

Blue Cross Blue Shield of MA Assessment of Connector Proposal for Contributory Employer Groups

Background

The Connector intends to participate in the contributory small group market, with the following underlying assumptions made by the Connector:

- Premium rates will be developed in accordance with Connector Policies and applicable law, which may be inconsistent with Carrier policies and rating methodologies.
- The Connector will manage the employer (account) relationship including eligibility determinations, establishment of premiums, enrollment, primary communications source, billing and termination of group policies.

Concerns

- The Connector has proposed implementing a rating methodology and various administrative policies and procedures in offering these products to small groups that will differ from those employed by Blue Cross (and other Carriers) in offering these same products, as well as other products, directly to small employers.
- According to Small Group Regulations and the proposed contract terms between the Connector and Carriers, the same group rates should be generated inside and outside of the Connector. (66.08 1 (b) 3 (b) and the proposed Connector contract terms). This will not be the case in many instances, under the proposal by the Connector.
- Differences in rating methodology include the use of list-billing by the Connector vs. composite rating by Blue Cross (and other Carriers) and no or prospective application of a participation rate adjustment by the Connector vs. the application of a participation rate adjustment based on final enrollment by Blue Cross . These differences will lead to inconsistent rates for employer groups quoted by the Connector compared to those quoted directly by Blue Cross, causing churn and selection in the small group market. Churn and selection will result in additional cost (see Exhibit I) for all individuals and small groups purchasing health insurance in the following ways:
 - **Composite versus List Billing:** Blue Cross (and other Carriers) uses composite rating, where the demographics of an employer group are combined to develop a single age factor for each employer group in its book of small group business. The Connector has proposed a list billing approach, where every employee in the group is rated on his/her specific age. Examples of the inconsistency in rates associated with list-billing vs. composite rating, some lower and some higher, are shown in Exhibit II.

As discussed on Page 120 in the Impact of Merging the MA Non-Group and Small Group Health Insurance Markets (Market Merger Special Commission)

report, “If there is free access to insurance either on a list-bill or composite rate basis, there will be the opportunity for selection. If an employer can get a quote both ways, it will be motivated to choose the lowest total premium. The effects of any such selection would be an additional cost that will be borne by the entire market.” The report further states on page 123, “If list billing is available to groups coming in through the Connector while composite billing is used in the open market, it will create selection opportunities. For example, it could lead to employers withdrawing from the Small Group market and directing their employees to the Connector. The smaller the group, the easier it is for the employer to model the effect, and therefore the easier it is to select against the pool.”

Analyses performed by the Commission to study the impact of the Merged Market indicated that list-bill vs. composite rating will result in added costs to the merged market of .5%. The study showed that over 20% of the market would experience lower rates under list billing vs. composite rating methodologies. These estimate are artificially low, however, as it is based on specific assumptions about the use of the maximum allowable size factor for employer groups that purchase through the Connector that is no longer valid. Adjusting for the change in the size factor assumption, the added cost of list-bill vs. composite rating could be as high as 2.5%.

Analyses across the Blue Cross small group book of business indicate 20% of the small group pool will experience lower rates under list billing vs. composite rating and 15% of the small group pool will experience higher rates under list billing vs. composite rating. The different rating methodologies in the market for the same Carrier’s products will result in induced selection by employers and brokers that will result in added costs of up to 2.5% that will be spread across all individuals and small groups. .

- **Participation Rate Adjustment Factor:** Blue Cross applies a rating factor based on the final number of enrollees in a Blue Cross Plan in accordance with Small Group Regulations(66.04 – participation rate in a health benefit plan). The Connector proposed rating methodology does not include the use of a participation rate adjustment factor based on final enrollment, but rather proposes the use of a prospective rate adjustment factor based on estimated enrollment. If an employer can get a quote from the Connector based on estimated enrollment and an assumed participation rate and from Blue Cross based on actual participation, there will be inconsistencies in rates quoted by the Connector compared to those quoted directly by Blue Cross, thereby creating further opportunity for selection and added costs that will be spread across all individuals and small groups.
- **Fragmentation of small employer groups:** Other areas of concern include the increased risk of selection resulting from the introduction of choice among multiple carriers and many benefit plans by individual employees within a small group. The

participation rate adjustment factor is intended to address some of the increased cost associated with choice and selection risk at the group level. The use of this rating factor allows carriers to be more equitable in the development of rates for small employers and individuals, by appropriately reflecting the cost of the additional risk for those groups who want more choice among health benefit plans. Employers that do not want that added choice are not charged a load for the incremental risk. Employer group fragmentation across multiple carriers also results in increased administrative costs associated with administration of several small groups.

As discussed on Page 123 in the Market Merger Special Commission report, “One of the byproducts of allowing individuals from the small employer market to choose and purchase products on their own is the issue of selection. This is where individuals choose health insurance products based on their own needs. This therefore reduces the cross subsidization that occurs across populations. The result of this phenomenon is that all costs will eventually increase.”

Data on the small employer market, as discussed in the Commission report on page 13, indicates that “In general, groups enrolled in plans with more cost sharing have lower Medical Loss Ratios (MLRs) and those with more comprehensive benefits have higher MLRs, suggesting that people select their plan in part based on perceived medical need.” In the previous non group market, the impact of selection was even more pronounced as stated in the Commission report on page 15, “average PMPM claims cost in the lower of the two active plan options was less than half that in the higher option, despite a difference in benefit value estimated at only 15%. There is apparently a great deal of selection at work in the non group market.”

Analyses performed by the Market Merger Special Commission indicate the potential cost associated with selection risk could be as high as 13% depending on the degree to which employees and individuals make choices that best meet their individual health and affordability needs. The report estimated a more realistic range of added cost associated with selection risk to be around 1-3%.

▪ **Connector Policies and Procedures:** The Connector’s policies and procedures for administering their “group product” differ from those similar policies and procedures applied by Blue Cross for the same products being offered by Blue Cross in our book of business. These differences will quickly be identified and used by brokers and employers to select the most favorable distribution channel for the same products from a carrier, leading to instability of the existing small group market and a further increase in costs across the entire small group pool due to selection.

○ Specific areas of difference include among others, policies and procedures for determining and verifying information regarding what constitutes a group, the eligible employees and dependents to be covered within the group and the industry coding for a group, all of which impact the ultimate premium rate collected and financial stability of the small group pool.

BCBSMA position

The current regulations provide that Carriers, such as Blue Cross, have the responsibility to establish their own rating methodology, policies and procedures consistent with small group regulations, as it is the Carrier that bears the full risk for the financial results. The Connector does not assume any financial risk for the products for which it gives the Seal of Approval and distributes. Furthermore, as clearly described in the Market Merger Commission report, it is in the public interest that the small group rating methodologies and policies and procedures used by the Connector to develop small group rates should be the same as they are currently executed by Carriers outside of the Connector. Permitting multiple rating methodologies for identical health benefit plans is inconsistent with Small Group Regulations and not good for small groups or the market overall. Small group market employers and brokers will select against the pool by searching for and choosing the rating methodology that produces the lowest rate. This will ultimately result in a redistribution of costs across the merged pool and added costs across the entire market, resulting in increased costs for all small groups and individuals purchasing health insurance. Exhibit I summarizes the potential cost impact on small group and individual premiums associated with proposed and implemented policies and strategies.

Moreover, there is no authority provided to the Connector under Health Care Reform to establish rating methodologies or rates, in lieu of the carriers who are financially responsible for the specific health benefit plans. Intermediaries and distributors do not establish group rates or policies for Carriers; they implement Carrier group rates that are derived from carrier policies and rating methodologies. Further, we believe that if the Connector goes forward and establishes a rating methodology and policies and procedures that produce rates inconsistent with the Carrier's own rating methodology, it would seem that Carriers would then be free to work with other intermediaries in the market and offer differentiated rates, raising the specter of significant confusion and disruption in the small group market.

The full report on the Impact of Merging the Massachusetts Non-Group and Small Group Health Insurance Markets can be referenced through the attached link.

http://www.mass.gov/Eoca/docs/doi/Legal_Hearings/NonGrp_SmallGrp/FinalReport_12_26.pdf

Recommendation

The Connector should distribute Carrier products to small groups on the same basis as each respective Carrier, by applying the same Carrier specific ratings methodologies and administrative policies and procedures when distributing Seal of Approval Carrier products to employer groups.

Exhibit I

The following chart summarizes the potential cost impact to small group and individual premiums in MA associated with the proposed policies.

	Connector Market Share *
Proposed Changes to Small Group Market	20% of Market
Connector Administrative Fee (Small Group only)	0.5% - 1.0% PMPM \$20 – \$40 million
List Billing vs. Composite Rating	1.0% - 2.5% PMPM \$40 – \$100 million
Selection due to fragmentation	0.1% - 0.5% PMPM \$5 – \$20 million
Administrative expense (due to group fragmentation)	0.5% - 1.0% PMPM \$20 – \$40 million
Total Impact of Proposed Changes	2.1% – 5.0% PMPM \$85 – \$200 million

* Assumes BCBSMA retains 33% of Connector membership

* 20% Connector market share estimate based on information in the Market Merger Special Commission report estimating impact of list billing

The following chart summarizes the cost impact to small group and individual premiums in MA associated with already implemented policies.

Prior Changes to Small Group Market	Incremental Costs
Merged Market	1.0% - 1.5% PMPM \$40 – \$60 million
Connector Administrative Fee (Individual only)	0.1% PMPM \$1 million
Total Cost of Existing Policies	1.1% - 1.6% PMPM \$40 – \$60 million

The following chart summarizes the cumulative cost impact to small group and individual premiums in MA associated with proposed and already implemented policies.

	Connector Market Share *
Changes to Small Group Market	20% of Market
Total Impact of Proposed Changes	2.1% – 5.0% PMPM \$85 – \$200 million
Total Cost of Existing Policies	1.1% - 1.6% PMPM \$40 – \$60 million
Total Impact to Small Group Market	3.2% – 6.6% PMPM \$125 – \$260 million

* Assumes BCBSMA retains 33% of Connector membership

* 20% Connector market share estimate based on information in the Market Merger Special Commission report estimating impact of list billing

Exhibit II

List billing of individuals in a group, as proposed by the Connector can produce a different total premium for an employer than composite rating due to the application of the 2:1 rate band as specified by small group regulations. This can result in different rates inside the Connector (list billed) than outside the Connector (for Carriers who use composite rating) for a given employer group. This has the potential to result in added cost to the entire small group pool as the added cost of capping is spread over the pool.

List Bill vs. Composite Rating Example 1

Assuming 2:1 Rate Band requires premiums to remain between \$200 and \$400. All rates and factors are hypothetical.

List Bill (2:1 band applied at the employee level):

<u>Employee</u>	<u>Age</u>	<u>Rate before 2:1 capping/flooring</u>	<u>List Bill Rate after 2:1 capping/flooring</u>	<u>Composite Rate after 2:1 capping/flooring</u>	<u>Difference in Rate</u>
Bill	60	\$650	\$400	\$393	-\$7
Sue	45	\$350	\$350	\$393	\$43
Jane	20	\$180	\$200	\$393	\$193
Total			\$950	\$1,180	\$230

List Bill vs. Composite Rating Example 2

Assuming 2:1 Rate Band requires premiums to remain between \$200 and \$400. All rates and factors are hypothetical.

List Bill (2:1 band applied at the employee level):

<u>Employee</u>	<u>Age</u>	<u>Rate before 2:1 capping/flooring</u>	<u>List Bill Rate after 2:1 capping/flooring</u>	<u>Composite Rate after 2:1 capping/flooring</u>	<u>Difference in Rate</u>
Amanda	20	\$180	\$200	\$223	\$23
Chris	20	\$180	\$200	\$223	\$23
Dana	20	\$180	\$200	\$223	\$23
Sam	45	\$350	\$350	\$223	-\$127
Total			\$950	\$890	\$-60