



KANSAS
HEALTH
INSTITUTE

MEMO

To: Kansas Insurance Department Health Insurance Exchange Focus/Business Operations Work Group

From: Kansas Health Institute/ Health Insurance Exchange Background Research Work Group

Date: April 25, 2011

Re: Economic effect of combining risk pools for the small-group and non-group (individual) markets

At the April 4, 2011 meeting of the Kansas Insurance Department Health Insurance Exchange Focus/Business Operations Work Group, workgroup members requested information on the potential impact of combining the risk pools for the non-group (individual) and small-group markets in Kansas.

Because the Commonwealth of Massachusetts is the only state to have implemented reform with many of the same basic changes to the health insurance industry as the Affordable Care Act—including an insurance exchange, guaranteed issue, community rating, and an individual mandate—KHI looked to Massachusetts as the most appropriate source of information.

In December 2006, Gorman Actuarial completed a study for the Massachusetts Division of Insurance on the anticipated impact of merging the small-group and non-group (individual) markets in Massachusetts, which occurred on July 1, 2007. With regard to premiums, Gorman's major findings included:

- An anticipated *increase* in the small-group rates of approximately 1.0-1.5%.
- An anticipated *decrease* in non-group rates of approximately 15%.
- The experience of individual enrollees and plans was expected to vary greatly, with a range of 2-50% decreases in the non-group market and increases of 1-4% in the small-group market.
- The addition of currently uninsured persons to the merged market was anticipated to have an impact range from a 3% decrease to a 6% increase.

In June of 2010, Oliver Wyman Actuarial Consulting completed a study for the Massachusetts Division of Insurance on the claims experience of individuals in the non-group market before and after the merging of small-group and non-group markets. They compared claims data from 01/01/2006-12/31/2006 to claims data from 01/01/2008-12/31/2008. With regard to cost, Oliver Wyman's major findings included:

- The total (i.e. both non-group and small-group enrollees) allowed claim cost in the merged market per member per month (PMPM) was 3.4% higher than the small-group allowed claim cost alone.
- Using loss ratios to adjust for higher premium payment for individuals, the cost of the merger was estimated to be 2.6%.
- The cost of adverse selection on the merged market was estimated to be 0.5-1.5%.

Unlike the small-group market, actuarial analysis of the impact on non-group (individual) market has not been completed with actual post-implementation data. However, the national association of American Health Insurance Plans (AHIP) has released state-level survey data for both 2006 and 2009, which provide insight into the premium experience in Massachusetts both pre-and post-merger. As shown in the chart below, the percent increase per year in the premiums for single individuals and for families purchasing in the non-group market were 1.0% and 9.5%, respectively – 8.6% and 3.2% less than the national average growth. Using the 2006 rates from the AHIP survey data and trending them forward to 2009 using the national average trend, we found the actual 2009 average premiums were 21.8% and 8.3% less for the non-group single and family market, respectively, than the predicted 2009 premiums. Other sources also indicate that for approximately the past decade, cost of healthcare in Massachusetts has been growing 1.0% faster than the national average, suggesting that the difference may be slightly greater than that shown by using the national average to calculate the predicted 2009 premium.

	Massachusetts			National		
	2006	2009	percent change/year	2006	2009	percent change/year
Annual premium						
Non-group market -- single	\$ 5,257	\$ 5,413	1.0%	\$ 2,268	\$ 2,985	9.6%
Non-group market -- family	\$ 10,126	\$ 13,288	9.5%	\$ 4,424	\$ 6,328	12.7%

	Massachusetts		
	2009 predicted	2009 actual	percent difference
Annual premium			
Non-group market -- single	\$ 6,919	\$ 5,413	-21.8%
Non-group market -- family	\$ 14,484	\$ 13,288	-8.3%

Comparison of Kansas and Massachusetts non-group market premiums in terms of dollars shows a significant difference between the two. The Kansas non-group single premium was \$2,260 in 2006, and \$2,615 in 2009. In the Kansas non-group family market, the premiums were \$4,510 and \$5,529 for 2006 and 2009, respectively. That is a difference between Kansas and Massachusetts of roughly \$3,000 for single persons and \$5,500 for families in 2006. Similar, though slightly less large, differences are seen between Kansas

rates and those of New York, another state which has enacted reforms in the non-group market. Various reports have attributed higher premiums to market reforms such as guaranteed issue and community rating, although a direct causal relationship is difficult to establish due to the unique characteristics of each state market such as cost of living, health care provider make-up, etc. Additionally, not all states with guaranteed issue and community rating in their non-group markets have premiums as high as those in Massachusetts and New York, and in fact there are some states which have instituted no reforms in the individual market yet have rates similar to states that have.

In terms of usefulness for reform impact projection, the individual mandate component of the ACA means that Massachusetts alone has a market similar to that which will exist in 2014, and the simultaneous implementation of their individual mandate and the merging of the small-group and non-group markets makes it difficult, if not impossible, to examine in isolation each of the two policy decisions' impact on non-group premium rates.

References:

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