Financial Decision-Making Theory and the Small Employer Health Insurance Market in Texas

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Financial Decision-Making Theory

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Participants will make decisions based on the best financial outcome for themselves

Financial Decision-Making Theory

Participants in the small employer group health insurance market

- Insurers or carriers
- Employers
- Employees or insureds
- Agents

Financial Decision-Making Theory

- Carriers
  - Driven by need to make profit
  - Even non-profits have to avoid losses
  - Decisions to participate and how to participate are influenced by potential financial outcomes

Financial Decision-Making Theory

- Employers
  - Facing ever-increasing health insurance premiums
  - Decisions will be made that make the most financial sense
  - Must consider job market and negative implications of not offering insurance

Financial Decision-Making Theory

- Employees
  - Being expected to share more of the costs
  - Have more knowledge of their own potential health problems – leads to anti-selection

Financial Decision-Making Theory

- Agents
  - May want to provide quality health products, but are motivated by compensation
  - Agents will tend to direct towards health insurance option with highest compensation

Financial Decision-Making Theory

- Needs of the participants often conflict
  - Employers and employees want lowest premiums, but carriers and agents need to make a profit
- There needs to be a level playing field between all insurance options
  - Uneven playing field will result in option ending up with disproportionate share of high-risk individuals

Advantages Enjoyed by Large Employers in Health Insurance Market

Advantages Enjoyed by Large Employers in Health Insurance Market

- Economies of scale
  - Administrative savings and bargaining power
- Ability and/or risk tolerance to self-insure
  - Eliminates insurance risk charges and profit margins
  - Preemption from state regulation (ERISA)
- Unrestricted experience rating
  - Often lower premiums for pools of healthy individuals

Options for Small Employers in Texas

Options for Small Employers in Texas

- State-regulated small group market
- Private purchasing co-ops
- Health Group Cooperatives
- Small Employer Health Coalitions
- MEWA (Multiple-Employer Welfare Arrangements)

State-Regulated Small Group Market

State-Regulated Small Group Market

- History
  - Small Employer Health Insurance Availability Act (1993 and Amended in 1995)
    - Rating restrictions, including limits to rate increases
    - Creation of state-wide purchasing cooperative
    - Authority to create private purchasing cooperatives
    - Creation of standard benefit plans
  - Amendments for HIPAA (1997)
    - Guaranteed issue and renewal
    - Limitations on pre-existing condition exclusions

State-Regulated Small Group Market

- History
  - Senate Bill 510 (2003)
    - Carriers must offer mandated benefit plan and consumer choice plan
    - More flexibility in plan design
    - Must obtain signed form from employer acknowledging receipt of written disclosure about consumer choice plans

State-Regulated Small Group Market

- Small Group Eligibility
  - Groups with 2-50 eligible employees
  - Eligible employees
    - Full-time, working at least 30 hours/week
    - Not temporary, part-time, or seasonal
    - Not already covered by another health plan
  - At least 75% of eligible employees must participate (both in a two-person group)
  - Laws do not require employer contributions, but many carriers do

State-Regulated Small Group Market

- Rate Restrictions
  - Base premium rates developed for each class of business
  - Rates for particular employer group can vary by age, gender, group size, industry, and geographic area
  - Can be adjusted up or down on basis of health status by 25% for entire group
  - Final rate cannot exceed 67% of base rate
  - Rate increases for health factors limited to 15% per year.

State-Regulated Small Group Market

- Required Benefit Plans
  - Prior to 2003, carriers required to make available two plans – basic care and catastrophic plans – intended to lower costs through limited benefits
  - In 2003, SB 510 requires carriers to offer mandated benefit plan and Consumer Choice plan, which can exclude certain mandated benefits

State-Regulated Small Group Market and Financial Decision-Making Theory

- Rate Restrictions
  - Rate restrictions do not decrease the overall cost of providing coverage – they limit how carriers can spread out premiums between the groups
  - Healthier groups end up subsidizing less healthy groups and will likely search for lower cost coverage
  - Can lead to adverse selection death spiral

State-Regulated Small Group Market and Financial Decision-Making Theory

- Required Benefit Plans
  - Employers were either not interested or not aware or the plans
  - TDI survey of carriers and agents
    - Carriers wanted to offer own unique benefit packages – did not want to market the plans, provided disincentives
    - Agents did not market them
  - Consumer Choice Plans
    - In 2005, 87,675 Texans were covered under a CCP with 7,325 previously uninsured
    - Lower premiums were more a result of more cost-sharing and coinsurance, not reduction or elimination of mandated benefits

Private Purchasing Cooperatives

Private Purchasing Cooperatives

- Small Employer Health Insurance Availability Act – passed by Texas legislature in 1993
- Allows two or more small businesses to join together to form health insurance purchasing cooperatives
- Proponents arguments
  - Employers can rely on cooperative's expertise and relationships with carriers
  - More clout in bargaining with carriers
  - Allows administrative economies of scale
  - Small employers would have more coverage choices

Private Purchasing Cooperatives

- Six co-ops registered with TDI, but very few are active
- Carriers have shown little interest in participating and do not believe they will result in the expected cost savings

Private Purchasing Cooperatives

- Texas Insurance Purchasing Alliance (TIPA)
  - Statewide public health care purchasing alliance
  - Created by Small Employer Health Insurance Availability Act
  - At peak, almost 13,000 people covered
  - Dissolved in July 1999

Private Purchasing Cooperatives

- TIPA demise was the result of several contributing factors
  - Lack of agent use
  - Rating provisions
  - Health plan selection

Private Purchasing Cooperatives

- Lack of Agent Use
  - Initially directly marketed to reduce admin costs
  - Then used agents but limited commissions
  - Financial Decision-Making Theory
    - Agents placed healthier groups in private market where commissions were higher
    - Directed riskier groups to TIPA
    - Due to higher proportion of high-risk members, TIPA premiums increase significantly over time

Private Purchasing Cooperatives

- Rating Provisions
  - TIPA plans subject to more restrictive rating provisions – not allowed to adjust rates based on health status, size or industry
  - Initially, lower premiums for less-healthy groups
  - Financial Decision-Making Theory
    - TIPA attracted high-risk groups
    - Significant premium increases over time
    - Potential for adverse selection death spiral became apparent – rating provisions eventually revised to match private market

Private Purchasing Cooperatives

- Health Plan Selection
  - Allowed every employee to choose type of plan and carrier
  - Led to considerable anti-selection
  - Financial Decision-Making Theory
    - As certain carriers ended up with a higher proportion of high-risk individuals, they withdrew from the alliance

Health Group Cooperatives and Small Employer Coalitions

Health Group Cooperatives and Small Employer Coalitions

Feature	Small Employer Coalition	Health Group Cooperative	Health Group Cooperative Sub(p)
Created By	HB 897 (2003)	SB 10 (2003)	SB 805 (2005)
Minimum Number of Employers	2	10	10
Maximum Number of Employers	25	No Limit	25
Composition	Small Employer	Small or Large Employer	Small Employer

Health Group Cooperatives and Small Employer Coalitions

Feature	Small Employer Coalition	Health Group Cooperative	Health Group Cooperative Sub(p)
Maximum Group Size	50	N/A	50
Considered Single Employer?	Yes - small	Yes – large	Yes - small
Guaranteed Issue	Yes	No	Yes
Guaranteed Renewable	Yes	Yes	Yes

Health Group Cooperatives and Small Employer Coalitions

Feature	Small Employer Coalition	Health Group Cooperative	Health Group Cooperative Sub(p)
Minimum Employer Commitment	None	2 Years	2 Years
Tax Treatment	None	2 yr exemption from certain taxes	2 yr exemption from certain taxes
Issuance Limits	None	1 per carrier per county, w/ permissive expanded service areas	1 per carrier per county, w/ permissive expanded service areas

Cooperatives/Coalitions and Financial Decision-Making Theory

- Carriers don't want small groups to have more clout
- There may be admin savings from cooperatives performing administrative tasks, but carriers lose control, including accuracy and potential liability associated with premium collection and enrollment
- Employees can choose plans – more choices leads to anti-selection

Multiple-Employer Welfare Arrangements (MEWAs)

Multiple-Employer Welfare Arrangements

- Allow a group of employers to collectively offer health insurance to their employees
- Often set up by trade, industry or professional associations for member employers
- Fully Insured – attempt to negotiate lower rates than available through other markets
- Focus here is on self-funded MEWAs

Multiple-Employer Welfare Arrangements

- History
  - Originally covered by ERISA and exempt from state regulation
  - Able to avoid reserve requirements, rating restrictions, and other solvency standards
  - Often priced below plans available through regulated insurance companies
  - Many were unable to pay claims and became insolvent
  - Others were set up by individuals who embezzled the assets
  - In 1983, ERISA amended to provide exception to preemption provisions and allow for regulation by state insurance laws

Multiple-Employer Welfare Arrangements

- Regulatory Requirements in Texas
  - Regulated by TDI if one or more employer members domiciled or principle headquarters in Texas
  - Five or more businesses in the same trade or industry
  - Association or group must be
    - Non-profit
    - In existence for at least two years
    - For purpose other than sponsoring welfare benefit plan
  - Must obtain Certificate of Authority from TDI

Multiple-Employer Welfare Arrangements

- Reserve Requirements
  - Minimum of 20% of total contributions
  - Cash or short-term federally guaranteed investments
  - No surplus requirements
- Stop-Loss Requirements
  - Specific and aggregate with 12-month incurred and 15 month paid periods
  - Specific retention determined annually by actuary
  - Aggregate with retention amount of no more than 125% of expected claims

Multiple-Employer Welfare Arrangements

- Coverage Requirements
  - Participation – cannot be based on health status factors
  - Coverage – must accept/reject entire group based on underwriting standards and criteria
  - No exclusion of any eligible employee or dependent
  - Minimum contribution/participation requirements must be applied uniformly
  - Annual enrollment period of at least 31 days
  - Waiting period must be predefined

Multiple-Employer Welfare Arrangements

- Advantages for Employers/Employees
  - Ability to enjoy benefits of self-funded plans
  - Lower cost because exempt from mandated benefits, premium taxes and solvency requirements
  - Elimination of profit margin and risk premium earned by insurers
  - Allow coverage for industries that insurers avoid (e.g., migrant workers)

Multiple-Employer Welfare Arrangements

- Disadvantages for Employers/ Employees
  - Potential for financial problems
  - No state guaranty association
  - In bankruptcy, creditors usually paid off before participants and providers

Multiple-Employer Welfare Arrangements and Financial Decision-Making Theory

- Good choice for groups with young, healthy employees – more opportunity for premium savings
- Can cause some instability in state-regulated small group market – can siphon off healthy groups, leaving higher risk groups in insured market

Conclusions