



Dora

Department of Regulatory Agencies

Division of Insurance

2010 Colorado Small Group Market Activity and Rating Flexibility Report



Interim Commissioner of Insurance
John J. Postolowski

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Executive Summary

The Division of Insurance (Division) produces an annual report on the status of Colorado's small group health marketplace. This year's report includes an analysis of the effects of rating flexibility in the small group market since 2007 as required by §10-16-105(8.7)(a), Colorado Revised Statutes.

Key findings in this report:

Participation in the Small Group Market 2009-2010

- A decline in both the number of small group plans, by 10%, and covered lives, by 7%.
- Business Groups of One (BG-1s), a subset of small employers, decreased by 15%.
- Ten companies increased their market share to include 99.7% of all covered lives in 2010, compared to 99.0% in 2009.
- Of 16 companies in the small group market, 10 sell new policies and six are in the process of leaving the market.
- Health Savings Account (HSA) qualified plans increased in proportion to other plans by 2%, down from a 4% increase in 2009.
- Health Maintenance Organization (HMO) coverage increased in proportion to other types by 3%, which is lower than the 12% increase in 2009.
- The number of covered lives that left the small group market in 2010 is less than half the number of covered lives that left in 2009.

Use and Effect of Rating Flexibility

- The average index rate premium increased 22% from 2007-2009 with a small decrease in 2010. The index rate is the average rate charged to all small employers before any adjustments for an employer's specific group characteristics.
- Since 2007, 14% fewer groups had premiums above the average index rate.
- Total written premium decreased almost 5% from 2007 levels, but the average written premium per covered life increased by over 20%.

Small Group Premium Rate Renewals 2009-2011

- Carriers provided a distribution of all small group annual renewal premium rate increases as part of their rate filings in 2009, 2010 and 2011.
- Over the three-year period, premiums varied less among employers as the new modified community rating structure took hold. More employers' premium renewals were 0-20% in 2011. In a "modified community rating" structure, a limited number of factors can be applied to an individual employer, while other factors, such as claims experience and health status, must be applied evenly to the small group market as a whole.

Carrier and Employer Perspectives on Rating Flexibility Changes

- Several carriers saw a difference in the effect of rating flexibility on employers with 1-15 employees versus employers with 16-50 employees. Smaller employers were not affected as dramatically.
- Half of carriers surveyed increased premiums because of the 2007 rating flexibility changes.
- Twelve carriers believe the rating flexibility changes destabilized the market while six carriers believe it had no effect.
- Several carriers cited the economy along with rating flexibility as a major factor in the small group market's continued decreases in employer plans and covered lives.
- 61% of employer survey respondents shop around for health insurance every year.
- 61% of employer survey respondents feel the number of health insurance options has decreased.
- Price and benefits are the most important criteria employers consider when purchasing insurance.
- Only 33% of employer survey respondents offer employees multiple plan design options.

Introduction and Statutory Authority

The Division produces an annual report on the status of Colorado's small group health marketplace. This year's report includes an analysis of the effects of rating flexibility in the small group market since 2007 as required by §10-16-105(8.7)(a), Colorado Revised Statutes. Specifically, this report evaluates the following:

- Small group market trend information, availability of coverage, average cost of coverage, types of coverage and number of covered lives in the small group market;
- Application of rating flexibility on small employer groups of one to no more than 15 employees, as compared to the impact on small employers with 16 or more employees for January 2007-January 2011;
- Premium rates for renewed policies in the small group market for 2009-2011;
- Insurance industry and small employer qualitative information about the current small group market.

Section 10-16-105(8.7)(b)(II), C.R.S. also requires the Division to include an analysis of "any cost-shifting that may occur because of reimbursement rates from publicly-funded health coverage plans." While such a cost shift does exist between privately insured and publicly insured programs, the data and expertise needed to fully analyze this topic goes beyond the scope and authority of the Division.

The small group market is made up of employers who provide employee health coverage through a Colorado regulated health benefit plan and have 50 or fewer eligible employees in Colorado for at least half of the year. It also includes employers with only one employee, known as Business Groups of One (BG-1s). BG-1s participate in the small group market due to a unique Colorado law as compared to other states.

The Division collects information for this report from health carriers, including Health Maintenance Organizations (HMOs), as well as small group employers. This year's information includes the number of plans, premiums, changes in index rates related to covered lives, changes in total written premiums, and total number of lives covered under small group health benefit plans at the end of the previous calendar year.

The report provides information in the following order:

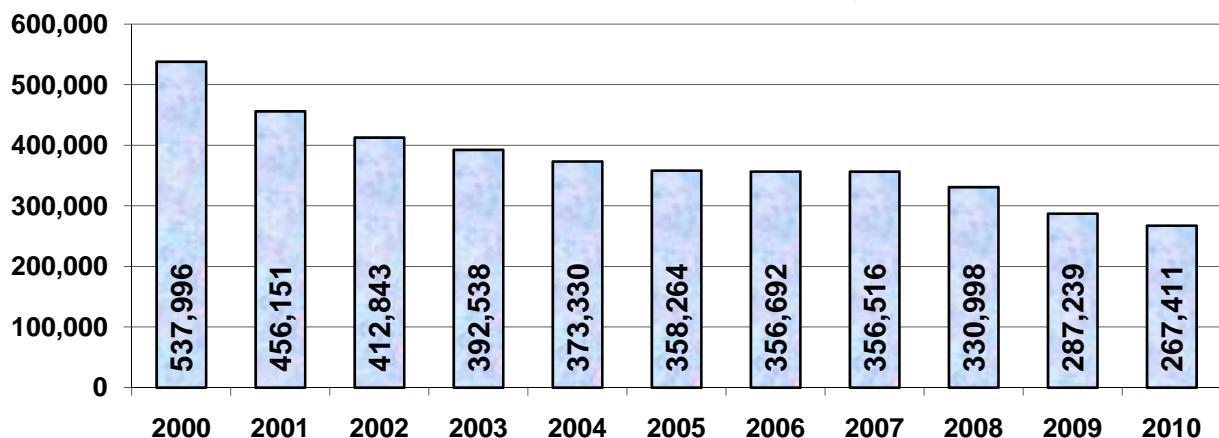
- Small group market participation and activity as of December 31, 2010
- Use and effect of rating flexibility January 2007- January 2011
- Annual premium renewal rate increases for small group employers 2009-2011.

Participation in the Small Group Marketplace

As of December 31, 2010, the Colorado small group market covered 267,411 Coloradans with over \$1.1 billion in written premiums. This represents 19,828 fewer people since December 31, 2009, which is a 7% decrease, since December 31, 2008. However, this is less than half the decrease in covered lives that occurred in 2009. The following chart shows the number of "covered lives" in the small group market over ten years. Covered lives represent all people covered under a health benefit plan, including the policyholder and any spouse or children.

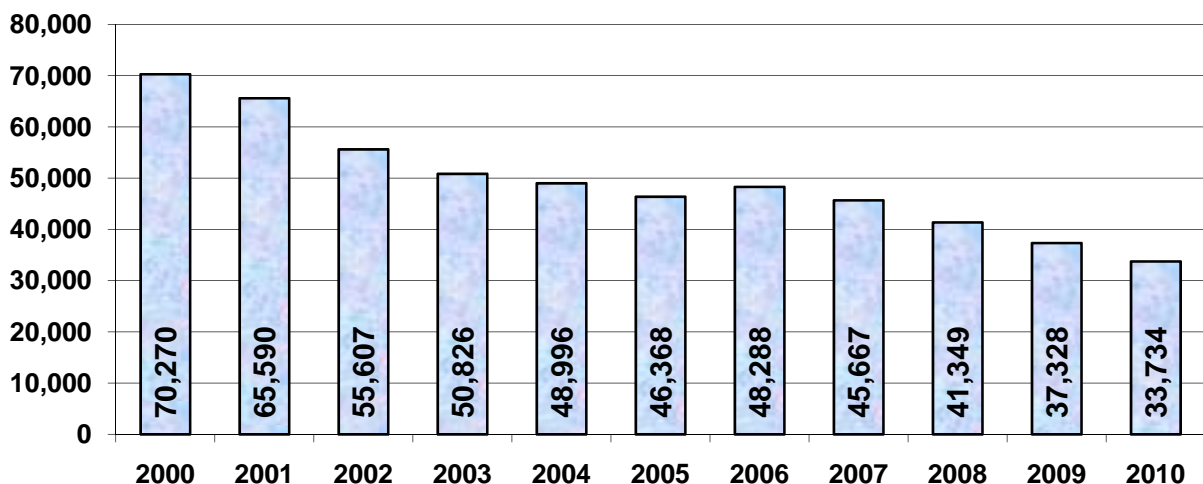
Seven thousand seven hundred eleven covered lives in 2010 were uninsured for more than 90 days prior to joining a small group plan. In 2009, the number of recently uninsured was 4,316.

Colorado Small Group Market Covered Lives as of December 31, 2010



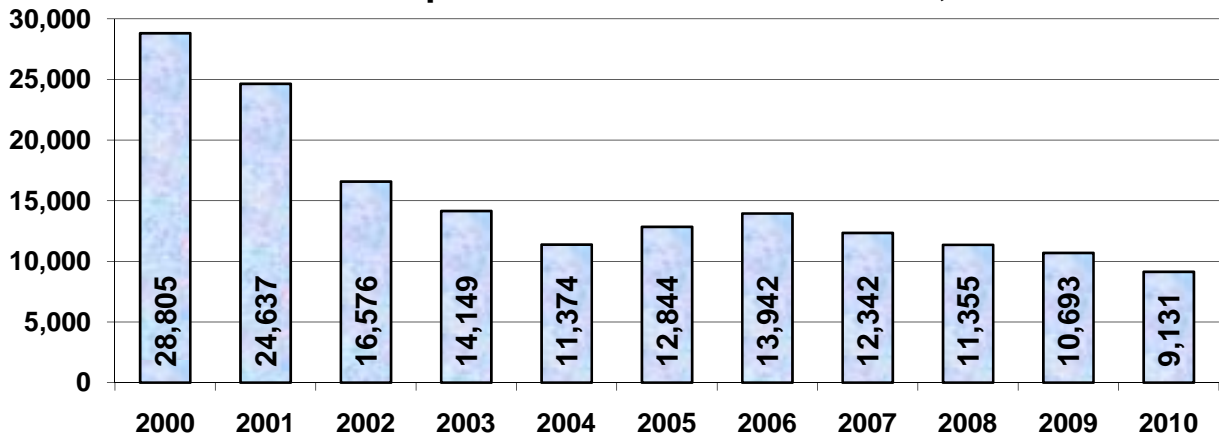
The number of employers participating in the small group marketplace also declined in 2010. As of December 31, 2010, there were 3,594 fewer small group employers that provided health plans for their employees, representing a 10% drop in the number of small group market employers. Over 40%, or 1,550, of the employers that dropped out were terminated due to non-payment of premiums.

Colorado Small Group Market Employer Group Plans as of December 31, 2010



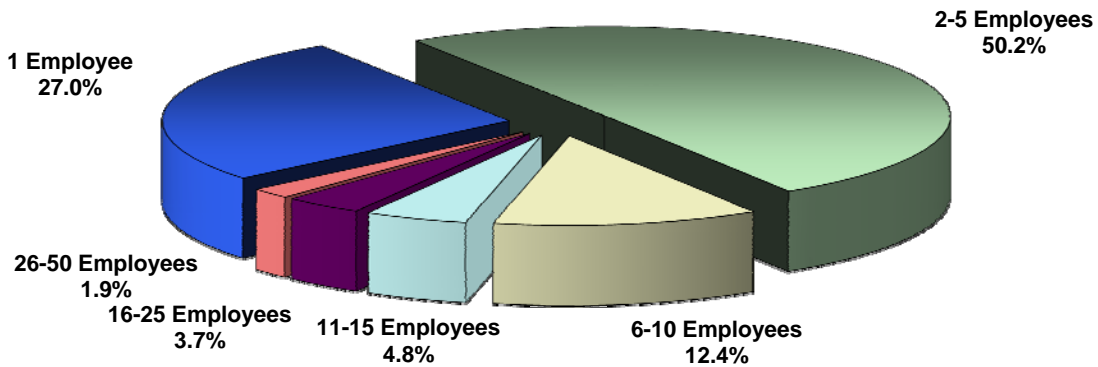
In 2010, the number of BG-1s declined by 15% from 10,693 to 9,131. Groups with 2-50 employees declined 8%. BG-1s now represent 27% of the small group market, down from 28.5% in 2009, which reverses the trend from the previous year. The data does not indicate whether the BG-1 no longer has insurance, no longer is in business or grew to a group of two or more.

Colorado Small Group Market Business Groups of One as of December 31, 2010

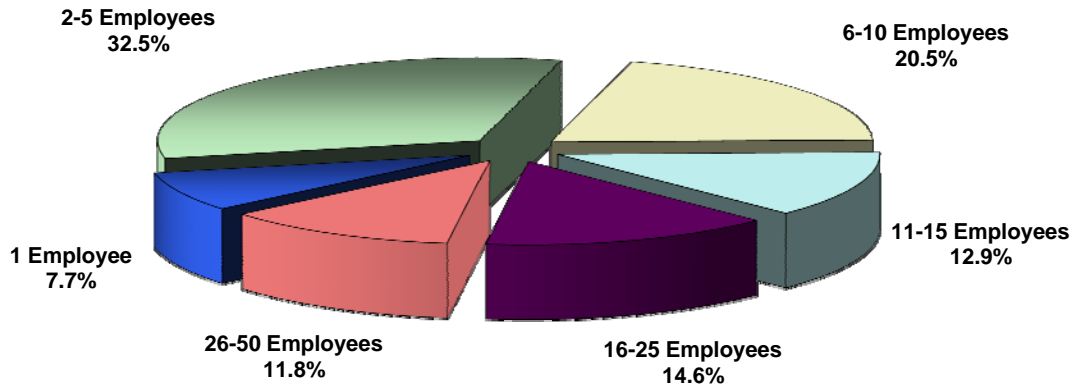


As shown on the following charts, BG-1s represent 27% of the “companies” in the small group market, but only 7.7% of the covered lives. For BG-1s, one policy may cover a single employee or might include the single employee’s family. In a company with 2 to 50 employees, one policy covers all employees, spouses and dependents as a single group.

2010 Colorado Small Group Market Employer Group Plans by Company Size as of December 31, 2010



2010 Colorado Small Group Market Covered Lives by Company Size as of December 31, 2010



Carriers in the Small Group Market:

Sixteen carriers participated in Colorado's small group market on December 31, 2010. Five companies have left the small group market since December 31, 2009. Of the remaining 16 companies, six no longer sell new policies and are in the process of officially leaving the small group market. These six represent 1.5% of covered lives. Ten small group carriers covered 99.7% of all small group employees with health insurance coverage at the end of 2010, up from 99.0% at the end of 2009.

Colorado Small Group Carriers
(By covered lives as of December 31, 2010)

Carrier Name	Market Share	Small Group Covered Lives	Writing New Policies	Limited Mandate Plans	HSA Plans
1. Kaiser Foundation Health Plan of Colorado	29.5%	78,743	Yes	Yes	Yes
2. UnitedHealthcare Insurance Company	26.3%	70,161	Yes	Yes	Yes
3. Rocky Mountain Hospital and Medical Services, Inc. d/b/a Anthem Blue Cross Blue Shield	24.4%	65,123	Yes	No	Yes
4. Rocky Mountain HealthCare Options, Inc.	5.6%	14,999	Yes	Yes	Yes
5. Humana Health Plan, Inc.	5.3%	14,225	Yes	Yes	Yes
6. Rocky Mountain Health Maintenance Organization	5.2%	13,948	Yes	Yes	Yes
7. Aetna Life Insurance Company	1.3%	3,525	No	Yes	Yes
8. Humana Insurance Company	1.0%	2,722	Yes	Yes	Yes
9. Colorado Choice Health Plans d/b/a San Luis Valley HMO	0.8%	2,129	Yes	Yes	Yes
10. HMO Colorado, Inc.	0.3%	749	Yes	No	No
11. John Alden Life Insurance Company	0.1%	365	No	No	No
12. UnitedHealthcare of Colorado, Inc.	0.1%	365	Yes	Yes	No
13. The MEGA Life and Health Insurance Company	0.1%	177	No	Yes	No
14. Mid-West National Life Insurance Company of Tennessee	0.0%	123	No	Yes	No
15. Time Insurance Company	0.0%	51	No	No	No
16. Transamerica Life Insurance Company	0.0%	6	No	No	No
Total	100%	267,411	10	11	9

Employer Group Plan Types:

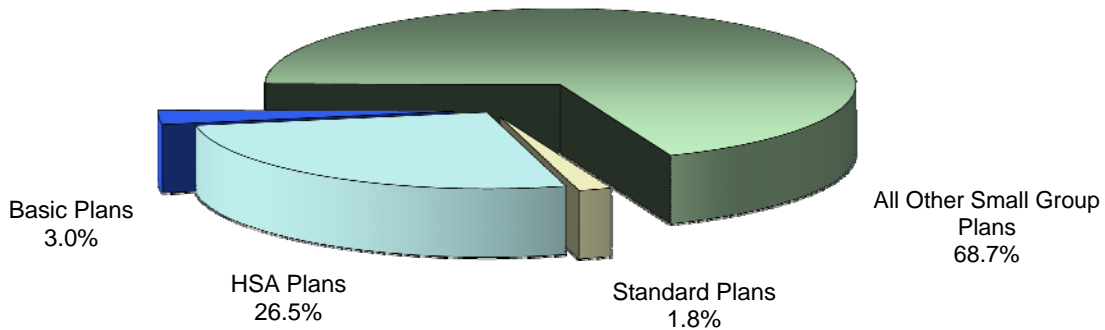
Small group plans differ in levels and types of coverage. The Division divides them into four categories.

- **Basic Plan.** This is one of two plan types with coverage levels determined by the Division. Coverage from one company to the next is identical. A "basic" plan approximates the lowest level of coverage offered in the small group marketplace, in accordance with Colorado law § 10-16-105(7.2), C.R.S. The Division surveys the market, reviews the results with an advisory group, and makes

recommendations to the Commissioner regarding any necessary benefit changes. The Commissioner issues a biennial regulation that establishes the Basic Plan benefits.

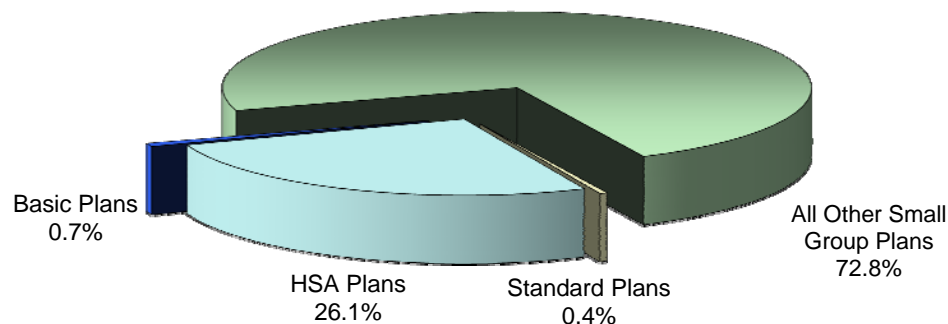
- **Standard Plan.** This plan offers more coverage than the Basic Plan, but the Division also determines benefit levels. The “standard” plan reflects the benefit design of common or average small group plans. Like the Basic Plan, the coverage provided from one company to the next is identical and the Division determines the benefit levels through the same process.
- **Health Savings Account (HSA) Qualified Plan.** With this type of plan, individual policyholders contribute pre-tax money that accumulates from year to year for medical costs. These accounts must be paired with a high-deductible insurance plan. The federal government sets the standards that the health benefit plan must meet in order to qualify for favorable tax advantages. The HSA-qualified plans included in the chart below meet those qualifications. The percent of HSA-qualified plans in the market continues to rise in proportion to other types of plans, from 20% in 2008 to 24% in 2009 to 27% in 2010. These gains are taken mostly from the Basic and Standard plan types.
- **All other Small Group Plans.** These represent plans offering coverage other than that of the Basic and Standard plan, and do not qualify as an HSA. Because they allow employers to customize non-mandated benefits, they make up the majority of the small group market.

2010 Colorado Small Group Market Employer Group Plans by Plan Type as of December 31, 2010



Basic and Standard Plans make up less than 5% of total plans and represent only 1.1% of covered lives. In contrast, HSA plans have increased to over one quarter of the market. In 2004, HSAs represented 0.4% of the market, compared to 26.5% in 2010.

2010 Colorado Small Group Market Covered Lives by Plan Type as of December 31, 2010

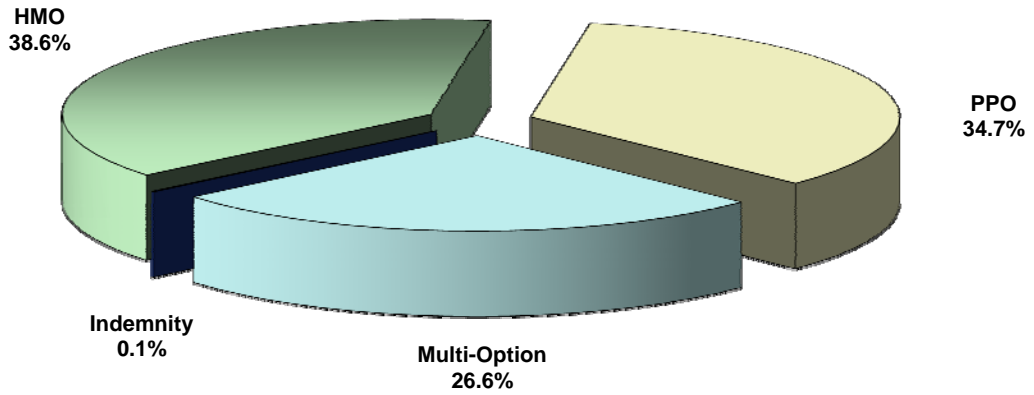


Small Group Market Coverage Types:

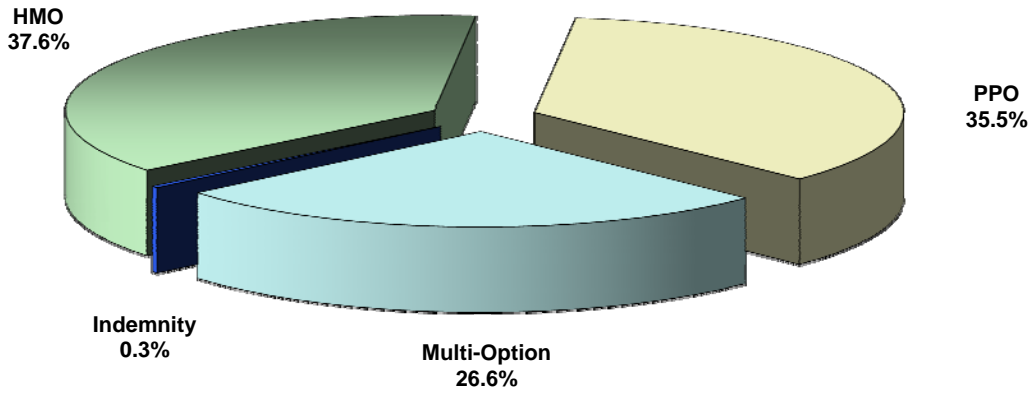
There are two types of carriers offering health benefit plans: HMOs and insurance companies.

- Insurance companies and health service corporations may use a preferred provider organization (PPO) or offer “indemnity” plans.
- PPO plans provide more flexibility and allow members to utilize both contracted and non-contracted providers; however, the benefit levels for using contracted providers are typically much better. The number of covered lives in a PPO declined from 62.0% in 2007 to 34.7% in 2010.
- Indemnity plans provide equal coverage for any provider or hospital.
- HMO plans require non-emergency medical care to take place at in-network facilities and other providers contracted with the HMO for a fixed premium with no deductibles.
- Both PPO and HMO networks include specific hospitals, participating doctors and other health care providers.
- Multi-option plans combine a mix of PPO, HMO, and indemnity options for a single employer. Employees choose between types of coverage. Multi-option plans have seen dramatic growth. In 2007, they represented 4% of covered lives, compared to 26.6% in 2010.
- In 2010, HMOs covered 3% more of the market than in 2009. The majority of the shift came from PPO style plans.

2010 Colorado Small Group Market Covered Lives by Coverage Type as of December 31, 2010



2010 Colorado Small Group Market Employer Group Plans by Coverage Type as of December 31, 2010



Key Findings in Small Group Market Participation and Activity:

The major market changes from 2009 to 2010 include the following:

- The number of small group plans decreased 10% from 37,328 to 33,734.
- The number of covered lives decreased 7% from 287,239 to 267,411.
- BG-1's, a subset of small group employers, fell by 15%.
- Ten small group carriers covered 99.7% of all small group employees with health insurance coverage at the end of 2010, up from 99.0% at the end of 2009.
- Of 16 companies in the small group market, 10 sell new policies while six are in the process of leaving the market.
- HSA qualified plans increased in proportion to other plans by 3%.
- HMO-type coverage increased 3% in proportion to other types.
- The number of lives leaving the small group market in 2010 is less than half the decrease in covered lives that occurred in 2009.

Use and Effects of Rating Flexibility in the Small Group Market

Use of Rating Flexibility:

Rating flexibility is a tool insurance carriers use to determine premiums. The amount of “flexibility” depends on the number of factors a carrier can consider when setting an employer’s premium. The more factors that can be applied to a single employer’s premium, the more “flexible” the rating structure becomes. Less flexibility moves the premium setting process toward “community rating” with less variance in premiums from employer to employer. With pure community rating, the risk of all insureds is spread evenly across the entire community of individual policyholders and employers. Everyone pays the same premium rate.

In Colorado, carriers’ use of rating flexibility has changed over the years. Currently, the market functions under a modified community rating structure. Under “modified community rating,” a limited number of risk factors can be applied to an employer, while others must be applied to the small group market as a whole. Currently, carriers may use the following factors to adjust premiums for an employer:

- age
- geography
- family size
- plan benefit design
- type of industry
- tobacco use

To arrive at a specific premium rate for an employer, a carrier first establishes an index rate. An index rate is the average rate charged to all small employers before any adjustments for an employer’s specific group characteristics. It does not vary from one employer to the next. Once the index rate is established, a carrier then makes adjustment according to the allowable rating factors such as age, geography, etc. Once the adjustments are made, the rate is referred to as the “filed rate.”

Legislative History and Background:

In 1994, the Colorado General Assembly enacted House Bill 94-1210, a group of reforms focused on improving access to health insurance for small employers over a four-year implementation period. The legislation required guaranteed access to certain benefit packages offered by carriers, and imposed modified community rating on small group policies over a four-year implementation period. Under HB94-1210, modified community rating began January 1, 1998, and premiums could vary beyond the index rate according to the following factors:

- age
- geography
- family size
- plan benefit design

Between 1994 and 1998, Colorado's small group market increased from 25,381 groups and 413,643 covered lives to 71,126 groups and 536,367 covered lives. In 1999, the General Assembly enacted SB99-124 commissioning the University of Northern Colorado to examine the impact of HB94-1210. This report found the reforms initiated under HB94-1210 increased both the access to and coverage under small group plans significantly, tallying 23.8% growth in groups covered and 8.2% in covered lives between 1996 and 1998.¹ In 2000, the market hit a peak with 537,996 covered lives in 70,270 group plans before it started to decline.

By 2003, the number of groups dipped to 50,826 and the covered lives decreased to 392,538. Once again, the General Assembly took action to try and preserve the market and passed House Bill 03-1164 changing the rating flexibility rules. The legislation added smoking status, claims experience, type of industry, and health status as factors carriers could use to establish premiums for small employers beyond the index rate. At this point, the complete list of rating factors included:

- age
- geography
- family size
- plan benefit design
- type of industry
- tobacco use
- claims experience
- health status

The legislation also established limits on how far a carrier could increase or decrease an employer's premium for health status, claims experience and type of industry. They could vary group premiums by:

- A decrease up to 15% from the filed rate for plans between September 1, 2003 and September 29, 2004.
- No more than 10% above or 25% below the filed rate after September 30, 2004. In addition, the annual increase from year to year due to claims experience, health status, type of industry and/or tobacco use could not exceed 15%.

Between 2003 and 2007, the numbers continued to decrease to 45,667 groups and 356,516 covered lives. In 2007, the Colorado Division issued *Report of the Commissioner of Insurance to Colorado General Assembly on Rating Flexibility*, a report that evaluated the 2003 legislative changes in rating flexibility. In the report, the numbers in the small group market showed a slight increase between 2005 and September 2006, but the Division stated the trend needed to be tracked for a longer time period. The report also showed the health status of those covered in small groups was worsening. However, around 60% of groups received a discount due to rating flexibility, and the carriers' perception was that the 2003 changes attracted more small groups to offer insurance and stabilized the market as a whole.

In 2007, the General Assembly took its most recent action by passing House Bill 07-1355. The legislation removed claims experience and health status as factors carriers could use to adjust small employer premiums. The health status and claims experience must be spread across the entire small group market and be factored into the index rate. Currently, carriers may use the following factors to adjust premiums for a small employer:

- age
- geography,
- family size
- plan benefit design
- type of industry
- tobacco use

¹Report to the Colorado Legislature, Senate Bill 99-124, "Small Group Health Insurance Reform," Kenneth W. Monfort College of Business, University of Northern Colorado, at iii.

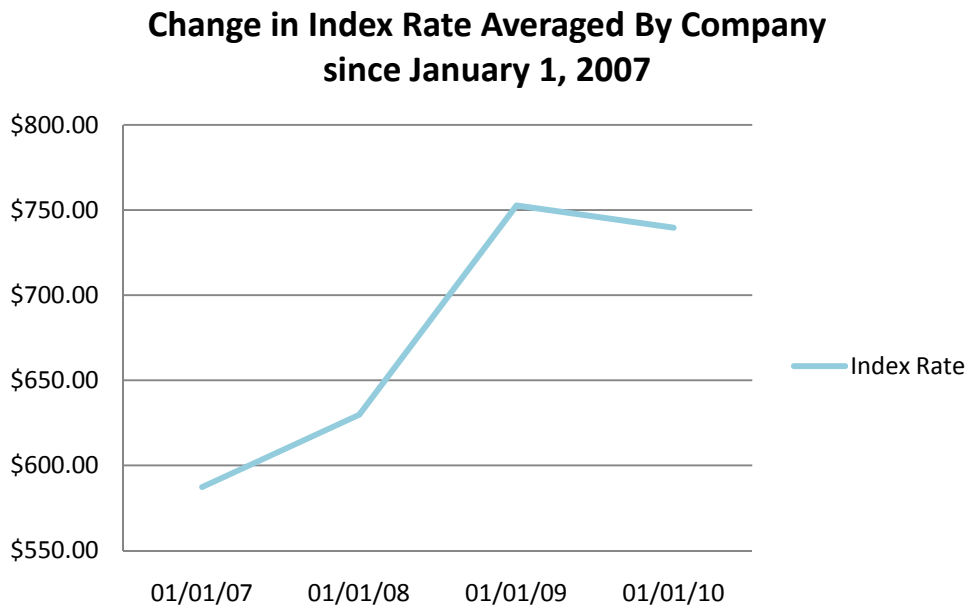
Carriers also must adhere to the following rules:

- Adjust the index rate for an employer by age, geography, family size and plan design.
- For newly issued or renewed policies, any adjustment for type of industry cannot be more than a 10% increase or a 25% decrease.
- For renewed policies, once the rate is adjusted for the above factors, the rate can be further increased annually up to 15% based on type of industry or tobacco use.

HB07-1355 included a two-year implementation structure. Any increases given due to health claims and health status were prohibited for any policy issued or renewed on or after January 1, 2008. Any discount given due to health status or claims experience was removed for renewals effective on or after January 1, 2009.

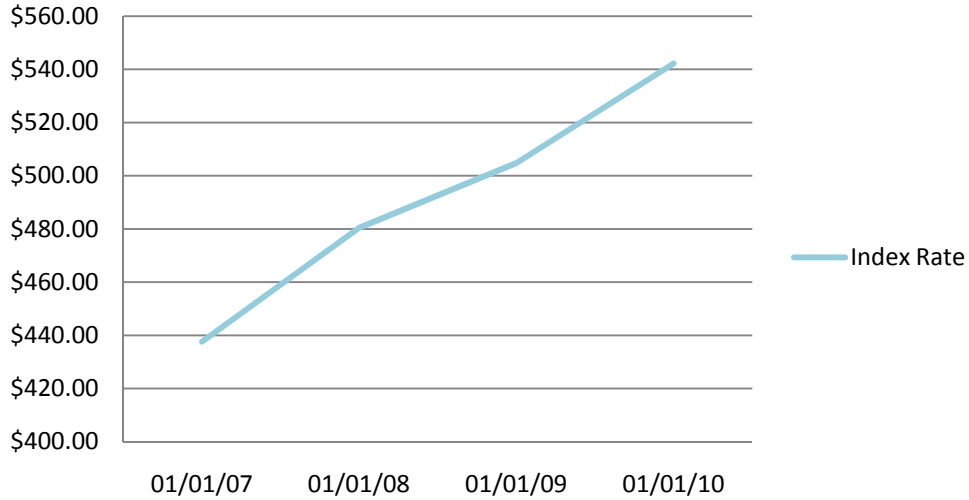
Change in Index Rates:

The following charts show the changes in the average index rates over a four-year period from 2007-2010 and how small employer premiums were distributed around those index rates. As noted earlier, the index rate is the average rate charged to all small employers before any adjustments for an employer’s specific group characteristics.



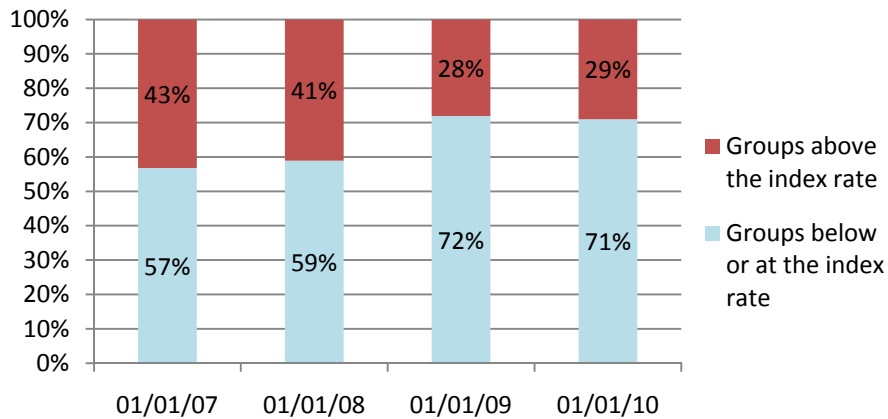
The average index rate for all small employers increased steadily from \$587.22 per year to \$739.60 per year until 2009 when it began to decrease. This represents a 22% increase in the index rate over the four-year period. The decrease is due to several companies with higher than average index rates leaving the small group market.

Change in Index Rate Averaged By Covered Life since January 1, 2007



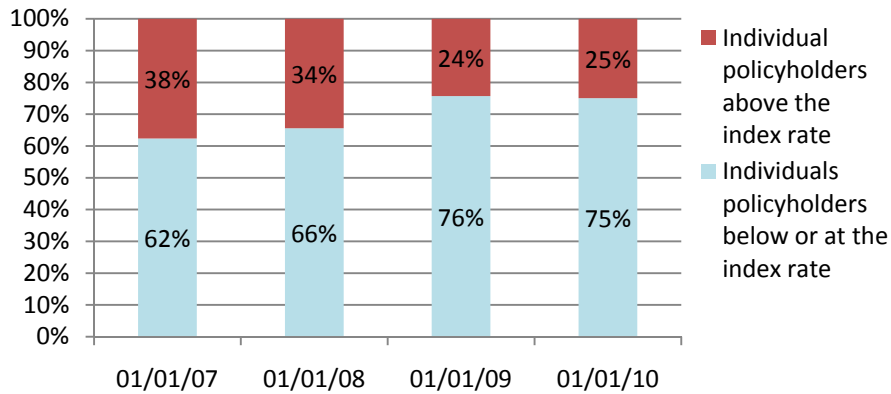
While the average index rate for small employers decreased from 2009 to 2010, the average index rate per covered life continued to rise over the four-year period. This change represents a 23% increase in the index rate, a bit lower than the overall change for employers.

Distribution of Group Premium Rates since January 1, 2007



Over the four-year period, the number of groups with premiums above the average index rate diminished by 14%. The number of groups with premiums below the index rate increased 14%. More than two-thirds of small employers had premiums below the index rate in January of 2010.

Distribution of Individual Policyholder Premium Rates since January 1, 2007

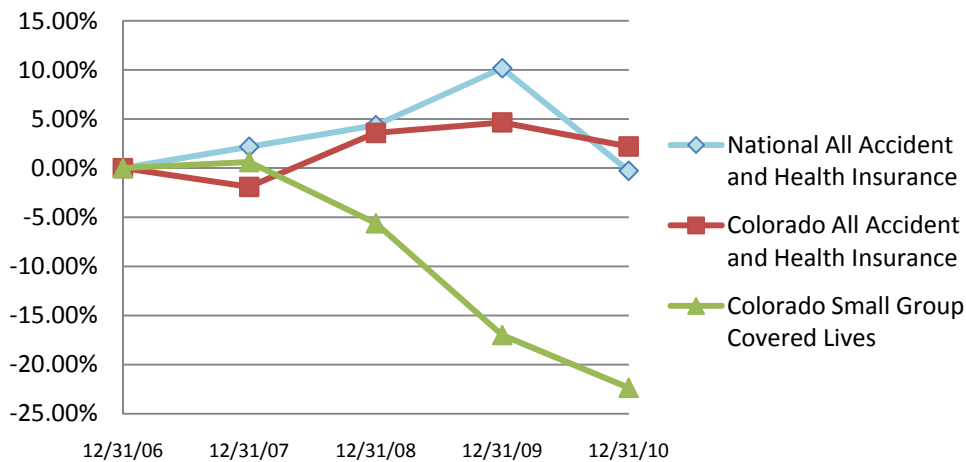


The distribution of individual policyholders is similar. Individual policyholders above the average index rate decreased by 13%. Three quarters of all individual policyholders were below the index rate.

Change in Premium in Relation to Covered Lives:

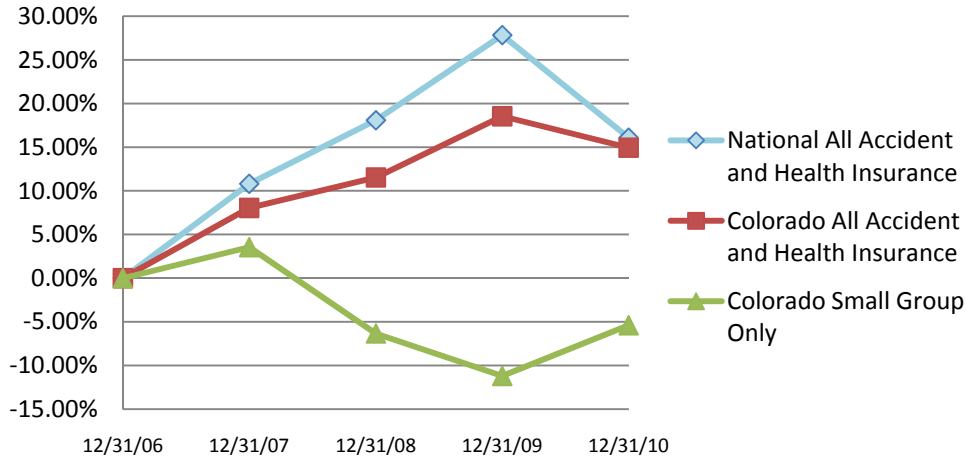
The following charts show the change in total premium written in the small group market as it relates to the number of covered lives. The small group market data is compared to statewide and national health insurance market data.

Change in Covered Lives since December 31, 2006



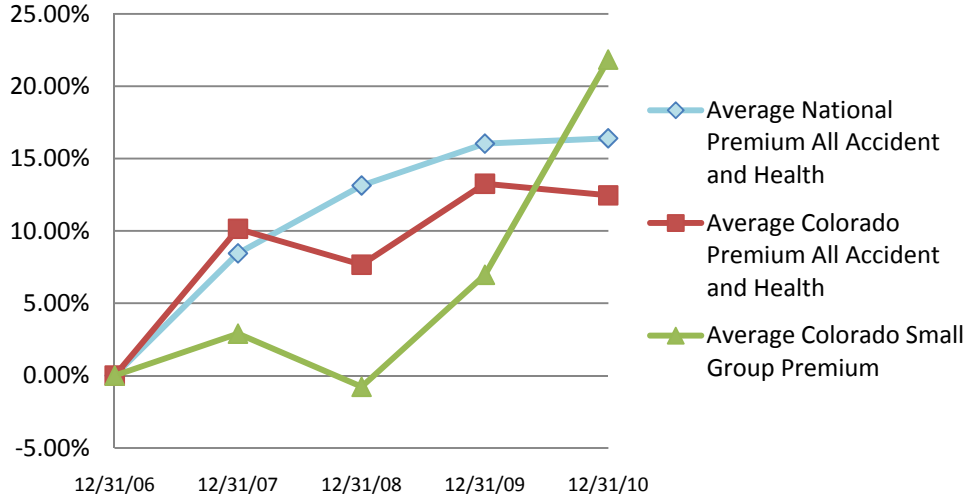
As illustrated earlier in this report, the small group market has experienced a steady decrease in covered lives since its peak of 537,996 in 2000. Between 2006 and 2010, the number of covered lives in the market decreased 22%. These numbers show a struggling small group market in Colorado compared to overall Colorado and national data.

Change in Total Written Premium Dollars since December 31, 2006



While total numbers of covered lives continued to decrease, total written premium increased slightly between 2006-2007, decreased between 2007 and 2009 and saw a slight uptick in 2010. These numbers differ substantially from the overall Colorado health insurance market and the national market.

Change in Average Yearly Written Premium per covered life since December 31, 2006



Although total written premium has decreased since 2006, the premium per covered life has increased more than 20%. The most significant increase occurred between 2008 and 2010. While the premium per covered life also increased in the overall Colorado and national markets, the small group increase is higher overall.

Small Group Premium Rate Renewals 2009-2011

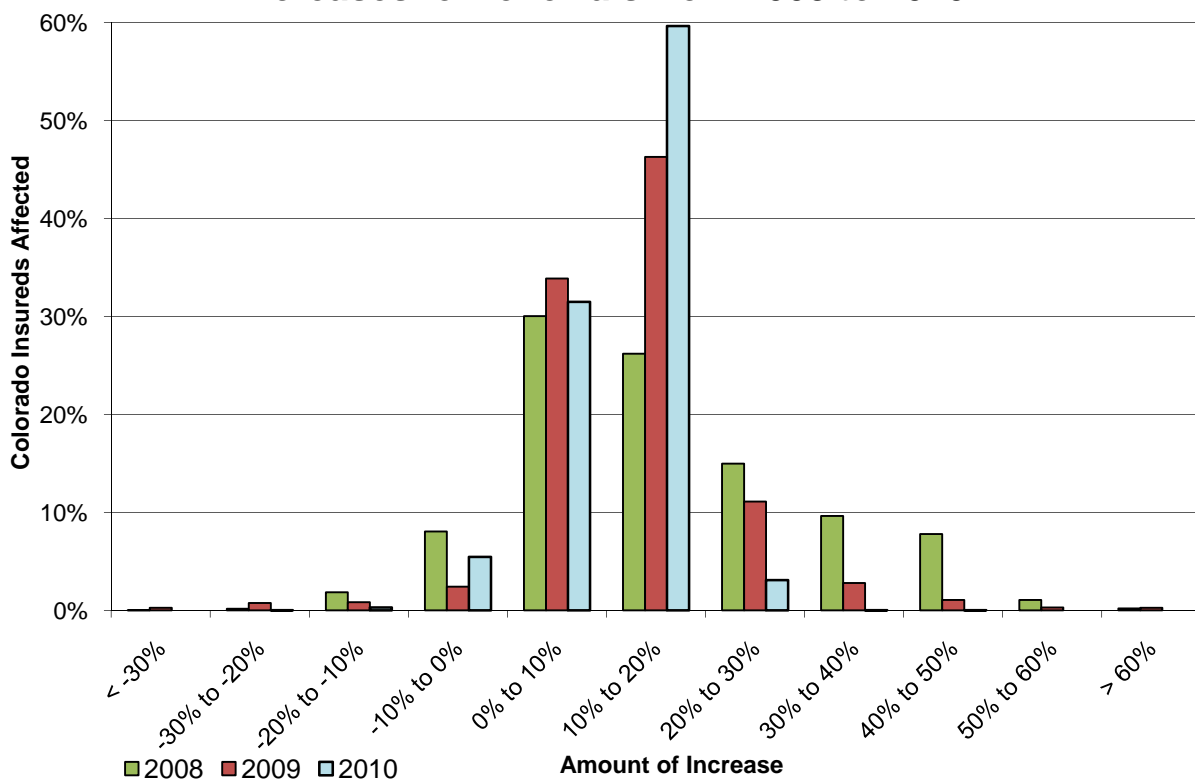
In the fall of 2008, 2009, and 2010, the Division asked small group carriers to provide a distribution of all expected small group premium rate changes for annual renewals in January 2009, 2010, and 2011. Because HB07-1355 was implemented over a two-year period, these numbers show how the range of premiums changed for small employers following the legislation's implementation. The data was provided by insurance

carriers in their small group rate filings. The chart below shows the distribution of premium renewals over the three-year period. The rate renewals include the trend factors which averaged around 12% in 2009 and 2010, and 11% in 2011. “Trend” is the carrier’s best estimate of medical inflation for the coming year. It reflects the increased cost of providing medical care. The premium renewal data represents the following number of covered lives per year:

- 2009 – 97% of the 356,516 covered lives in the small group market as of December 31, 2007
- 2010 – 90% of the 330,998 covered lives in the small group market as of December 31, 2008
- 2011 – 93% of the 287,239 covered lives in the small group market as of December 31, 2010

Over the three year period, the chart shows premiums varied less among employers as the new modified community rating structure was implemented. More employers’ premium renewals moved to 0%-20%.

Distribution of Small Group Health Rate Change for Renewals Data Representing Increases for renewals from 2008 to 2010



Carrier and Employer Perspectives on Rating Flexibility Changes

Carrier Perspective on Rating Flexibility Changes:

When surveying the carriers, the Division also included questions regarding differences between groups of 2-15 employees versus 16-50 employees. Carriers also provided their opinions about how the rating flexibility changes affected the overall small group market.

What has been the effect on groups with 1-15 employees of the rating flexibility that became effective January 1, 2008?

- 10 increased premiums
- 1 decreased premium
- 6 no effect

- 3 number of covered lives is too small to determine effect

Comments:

- Higher percentage of groups at or below index rate, but index rate is higher after January 1, 2008.
- Increased base rate to make rating flexibility changes revenue neutral.
- Healthier groups have dropped coverage due to loss of discounts.
- Premium costs increased for groups of 1-15, but to a much lesser extent than groups of 16-50. The morbidity of groups of 1-15 tends to run substantially higher than groups of 2-50. Growth in premium has not kept pace with growth in costs.
- Decreased membership, premium costs increasing at an growing rate of change. New group sales decreasing, existing group lapses increasing, group retention decreasing.

What has been the effect on groups with 16-50 employees of the rating flexibility that became effective January 1, 2008?

- 10 increased premiums
- 7 no effect
- 3 number of covered lives too small to determine effect

Comments:

- Healthy groups have dropped coverage due to loss of discounts
- Premium costs tended to increase more dramatically for groups of 16-50. Despite the pool's favorable claims experience, the fact that rating-up for risk was removed and the change in the rating area factor moved up, larger groups carried a greater share of the burden.
- Higher percentage of groups at or below the index rate, but index rate is higher after January 1, 2008.
- Increased base rates to make rating flexibility changes revenue neutral.
- Volume of groups with large case sizes was very small, and the rating flexibility did not have a significant net impact on this block of business.

Has rating flexibility improved or detracted from the number of covered lives in the small group market since January 1, 2008?

- 11 decreased number of lives
- 7 no effect
- 2 number of covered lives is too small to determine effect

Comments:

- Healthy groups have dropped insurance because of loss of discounts.
- Overall decrease in covered lives because of the migration from Pacificare to United Healthcare.
- No longer intend to sell to small groups in Colorado.
- We have noticed a change due specifically to rating flexibility, but have noticed a slight decrease in our small group membership since modified community rating went into effect January 1, 2009.

Has rating flexibility improved or detracted from the stability of both financial and number of covered lives in the small group market since January 1, 2008?

- 12 decreased stability
- 6 no effect
- 2 number of covered lives is too small to determine effect

Comments:

- Healthy groups have dropped insurance with the loss of discounts.

- As a result of the removal of the company's ability to adjust rates for the risk of each group, a significant mechanism that had been instrumental in stabilizing rate actions has been lost.
- No longer intend to sell small group medical business in Colorado.
- The change in rating flexibility resulted in a significant number of groups receiving higher than expected rate increases. Many groups elected to change carriers in order to obtain a lower premium. This activity contributed to instability. However, this should be a one-time event, so stability may improve going forward.
- We have not noticed a change in stability due specifically to changes in rating flexibility effective January 1, 2008. We did notice higher terminations and less stability in 2009 after the move to modified community rating. However, we expect the market to stabilize as all groups have now either been issued or renewed with community rating guidelines in place.

Has the geographic diversity of coverage under your small group market plans improved, declined or remained constant with the changes in rating flexibility since January 1, 2008 in regards to counties?

- 1 reduced availability
- 19 no change

What factors do you believe have affected the growth or decline of the small group market? How? And why?

- The economy – small businesses going out of business and no longer offering group insurance.
- Health status – Having the ability to use health status would allow us to bring in healthier businesses and therefore, balance out the existing poor running businesses.
- With the weak national economy, many employers are closing. With rising premiums, groups with low risk tend to look for alternatives, including self funding. Or, leave the market which leaves the higher risks groups.
- Increased premiums due to loss of discounts and rate ups means healthier groups are covering the costs of more costly groups. Many employers with healthy groups, dropped coverage, paid employees a little more and told them they are on their own. A few may purchase individual coverage, but some just go uninsured.
- Nationwide, we are seeing the sluggish economy has caused more groups to terminate coverage and layoffs are leading to fewer members in groups. Our market sales force in Colorado believes the elimination of health status as a rating factor has led to healthy groups exiting the small group market, and either choosing a self-funded approach or going uninsured.
- With a gloomy economy, many small businesses are choosing to no longer offer health insurance because of price. Group sizes are shrinking, health dependents and spouses moving to individual plans and some going uninsured.

Employer Perspective on Small Group Market Activity and Health Insurance Purchasing Decisions:

In collaboration with the Denver Metro Chamber of Commerce (DMCC) and the Colorado National Federation of Independent Business (NFIB), the Division surveyed small employers and reviewed previous research regarding how small employers view Colorado's small group market and their health plan purchasing decisions.

The DMCC conducted the following survey and compiled results on behalf of the Division. The survey was sent to members with 50 or fewer employees. Eighty-four employers responded to the survey. A few respondents did not answer every question.

1. *Do you shop around for insurance every year?*
 - Yes 61%
 - No 39%
2. *Has the number of health insurance options available to you decreased?*
 - Yes 61%

- No 39%
3. *What criteria do you consider most important? Check all that apply.*
 - a. Price 90%
 - b. Benefits 80%
 - c. Reputation of Insurance Company 40%
 - d. Co-pays or deductible levels 62%
 - e. Other 10%
 - i. Network of providers
 - ii. Maximum out of pocket

 4. *Do you shop for a carrier that offers your company or your employees multiple options such as a suite of plans (e.g., a product that gives employees choice of an HMO, PPO or high deductible plan)?*
 - Yes 53%
 - No 47%

 5. *Do you offer alternative payment arrangements – Section 125 or cafeteria plans, health reimbursement arrangements (HRAs), etc...?*
 - Yes 35%
 - No 65%

 6. *Do you offer your employees multiple plan design options with deductibles, co-pays, co-insurance (i.e. ability to choose different benefit packages, deductibles, etc.)?*
 - Yes 33%
 - No 67%

 7. *What other criteria do you, as an employer, consider in selection of insurance plans for employees?*
 - Help employees get the best insurance available: price, coverage, deductibles, and co-pays
 - The cost of leaving employees and their families uninsured
 - Pricing - it's been really difficult to find a plan that's affordable for our employees - even with the employer contribution. It's very frustrating for us as the employer not to be able to offer a quality comprehensive package - especially when our staff is finding cheaper and better coverage on their own - directly with the insurance carrier
 - Expert care
 - Ease of use, customer service, network of providers, reputation of carrier/plan
 - Quality and access
 - Someone who can cover myself and employees at a reasonable price. Current health care system is so messed up it's now impossible to get coverage for a reasonable price due to not being able to be part of a bigger pool of individuals/employers - it pretty much shuts out small employers as myself
 - How broad is the doctor and hospital network
 - Service and responsiveness
 - Collaborate with a larger organization to pool employees to get a better rate/more options
 - Ability not to have to change plans from year to year. Decent prescription co-pay
 - The plan must first work for the owner's family
 - We seek a complete, high-end plan, and currently have an HSA. The most recent cost issue is the separation of coverage for medicine and prescriptions from that of medical care in the deductible. Costs just keep going up dramatically, and for many years - well in excess of inflation, by an exponential amount
 - Out of state coverage because of employees that have kids in college
 - Trying to hold the price and coverage as consistent as possible year to year

8. *Have you considered moving to a self-funded plan? (In self-funded plans, the employer keeps the risk to pay the medical bills of their employees and usually hires a plan administrator to process the claims.)*
- No 92%
 - Yes 8%

NFIB provided key research from a variety of resources focusing on small businesses and health insurance. The following data includes citations of key sources for further research.

- Forty-five percent of small employers that shopped for health insurance in the last three years did so in an effort to lower premium costs, 5% wanted a different benefit package, 4% wanted to reduce administrative costs and hassle, 1% wanted a different network of providers, and 42% just wanted to see what was out there.

William J. Dennis, Jr., NFIB National Small Business Poll series, Volume 7, Issue 3, 2007.

- Eighty-five percent of small businesses offering coverage offer one health insurance plan type (HMO, PPO, etc.), 13 % offer two and 2% offer three or more.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2010.

- Fifteen percent of small businesses offering coverage offer a high deductible health plan with saving option, up from four percent in 2008. Seven percent of small businesses offer HRAs while nine percent offer HSAs.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2010.

- Sixteen percent of covered employees in small firms have health insurance through a self-funded employer sponsored plan.

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2010.

Conclusions

The changes identified in this report reflect how small businesses are providing health care benefits at a particular point in time. As health care costs continue to rise, so do premiums, and small employers continue to try to reduce the costs of providing health care to their employees.

The first part of the report shows that small employers shifted to less expensive coverage types such as HMO plans, lowered benefit levels found in HSA-qualified plans or eliminated their employer-sponsored health plan. While the data shows a decrease in plans and covered lives, it is difficult to know where individuals moved in the market. Some may have purchased individual health coverage, moved to a spouse's plan, changed employment or became uninsured. Likewise, employers may have dropped coverage or shut their doors completely due to the economy or other reasons. As the economy stabilized over 2010, the decrease in small group plans and covered lives grew less severe.

The second part of the report shows that average index rates continue to rise both by group and by covered life, and other rating factors continue to push premiums higher. Over the last 17 years, the Colorado General Assembly adapted the rating flexibility rules several times to include certain factors and exclude others. It is difficult to know the exact effect of these changes because they do not exist in isolation. Medical costs continue to affect premiums and the economy serves as an influential factor in a small employer's ability to provide insurance.

Regardless of the many variables at play in the small group market, small businesses continue to be an important part of Colorado's overall insurance market, and provide needed health benefits to employees across the state.