5,839%.

Nowhere in the Colorado Revised Statutes is CoverColorado directed to provide discounted or subsidized premiums.

Colorado Revised Statutes, Section 10-8-502 (1) states, 'The general assembly hereby declares that the purpose of this part 5 is *to provide assess to health insurance for those Colorado residents who are now termed "high risk" because they are unable to obtain health insurance or unable to obtain health insurance except at prohibitive rates or with restrictive exclusions*, including those who are federally eligible individuals under the federal "Health Insurance Portability Act of 1996", Pub.L. 104-191.'

Affect of Premium Discount for the Task Force to consider:

➢ Does it fit within the scope or the original intent of the program, to provide assess to health coverage for those who cannot purchase private insurance.

➢ Premiums are the most reliable, sustainable and predictable sources of funding. They are also the greatest portion of funding. Discounting premiums has the greatest effect on funding sources and should be weighed against developing additional sources of funding.

➢ According to National Association of Health Underwriters, 17.5% of private premiums already go to subsidize the cost of the uninsured and cost shifting from under funded government programs. Is it fair to require people and organizations to who buy private insurance to provide additional subsidies for people in CoverColorado through the carrier assessment when the cost of private insurance is becoming unaffordable for many Coloradoans?

- The Task Force is charged to consider imposing an enrollment limit and other cost containment measures. Before limiting enrollment, a priority of CoverColorado should be making sure people who can afford coverage have an option to buy coverage regardless of health conditions and cost.

- The Federal and State of Colorado are developing programs to subsidize coverage for people who cannot afford to purchase coverage and it is the role of government to determine programs for low income wage earners, not CoverColorado. Government health coverage subsidies should be made available to help members fund coverage purchased through CoverColorado.

- CoverColorado documents eligibility for premium discounts based on the most recent Federal tax return. An individual's financial circumstances are more complex than Federal taxable income and can change over time. Adequately determining true financial need requires additional administrative costs to CoverColorado.

- Low income covered members in CoverColorado may be eligible for other low income health programs, but choose CoverColorado due to the premium discounts rather than programs created for low income people (i.e., SCHIP, Medicaid, etc.)

Conclusion

The Task Force is charged with developing a long-term funding plan for CoverColorado to ensure its future financial health and viability. The main reason funding of CoverColorado has become a greater challenge is due to improper premium funding and growth of people purchasing coverage through CoverColorado. The effects of adverse selection also need to be considered when setting premiums.

Loss ratios should be taken into consideration as premiums amounts are established. If the 2006 loss ratio (150%) were used to set premiums in 2008, premium funding would have provided $10,121,176 more funds, reducing the need of funds from unclaimed property fund by one third.

In addition, the premium charged for full premium payers should be reconsidered. Non-discounted premiums are currently set at 1.40 of the Standard Risk Rate. The statutory maximum is 1.50 of Standard Risk Rate and that amount is closer to guaranteed issue small group rates. There are self employed people in CoverColorado who qualify for a small group plan, but instead choose coverage in CoverColorado because the rates are less expensive. This puts additional strain on funding of the program. Raising the rate factor will encourage people eligible for other programs to enroll in those options.

In developing the final funding recommendations, the Task Force should consider the impact the premium multiplier, guidelines and discounts have on the long-term funding of the program and the strain it causes in developing non-premium sources of funding.