

Date: April 6, 2018	POLICY ANALYSIS PREPARED FOR THE BOARD OF DIRECTORS	 OF NORTHERN LARIMER COUNTY
Staff: Alyson Williams		

HB18-1311: SINGLE GEOGRAPHIC RATING AREA INDIVIDUAL HEALTH PLAN

Concerning the method for setting rates for individual health insurance plans offered in the state.

Details

Bill Sponsors:	House – <i>Rankin (R) and Hamner (D)</i>
Committees:	House Health, Insurance, & Environment. House Finance, and House Appropriations
Bill History:	3/21/2018- Introduced in House- Assigned to Health, Insurance, & Environment, Finance, and Appropriations
Next Action:	4/5/2018- Hearing in House Committee on Health, Insurance, & Environment

Bill Summary

This bill prohibits insurance carriers from considering the geographic location of the policyholder for individual health plans issued, amended, or renewed on/after January 1, 2019. This requirement creates a single geographic rating area for the entire state for individual health plans.

Issue Summary

Premium Rating

Before the Affordable Care Act (ACA), insurance companies developed premium rates on a number of factors including a policyholder’s health status, gender, and occupation. The ACA reformed rate-setting by limiting the factors that can be considered by the insurance carrier as they develop prices.¹ Premiums can now only be adjusted for whether the plan covers an individual or family, age, tobacco use, and where people live. This final adjustment category, where people live, is known as geographic rating. The default approach that the Federal government established through rulemaking is that a state must have one rating area for each of its metropolitan statistical areas (MSAs) and an additional rating area that combines all the non-MSAs.¹ However, states are allowed variability to establish one or more rating areas that are based on existing divisions such as zip codes, regions, or three-digit zip codes.¹

Insurance Market and Geographic Rating in Colorado

The Colorado Division of Insurance (DOI) reports that approximately 9 percent of Coloradans, or about 289,000 people, were covered by individual health plans under the jurisdiction of the DOI in 2016.² There are two types of individual health plans, off-exchange and on-exchange. Off-exchange plans are purchased directly from the carrier or through a broker and are not eligible for financial assistance like the Advanced Premium Tax Credit (APTC).³ On-exchange plans are sold through marketplaces and qualify for financial assistance like APTCs and, for some people, lower deductibles and copays.

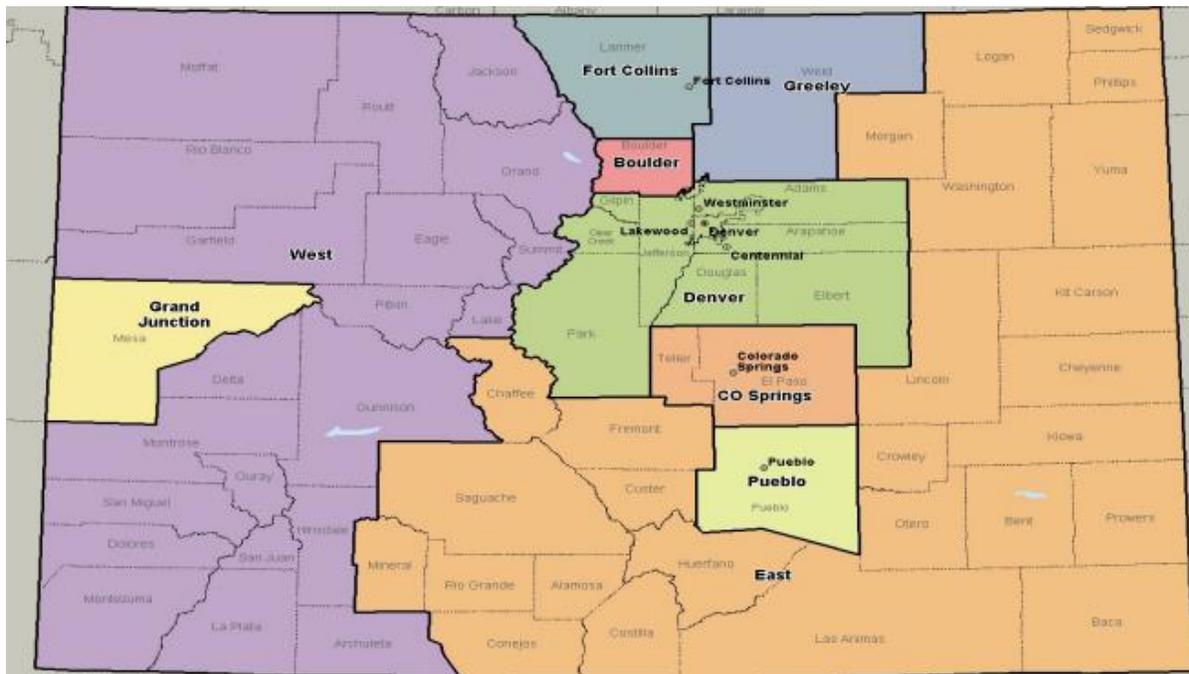
¹ Giovannelli, J., Lucia, K.W., & Corlette, S. (Dec. 2014). Implementing the Affordable Care Act: State Approaches to Premium Rate Reforms in the Individual Health Insurance Market. *The Commonwealth Fund*. Retrieved from http://www.commonwealthfund.org/~media/files/publications/issue-brief/2014/dec/1795_giovannelli_implementing_aca_state_premium_rate_reforms_rb_v2.pdf

² Colorado Department of Regulatory Agencies, Division of Insurance (Jan. 25, 2018). *Health Insurance Cost Report to the Colorado General Assembly for Calendar Year 2016*. Retrieved from https://drive.google.com/file/d/1CrZHSAXai2Aj7Pb_EKLyCa1g7tcMEpn/view?usp=sharing

³ Norris, L. (Dec. 19, 2017). *Should you look outside the ACA’s exchanged?* Retrieved from <https://www.healthinsurance.org/obamacare/off-exchange-plans/#pricing>

Those who purchase on-exchange plans do so through Connect for Health Colorado. The average premium for Connect for Health Colorado customers that did not receive financial help for plan year 2018 was \$481.⁴ For those that qualified for financial assistance, the average net premium after the tax credit was \$136 in plan year 2018.⁴ The rates approved by the DOI for a ‘silver’ plan for plan year 2018 had great variability between regions. Only one company on the exchange, HMO Colorado, served all nine of the rating areas in plan year 2018.⁵ The lowest approved silver plan premium for this carrier on the marketplace was in Rating Area 7 (Pueblo), set at \$443.65-\$524.91 and the highest was in Rating Area 9 (West), set at \$622.90-\$818.69.⁵

Geographic rating has been an issue in Colorado since the federal reforms were enacted. At first, 11 rating regions were created as officials in the DOI worried that too few regions would translate into carriers leaving the market in expensive regions.^{1,6} When the DOI opted to create the 11 regions they noted that premium variance between the Front Range and mountain resort communities had occurred before the ACA.⁴ Feedback from these high-cost regions (Western Slope and Mountain) spurred the state to reconsider its regions and reduced the number of regions to nine in 2015.³ The following map from the DOI illustrates the nine distinct geographic rating regions.⁷



⁴ Connect for Health Colorado (2018). *By the Numbers: Open Enrollment Report Plan Year 2018*. Retrieved from http://connectforhealthco.wpengine.netdna-cdn.com/wp-content/uploads/2016/09/C4HC_OE_Report_WEB.pdf

⁵ Colorado Department of Regulatory Agencies, Division of Insurance (Oct. 18, 2017). *2018 Medical Individual Premiums- All Types*. Retrieved from <https://drive.google.com/file/d/0BwguXutc4vbpbkNSUW50azFMSWs/view?usp=sharing>

⁶ Colorado Department of Regulatory Agencies, Division of Insurance (Oct. 15, 2013). *Fact Sheet: Colorado Geographic Rating Requirements in Mountain Resort Counties*.

⁷ Colorado Department of Regulatory Agencies, Division of Insurance (n.d.). *Geographic Rating Areas*. Retrieved from <https://drive.google.com/file/d/0BwguXutc4vbpUC1wbkpbkY4QWs/view?usp=sharing>

Actuarial Report on Geographic Rating for Colorado

The DOI submitted a report on geographic rating regions, as required by House Bill 16-1336, to the Colorado General Assembly in August 2016.⁸ The report analyzed regional costs, cost drivers, and the current geographic rating regions to determine the impacts and viability of creating a single geographic area. The geographic area factors that are used to determine geography's effect on premiums vary greatly in the nine regions. Insurance carrier geographic area factors are lower in Boulder, Colorado Springs, and Denver; higher in Fort Collins, Greeley, and Pueblo; and highest in Grand Junction, East, and West.

The report estimated the impact of moving to a single geographic area by running analyses on what would occur if the same geographic areas factors was used across the state. In the nine single rating region scenarios proposed by the analysis, the contractor proposed different types of population movements, carrier administrative costs, and past market experiences. The impact on the rates for the Fort Collins MSA region varied from decreasing 2.7 percent to increasing 1.6 percent. For the rest of the state, premiums would be most drastically affected in the West region, decreasing anywhere from a projected 5.2 percent to 27.8 percent. Conversely, in all nine scenarios, rates increase for the Boulder and Denver regions by 1.4 percent to 17.2 percent.. The net effect for the entire state in each of the scenarios is either a 0 percent change or an increase up to 2.2 percent in premiums for the state.

Both the contractor, Lewis & Ellis, and the DOI did NOT recommend moving to a single geographic rating region for the entire state. The main reasons cited for this recommendation include:

- Carriers may choose to leave high-cost areas or leave the market entirely.
- Consumer choice may become more limited and trends towards narrow networks.
- The market may trend towards other offers of insurance, such as self-insured plans or Multiple Employer Welfare Arrangements (MEWAs)⁹.
- Administrative costs will increase, which may increase overall health premiums.
- Customers may begin to pay the same healthcare premiums for similar products regardless of healthcare cost in their regions. This would benefit customers in high cost regions and but negatively impact customers in low cost regions.

Other States with Single Rating Area

Six states (Delaware, Hawaii, New Hampshire, New Jersey, Rhode Island, and Vermont) and the District of Columbia have a single geographic rating region for the individual market in the state.¹⁰ These six states tend to have fewer MSAs and be smaller in physical area than Colorado. Less dispersion of residents and MSAs may indicate that it is easier to access health care facilities, which can decrease the cost of delivering care in these states. The following chart details the national averages for different groups of rating regions and illustrates that Colorado's current number of rating regions falls within those averages.

⁸ Brown, M.A., Huckaba, A., and Loudon, S. (July 28, 2016). *Colorado Total Health Cost and Geographic Areas 2016 Study*. Prepared by Lewis & Ellis, Inc. Actuaries & Consultants. Retrieved from <https://drive.google.com/file/d/0BwguXutc4vbpQy02dGF2cnBmVjg/view?usp=sharing>

⁹ A type of Association Health Plan (AHP)

¹⁰ Centers for Medicare and Medicaid Services (March 1, 2018). *Market Rating Reforms*. Retrieved from <https://www.cms.gov/ccio/programs-and-initiatives/health-insurance-market-reforms/state-gra.html>

Exhibit 2.4 Number of ACA Rating Regions per State (Individual)

Number of Rating Regions¹	Number of States (Including DC)¹	Average Number of Regions per State	Average Number of MSAs per State²	Average Population of States, 2015³
1 Rating Region	7	1.0	2.4	2,145,818
2-5 Rating Regions	12	4.1	4.3	2,438,537
6-10 Rating Regions	18	7.7	8.2	5,734,640
11-15 Rating Regions	4	12.3	12.0	6,986,524
16 + Rating Regions	10	25.6	17.4	14,596,603
All States	51	9.8	8.6	6,302,330
Colorado falls in the 6-10 segment (9 regions, population of 5.5 Million, 7 MSAs)				

This Legislation

The legislative declaration of the bill states that the Colorado general assembly finds that there is great variability in the insurance market across the nine regions in the state. It states that the rural regions of the western slope and eastern plains have high premiums and low numbers of carriers. This financial burden may lead to people in these areas become uninsured. The declaration also states that current law does not allow insurance carriers to set rates that are excessive, inadequate, or unfairly discriminatory. The Commissioner of Insurance determines if carriers have set rates that fall into these categories using standards for each category. According to the declaration, these standards demonstrate that premium rates for health insurance in rural areas compared to more heavily populated areas like the Front Range, appear to be excessive and unfairly discriminatory. It states that it is important to establish a single geographic region to more equitably spread the costs of health insurance throughout the state.

The bill changes the definition of one of the elements of “case characteristics,” which are the allowable rating factors (age, geographic location, family size, and tobacco use) used to determine premiums. The bill adds that the geographic location of the policyholder cannot be used for determining premium rates for individual health benefit plans and the carrier must consider the entire state as a geographic rating area for rating all individual health insurance plans. The bill repeats this language in the statutes regarding regulations for rate filing by carriers. It states that a carrier may vary premium rates for some health plans based on geographic rating areas, in accordance with federal law, but cannot do so for an individual health plan as the carrier shall consider the entire state of Colorado as a single geographic rating area.

Reasons to Support

Supporters assert that the bill would create a more equitable individual health insurance rating system for the entire state. People would not have to pay more for health insurance due to their geographic location in the state. As the individual mandate has been effectively repealed, decreasing the cost of insurance in the area could decrease the rate of those lacking coverage in these high-cost areas.

Supporters

- No support has been made public at this time.

Reasons to Oppose

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This shift may cause increased instability in the state’s individual marketplace. As carriers would not have the ability to set premiums on where their policyholders live, the premiums in high-cost areas may not be able to cover the cost of care. Subsequently, as the actuarial analysis noted, carriers may choose to not provide plans in high-cost areas or pull out of the state marketplace all together. This could exacerbate the problems that are listed in the bill’s legislative declaration, such as increasing rates of uninsured and increasing costs of health insurance. This could be further exacerbated by increased premium rates for the thousands of people living in on the Front Range and other “low-cost” areas and compounded by the federal elimination of the individual mandate. All of these factors together could further destabilize or cripple the insurance market. The underlying cost of care is influenced by a number of different factors that would not be altered simply by changing a factor in premium-rate setting. The factors that influence the cost of care may include: provider prescribing behaviors, provider behaviors for ordering tests/referrals, age of population served, the number of facilities in a region, and others that are not affected by this change in rating regions.

Opponents assert that the variability in outcomes for Larimer County and other regions of Colorado does not benefit consumers and may generate uncertainty for the insurance industry in the state. Increasing variability and uncertainty in the current climate only provides further reasons for carriers to drop out or limit their participation in the individual market. The uncertainty of the outcome of creating a single rating region generates considerable anticipation over how this change would affect consumers throughout the state. This change may mitigate disparities in premiums but it does so at the cost of raising premiums for consumers that are already having a difficult time paying premiums in Front Range regions, many of whom are unlikely to be able bear an increase in premiums due to this change.

Opponents

- Colorado Association of Commerce and Industry

About this Analysis

This analysis was prepared by Health District of Northern Larimer County staff to assist the Health District Board of Directors in determining whether to take an official stand on various health-related issues. The Health District is a special district of the northern two-thirds of Larimer County, Colorado, supported by local property tax dollars and governed by a publicly elected five-member board. The Health District provides medical, mental health, dental, preventive and health planning services to the communities it serves. For more information about this summary or the Health District, please contact Alyson Williams, Policy Coordinator, at (970) 224-5209, or e-mail at awilliams@healthdistrict.org.