

Approved:
Date: 1-29-02

MINUTES OF THE SENATE COMMITTEE ON FINANCIAL INSTITUTIONS AND INSURANCE.

The meeting was called to order by Chairperson Sandy Praeger at 9:30 a.m. on January 22, 2002 in Room 234 N of the Capitol.

All members were present except:

Committee staff present:

Ken Wilke, Office of the Revisor of Statutes
JoAnn Bunten, Committee Secretary

Conferees appearing before the committee:

Jay Rogers, Director of Accident and Health Division, Kansas Insurance Department

Others attending: See attached list.

Report on Status of Small Group Market

Jay Rogers, Director of Accident and Health Division, Kansas Insurance Department, briefed the Committee on laws concerning small group insurance and reforms that have occurred to date. Craig Van Aalst, Kansas Insurance Department, also briefed the Committee on a chart showing Small Group Rating examples. (Attachment 1) Committee questions and discussion on insurance matters related to loss ratio, community index rates, limited profitability of companies, absence of HMO networks in rural areas, adverse selection and modified community ratings.

Introduction of bills

Senator Feleciano requested introduction of a bill relating to WGME - Wichita Graduate Medical Education liability insurance. Senator Feleciano made a motion that the Committee introduce the proposed legislation, seconded by Senator Steineger. The motion carried.

Approval of Minutes

Senator Teichman made a motion to approve the Committee minutes of January 15, 2002, seconded by Senator Brungardt. The motion carried.

Adjournment

The meeting was adjourned at 10:30 a.m. The next meeting is scheduled for January 23, 2002.

SENATE FINANCIAL INSTITUTIONS & INSURANCE
COMMITTEE GUEST LIST

DATE: 1-22-02

NAME	REPRESENTING
<i>Rich Gauthier</i>	<i>Health Midwest</i>
<i>Karnie Ann Lower</i>	<i>KAMP</i>
<i>Linda M. Beersey</i>	<i>ZF Ins. Dept</i>
<i>Jay Rogers</i>	✓
<i>Lydia</i>	✓
<i>Brad Smith</i>	✓
<i>Bill Sneed</i>	<i>HIWA</i>
<i>Jim Liu</i>	<i>DOB</i>
<i>LARRY MAGILL</i>	<i>KAIA</i>
<i>Tiffany Cornejo</i>	<i>Sen. Brungardt's Intern</i>
<i>Cathy McBotton</i>	<i>KTLA</i>
<i>Sarah Payne</i>	<i>Hein + Wein</i>
<i>Jolie Hein</i>	<i>Hein + Wein</i>
<i>George Barber</i>	<i>Cooker Bruder Barber</i>
<i>Brad Smart</i>	<i>BCBS</i>
<i>Matthew Hockmuller</i>	<i>HCSA</i>
<i>BILL YANEK</i>	<i>Kansas Assoc. of REALTORS</i>
<i>Julie Rummich</i>	<i>Federico Consulting</i>
<i>Yotake Bridie</i>	<i>Via Christi / WIBA</i>



Kathleen Sebelius
Commissioner of Insurance
Kansas Insurance Department

January 22, 2002

TO: Senate Committee on Financial Institutions & Insurance

FROM: Jay Rogers, Director of Accident and Health Division
Kansas Insurance Department

RE: Small Group Insurance Reform

Madame Chairwoman and members of the committee:

We are here this morning to discuss the laws concerning small group insurance and reforms that have occurred to date in that last decade. Thank you for the opportunity to discuss with you this important topic.

The Reforms

The health insurance industry currently operating in Kansas and offering hospital, medical and surgical expense coverage primarily on an employer group insured basis to small employers includes approximately 35 private insurance companies, two Blue Cross and Blue Shield plans, and 15 health maintenance organizations. Insurers are subject to the small group rating restrictions contained within the Kansas statutes. These insurers provide coverage to 40-50% of employers who offer and contribute to a group major medical product as a benefit to employees and their dependents. Some small employers may provide coverage through their own self-funded plans or labor union, however, self-funded plans are usually only attempted by very large employers with sufficient cash reserves to adequately fund medical claims. These plans are exempt from the jurisdiction of the department pursuant to Federal law.

Almost every state has adopted some form of group health insurance reform over the last decade to improve access to coverage, provide for portability and renewability of coverage and control costs especially for small groups, those defined as having at least two and not more than 50 eligible members or subscribers. Many of the small group reform laws were based on model legislation developed by the National Association of Insurance Commissioners and therefore tends to be fairly uniform state to state.

Kansas, as well as most states, has sought to improve the availability of coverage for small employers by requiring insurance carriers who have developed products for this market to write coverage to any small employer that applies for it, regardless of the health status of the group's employees. This guarantee issue requirement applies to any product or combination of benefits offered by the insured in the small group market. To provide for the continuity and portability of coverage, Kansas, as well as the federal government, has enacted laws requiring carriers to renew coverage for employers they have previously covered and waive preexisting condition waiting

420 SW 9th Street
Topeka, Kansas 66612-1678

785 296-3071
Fax 785 296-2283
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Senate Financial Inst. & Insurance

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Attachment No. 1

periods for any employee transferring from a previous employer that can demonstrate prior credible coverage as defined in the law.

Kansas has enacted and made these reforms, but what does guaranteed issue mean? Guaranteed issue requires insurance carriers to sell coverage to any group that applies without regard to health status or claims experience. What is guaranteed renewability? Requires insurance carriers to renew insurance plans for groups they have previously covered. Insurers are also prohibited from canceling a group's plan due to claims experience or health condition. What about pre-existing conditions? Under the reforms, the limitation is defined as the maximum length of time during which a person(s) can be excluded from coverage due to conditions that existed prior to becoming insured, or during which a certain condition is not covered under a policy.

The Rates

We have also enacted laws similar to other states to control the cost of health insurance by regulating the premium rates insurance carriers can charge small employers for coverage.

- Rates may be implemented as soon as the department receives them (file and use procedure), and are not subject to prior approval.
- There are no benchmark guidelines to make these determinations for group health insurance as there are for individual, non-group coverage.
- We review each rate filing to determine if the methodology used by the company conforms to the requirements of the rating law. That includes a determination as to whether the proposed rates are reasonable, not excessive and not unfairly discriminatory.
- We require the certification of an actuary that the company's rating methodology complies with the requirements of the statute and that the proposed rates will not generate premium income levels significantly above that needed to cover anticipated claims and expenses.

The Kansas small group health insurance rating law applies to hospital, medical, surgical coverage plans, otherwise known as major medical plans. The rating law is designed to limit the difference between the lowest and highest premium rates charged to different groups based on certain risk factors and case characteristics within a class of business. These reforms were created to provide as large a spread of risk as possible and prevent rates from doubling or tripling year to year for employers with employees experiencing significant health care needs.

An overview of the small group rating methodology requirements and limitations established under Kansas law is as follows:

- **Class of Business.** For purposes of pooling the loss experience (or claim dollars incurred) of all small groups insured, a carrier will establish at least one class of small group business and establish an Index rate or base rate from which all premiums will be calculated. Additional pools or classes with their own separate Index rate may be established if the carrier wants to separate small groups to reflect a different marketing methodology, to separate small group business that has been assumed from another carrier or to separate small group business that has been written through an association arrangement. Separating small groups by Class is

permitted by statute to reflect what could be significant differences in acquisition costs or anticipated claim costs. The index rate for a rating period for any class of business shall not exceed the index rate for any other class of business by more than 20%.

- **Index Rate.** This is essentially a community rate for all small groups insured within a class of business. Sometimes referred to as the New Business Base Rate, this index rate is trended month by month, quarter by quarter or annually to reflect inflationary trends in the cost and utilization of health care as determined by the company based on either their own loss experience or information obtained by consulting with actuarial firms that track these trends on a regional or national level. All new business and renewal business rate calculations will begin with an updated Index rate that corresponds with the new business or renewal coverage effective date. While combined medical cost and utilization trends have in the past been nominal, we have in the past several months seen filings where reported trends, based on actual company experience exceed 15% to 20% annually.
- **Rating Tier.** The initial adjustment of the Index rate based on underwriting. Small group carriers will review health statements or questionnaires completed by each employee eligible for coverage in the group. Based on an overall evaluation of all of the health conditions either present, or anticipated based on the health statement responses, the Index rate may be adjusted either higher or lower to reflect what the underwriter anticipates will be more than or less than average claims for the group over the future rating period. The statute limits the initial underwriting adjustment to no more than 25% above or below the Index. This plus 25% to minus 25% creates an initial rate spread of 67% between the lowest rate and the highest rate that can be used for determining the group's initial or renewal premium.
- **Case Characteristics.** In addition to the above, the premium rate may be further refined to reflect a number of characteristics unique to a particular group:
 1. Adjusting the rate to reflect various coverage options such as deductibles or copayment variables
 2. Adjusting the rate to recognize the cost differences in geographic areas. Kansas urban areas such as Kansas City typically have higher medical costs than rural areas.
 3. Adjusting the rate to reflect either the average age of all insureds in the group, or adjusting the rate of each insured in the group to reflect their actual age (or sex).
 4. Adjusting the rate to reflect the type of industry in which the employer is involved.
 5. Adjusting the rate to reflect the size of the group (number of eligible employees) and/or the number of family members (dependents) that might be eligible for coverage. This adjustment to the modified community rate (the new business rate adjusted for underwriting and other case characteristics) converts it into the single, family, insured and spouse only or insured and dependent only premium rates that would be more familiar to an enrollee at initial enrollment or re-enrollment.

- **Renewal Rates.** Renewal rates are calculated in the same manner as new business rates using the trended Index or New Business Rate as a starting point and adjusted as outlined above. In addition to the rating adjustments already outlined, a renewal rate loss experience factor may be used which is determined by the actual claims experience of a group since inception of the business. This adjustment due to group utilization is limited by statute to +15%, but may be applied in addition to any other rating factor if warranted by the claims levels incurred by the group. The changes to the new business rate, changes in case characteristics and changes due to utilization are multiplicative when calculating a renewal rate. The maximum annual rate change permitted by the rating law is 75%.

The Examples

We have attached a spreadsheet illustrating some examples of rate calculations for small group health insurance.

Thank you, again for the opportunity to make this presentation on small group insurance reform.

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**Small Group Rating Example
New Business Rate**

Index Rate \$150.00

	<u>Company A</u>	<u>Rate Factor</u>	<u>Company B</u>	<u>Rate Factor</u>
Health Tier (Entire Group)		1.10		0.80
Average Age/Gender Factor	45/60% Female	0.90	29/80% Male	0.70
Coverage Choice	\$250 Ded. 90/80%	1.10	\$1,000 Ded. 80/60%	0.80
Area	68130	1.05	67215	1.20
Industry	Government	1.00	Construction	1.20
Family Composition	Employee	1.20	Employee	1.20
	Employee + Spouse	2.00	Employee + Spouse	2.00
	Employee + Child	1.75	Employee + Child	1.75
	Family	3.20	Family	3.20
New Business Rate	Employee	\$205.82	Employee	\$116.12
	Employee + Spouse	\$343.04	Employee + Spouse	\$193.54
	Employee + Child	\$300.16	Employee + Child	\$169.34
	Family	\$548.86	Family	\$309.66

Renewal Rate

New Business Trend Increase 10%

Index Rate \$165.00

	<u>Company A</u>	<u>Rate Factor</u>	<u>Company B</u>	<u>Rate Factor</u>
Health Tier (Entire Group)		1.1		0.80
Average Age/Gender Factor	46/60% Female	0.9	30/80% Male	0.75
Coverage Choice	\$250 Ded. 90/80%	1.1	\$1,000 Ded. 80/60%	0.80
Area	68130	1.05	67215	1.20
Industry	Government	1	Construction	1.20
Utilization Factor (12 Months Prior)	79% Loss Ratio	1.15	48% Loss Ratio	1.00
Family Composition	Employee	1.20	Employee	1.20
	Employee + Spouse	2.00	Employee + Spouse	2.00
	Employee + Child	1.75	Employee + Child	1.75
	Family	3.20	Family	3.20
New Business Rate	Employee	\$260.36	Employee	\$136.86
	Employee + Spouse	\$433.94	Employee + Spouse	\$228.10
	Employee + Child	\$379.70	Employee + Child	\$199.58
	Family	\$694.30	Family	\$364.95