

## Why Health Exchanges in North Dakota should have separate pools for Individuals and Small Groups

By Blue Cross Blue Shield of North Dakota

**Overview:** The new health care reform enacted through the Patient Protection and Affordable Care Act (PPACA) creates new rating regulations effective January, 1 2014. In addition to these changes, PPACA creates a rating pool for non-grandfathered Individual insurance products and a separate pool for non-grandfathered Small Group insurance products. These two pools will be used for rating inside and outside the Exchange. PPACA does allow for states to combine the two pools, but the default is for there to be two separate pools if a state does not take this option.

**Individual versus Group insurance:** Group insurance is sold through employers while Individual is sold directly to individuals or families. When Group insurance is sold to the employer the employer chooses the plan(s) for its employees and then employees have the choice to enroll in the plan. Group insurance has a smaller administrative cost due to economies of scale (one bill for the group, usually one plan for all employees). Individual insurance allows for more choice. This choice adds to the cost of insurance as individuals tend to know what plan works best for their situation. In addition, Individual insurance does not have the economy of scale advantage that Group insurance has. BCBSND has about 380,000 North Dakota members and more than 80% of these members are part of the Group market. States typically have a separate set of regulations and rating laws for Individual and Group insurance. BCBSND has separate rate and policy filings for these two markets.

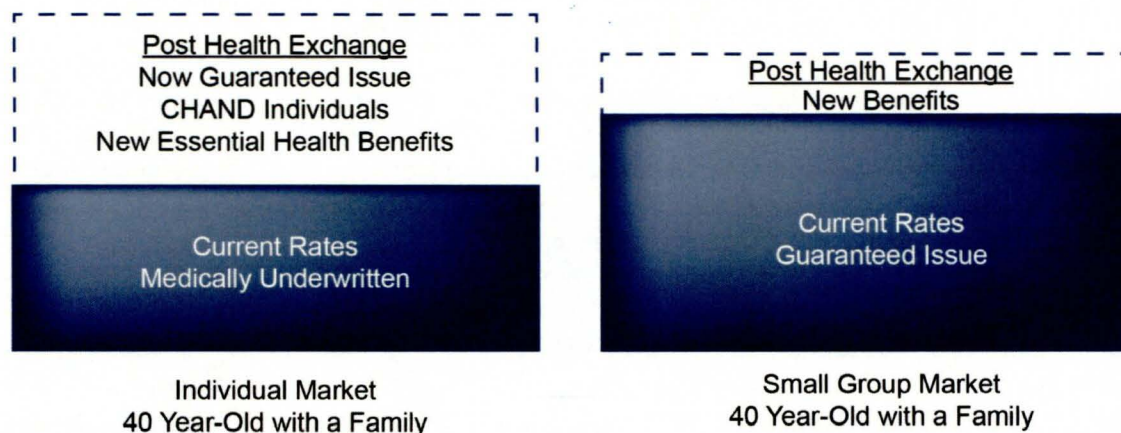
**PPACA and Guaranteed Issue:** Guaranteed issue within the Individual market, and Health Insurance Exchanges, will be introduced in 2014; these two changes will significantly affect the Individual market. North Dakota has already introduced guaranteed issue for Small Group, but this will be new to the Individual market. Guaranteed issue means that insurance carriers won't be able to medically underwrite. The current North Dakota Individual market allows for underwriting and any individuals/families that don't qualify medically are allowed into CHAND (Comprehensive Health Association of North Dakota) on a guaranteed issue basis at rates that are 35% above standard rates. Even with the higher premiums, CHAND loses more than \$2 million each year. This loss is assessed to insurers selling individual insurance within North Dakota. It is expected that the current CHAND enrollees will enter into the Exchange to buy insurance in 2014.

The new PPACA environment will significantly increase the rates for Individuals for the following reasons:

- CHAND enrollees, a higher risk pool, are expected to enroll in the new Exchange.
- Guaranteed issue will allow all individuals/families to get coverage, including those of all medical conditions.
- More flexibility within the Individual market. Individuals/families will be able to choose the plan that meets their needs with little restriction because of guaranteed issue. (e.g. A family expecting a baby could pick a low deductible plan the year they expect to deliver, and then switch to a cheaper high deductible plan when they don't expect medical claims). Group does not have this increased flexibility.

The following is an illustration of how PPACA will affect a typical Group and Individual plan in 2014. It is clear that Individual will be much more affected and a typical Individual plan in 2014 is expected to be more expensive than a typical Group plan in 2014.

## Two Pools: Individual and Small Group



Current rates for an average plan in Individual Market are roughly 70% of the average plan in Small Group Market. Post Health Exchange (Jan 1, 2014) BCBSND expects the Individual Market rates to be 10% higher than the Small Group rates.

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Note that this graph is meant to be a comparison. The key point is that the Individual market will be impacted more by PPACA and Exchanges than the Small Group market. Right now the typical Individual product is 70% of the cost of a Small Group product. We expect Individual insurance within the Exchange to be more expensive than the Small Group product after Jan. 1, 2014.

**What is a Pool?** The term "pool" as used in PPACA refers to how an insurance market is rated. Having two separate pools means the Individual rates will be based solely on the Individual claims experience and similarly Small Group rates will be based solely on Small Group claims experience. Having two separate pools does not mean that there will be two separate Exchanges. One Exchange can administer both of these markets even if they have separate rating pools.

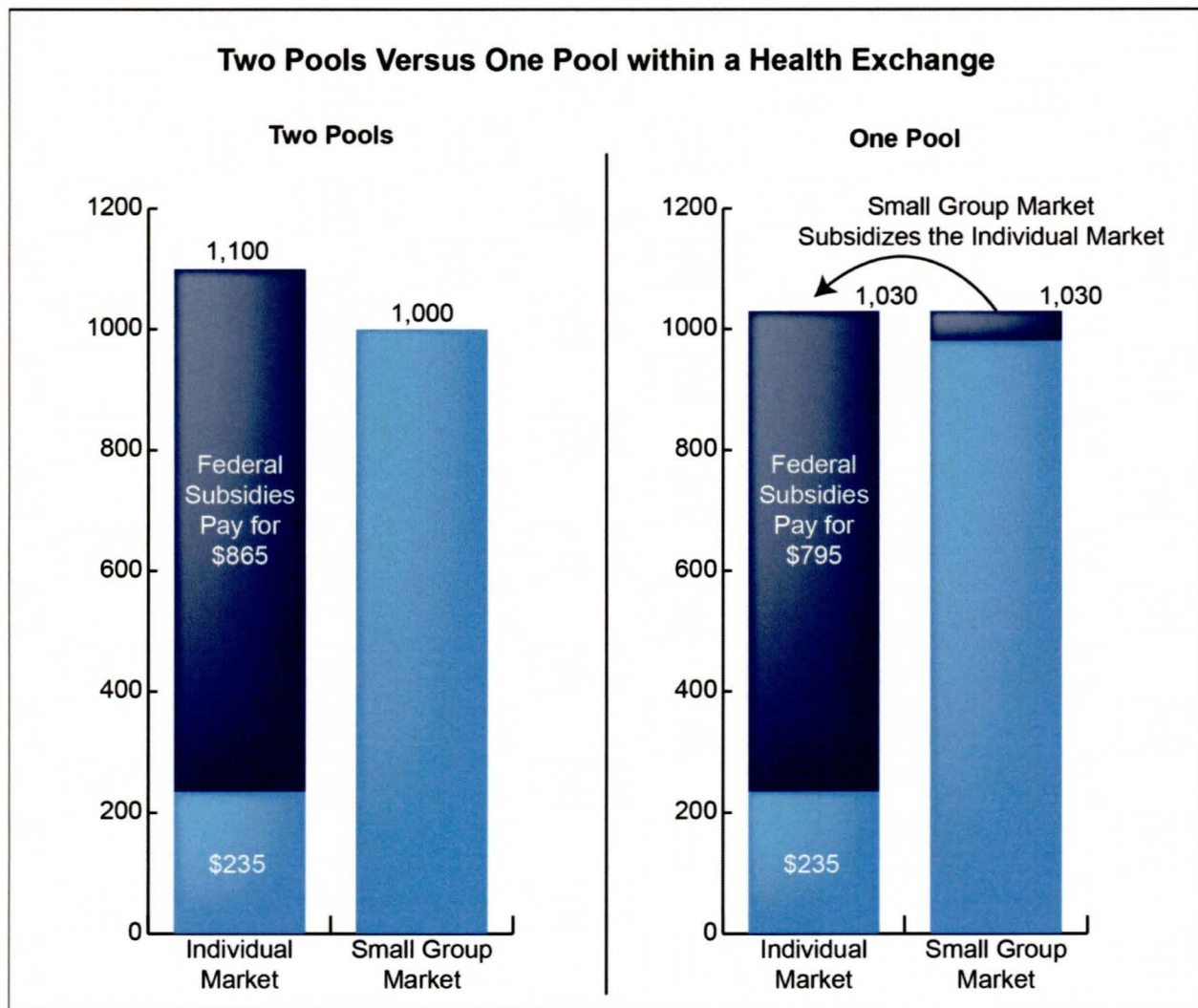
**Why Two Pools?** The main reason BCBSND suggests having two separate pools is to **preserve the Small Group market as much as possible**, causing minimal disruption for small-business owners. Both the Individual and Small Group markets will continue to increase in price with medical inflation and with some of the added insurance benefits that are expected to be implemented by PPACA in 2014. Combining the Small Group market with the Individual market will increase costs for the Small Group market even more. There is already concern that PPACA incents employers to drop coverage and let employees purchase health insurance on their own. This is not the intent of PPACA, but is an unintended consequence based on how the Individual and Group mandates and subsidies work. We believe keeping separate pools will help preserve the Small Group market by keeping it more affordable. The Small Group market has been in place a long time and employer based coverage helps keep the cost of health insurance down because of the lower administrative cost of group coverage.

**What will help keep Individual insurance affordable?** Keeping separate pools will result in Individual rates that are higher compared to having a combined pool where Small Group insurance subsidizes Individual insurance. But many people in the Individual market will have access to Federal subsidies and these subsidies will help keep Individual health plans affordable. All individuals/families below 400% of



the federal poverty level, who don't have access to affordable Group coverage, will be eligible for a subsidy.

**Making federal subsidies pay for PPACA changes as opposed to North Dakota Small Groups:** The federal subsidy is calculated based on a percent of family household income. For example, PPACA provides that a family that is 200% of the federal poverty level will pay 6.3% of its income toward health insurance and the Exchange subsidy will pay any additional amount up to the cost of a silver plan. This family will pay 6.3% regardless of the health rates in the Individual market. The decision to combine pools or keep the Small Group pool and Individual pool separate will not impact how much a family/individual, who qualifies for a subsidy, will pay for their insurance. But, if we combine pools, Small Groups will subsidize Individual rates and will in essence lower the federal subsidy. Below is an illustration to show how having two pools would create higher federal subsidies and keep Small Group insurance more affordable. The illustration is not meant to be exact, but the numbers and relationships are reasonable. The portion paid by the family is based on 200% of federal poverty level and is accurate based on 2011 federal poverty levels.



**Conclusion:** The Individual and Group markets are very different and should be kept separate. The Individual market has more choice, but more administrative cost. Small Group and Individual insurance products are rated using separate pools today and should be kept separate in the new Health Exchange/PPACA environment. We don't want unintended consequences to negatively impact the current Small Group market and disrupt small businesses.