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Health Insurance Association of America

STATEMENT OF HIAA

ON

SMALL GROUP MARKET REFORM

SENATE BILL 242

PRESENTED BY

JAN ANDREA MEISELS

STATE AFFAIRS ASSOCIATE

BEFORE THE

ALASKA SENATE COMMITTEE ON LABOR AND COMMERCE

April 19, 1991

6052 Hackers Lane
Agoura, California 91301
818-991-6817

I am Jan Andrea Meisels, State Affairs Associate, Health Insurance Association of America. HIAA is a trade association of 300 private health insurance companies which provide health insurance for 95 million Americans. HIAA actively supports SB-242.

The small employer market provides one of the most vivid examples of how health care cost inflation continues to afflict our financing system. Faced with unrelenting demands to hold health care costs down, insurers and employers have intensified the search for ways to moderate premium increases. Leaving high-risk individuals out of group coverage has been one such response. The "excessive employer churning" that newspaper accounts often bring to our attention is largely a function of employers seeking the lowest available rate. We, too, constantly hear the charge by small employers that the presence of a high-risk individual in their group has made it impossible to obtain coverage at any price.

This dynamic is complicated further by the tumultuous labor market of a small employer. Small employers are far more likely than larger organizations to go in and out of business. Our own annual employer survey suggests that employees of small firms also are more likely to change jobs. Employee turnover among small, insured firms is about 23 percent annually and is twice that level for small employers without coverage. These factors contribute to the reluctance of such employers to offer coverage as well as the difficulties of serving the market.

As the complexities of the small employer market have grown, and the likelihood of individuals' being separated from the financing system has increased, there is a growing perception

that even if they have coverage, they stand a reasonable chance of losing it if they change employers, or if they have poor claims experience.

Madam Chairperson and members of the committee, we have now reached the point where substantial small employer market changes are needed if we are to serve the longer-term interests of small employers and meet the concerns of policymakers. SB-242 incorporates a comprehensive set of small group market reforms that HIAA believes can be achieved in the context of a viable private marketplace. The essence of SB-242 is to make certain changes in the market so that it provides substantially more predictability and protection to the purchasers of coverage. Let me emphasize that to work, these changes will have to apply to all players in the small employer market -- insurance companies, medical service plans, multiple employer welfare associations, etc. All competing entities in the small employer market, including non-insured benefit plans, would have to be bound by the same rules in order to prevent any company or segment of the market from being placed at a disadvantage. The reforms included in SB 242 ensures fair access to and continuity of coverage for small employers and their employees. The issues embraced in SB 242 are:

guaranteed availability -- all small employer groups would be able to obtain private health insurance regardless of the health risk they present.

coverage of whole groups -- coverage would be made available to entire employer groups; neither an employer nor an insurer would

be able to exclude from the group's coverage individuals who present high medical risks.

renewability of coverage -- at renewal time, employer groups and/or individuals in these groups would be assured that their coverage would not be cancelled because of deteriorating health.

continuity of coverage -- once a person is covered in the small employer market and satisfied a plan's preexisting condition restrictions, he or she would not have to meet those requirements again when changing jobs or when the employer changes carriers.

premium pricing limits -- insurance carriers would be required to limit how much their rates could vary for groups similar in geography, demographic composition and plan design.

To give effect to these proposals, SB 242 authorizes a private not-for-profit Small Employer Health Reinsurance Association. Without the Reinsurance Association these reforms are not achievable. The Reinsurance Association allows insurers to pay a premium in exchange for having the reinsurer bear the risk for reinsured individuals. This allows insurers to treat all individuals in a group the same way -- as SB 242 does not break up groups for the purpose of reinsurance -- all members would have the same benefits. The reinsurer stands behind the insurer and simply reimburses for claims associated with reinsured individuals. This allows insurers to spread high risks, broadly through the private market rather than concentrated in one small employer group. S.B. 242 is a carefully crafted balance between carrier disincentives to write the guaranteed issued business, adequate protections for carriers from internalizing too much

risk and ensuring that the losses of the reinsurance program do not grow too large.

Besides the small group market reforms discussed above, one of the most effective means to obtain cost control is to improve our health delivery and financing system through effective managed care programs. Managed care has proved it can control costs. A growing number of studies from the seminal Rand Study of HMOs in the mid 1970's to the recent Laventhol and Horwath study which assessed the cost savings of managed care in the CHAMPUS Reform Initiative (savings to both the Defense Department and CHAMPUS beneficiaries of \$148.9 million in 1988 and 1989). For these and other reasons cost containment provisions including aspects of managed care may be incorporated into the small employer health plans developed by the Small Employer Health Reinsurance Board.

Small employers are also the affected party when various legislatures mandate their plans include specific providers or services. The cumulative effect of the various mandated benefits is to increase the overall cost of the insurance plan to the small employers who is in the most need of relief for the high cost of health care and are too small to self-insure and thus escape these mandates. A study in 1989 by a University of Illinois economist concluded that 16 percent of small employers not providing health insurance would offer benefits in the absence of state mandates. Therefore, SB 242 exempts small employer health plans from any laws that would impose restrictions on insurers negotiating with providers for services

or prices of services or requires the small employer plans to include specific benefits or services rendered by certain providers.

The following is a brief discussion of each section of SB-242:

Section 1. Findings -- describes the need for Alaska to address the issue of the uninsured and to make available to small employers, health insurance with stability and predictability of rate increases as well as guaranteed availability of insurance and coverage continuation.

Section 2. Small Employer Health Reinsurance Association.
21.55.10 -- creates a not-for-profit private legal entity whose membership consists of all insurers in the small employer insurance market -- insurance companies, hospital and medical service corporations, HMOs, and welfare arrangements.

21.55.020 -- describes the Reinsurance Association board composition which assures representation for all types of insurers doing business in the small group market including welfare arrangements and guarantees a majority of seats to insurers in the small group market. The director of insurance serves as an ex-officio member of the board.

21.55.030 -- discusses the various powers of the Association board. This includes the establishment and maintenance of a list of guaranteed issue carriers, those top ten insurers based on total premium volume in the small employer market in Alaska, who are required to accept all applicants from the small employer marketplace. An insurer other than one of the "top ten" may

inform the Association board of their desire to become a guaranteed issue carrier. In addition, the board is empowered to design an array of health coverage products by which reinsurance will be provided.

21.55.040 -- requires the reinsurance association to submit a plan of operation to the Insurance Director for approval. This plan assures fair, reasonable and equitable administration of the Association. It does permit the Director of Insurance, after notice and hearing, to adopt reasonable regulations if the Association fails to submit a suitable plan of operation within 180 days from the effective date of the bill.

21.55.050 -- establishes specific provisions for reinsurance of eligible employees of a small employer or dependents of eligible employees. By requiring guaranteed issue carriers to accept groups with greater than normal risks, insurers need assistance in spreading the greater risk, therefore, the establishment of the Reinsurance Association. To reduce the volume of reinsured claims, reinsurance is available on a three-year basis. If reinsurance were permitted annually, insurers would declare more groups or individuals high-risk and utilize reinsurance more often increasing reinsurance losses to unacceptable levels. Because reinsurance would be aimed at employer groups and employees known to be high risk, and because the premium price is capped (1.5 times the adjusted average market premium for groups and 5.0 times for individuals) to encourage carriers to participate in the small employer market, in the aggregate the cost of reinsured persons may well exceed the reinsurance

premiums. The administrating insurer will determine any losses annually. Any losses are covered through assessments from all members in the Reinsurance Association based on the member's share of total premiums net of reinsurance premiums paid for coverage under the chapter in the small employer market, including, to the extent permitted under ERISA, other benefit arrangements covering small employers. Assessments are capped at four percent of premiums charged for health benefit plans covering small employers.

To assure that insurers only cede risk to the reinsurance mechanism when necessary, the premiums charged by the reinsurer are set at 1.5 times the average adjusted market premium price for similar type groups and benefits or 5 times the average adjusted premium market price for individuals with similar type benefits. Insurers are constrained from recouping the increased reinsurance costs as they may only attempt to recoup the 1.5 times average adjusted market premium price within the constraints of the overall rating bands described below. Only the level of coverage provided up to but not exceeding the coverage provided in a small employer health benefit plan is eligible for reinsurance.

These plans are required to incorporate cost containment techniques developed by the board, including but not limited to high cost case management, hospital precertification techniques and other cost containment techniques established by the Association.

Within a specified time of the coverage commencing nonguaranteed issue insurers may reinsure eligible employees and dependents who were hired subsequent to the coverage being offered by the insurer and who are not late enrollees . This section also recognizes that federally qualified HMOs reinsurance premium may be modified to reflect the portion of the risk ceded to the Association, i.e., federally qualified benefits may be different from the benefits determined to be included in the reinsured health plans by the reinsurance board.

21.55.060-21.55.080 -- are sections exempting the Association from the Administrative Procedures Act, imposition of taxes and limits the liability of the Association board.

21.55.100 -- Small Employer Health Insurance Plans. The program applies to all health insurance plans for individuals and group health benefit plans if they provide coverage to one or more employees and the employer pays all or part of the premium and the health plan is applicable to the IRS code section 26 U.S.C. 106 or 26 U.S.C. 162.

This section also exempts all small employer health plans (25 employees or less) from any restrictions on an insurer's ability to negotiate with providers regarding reimbursement for services and eliminates the requirement that the benefit plan cover specific mandated benefits or classes of providers. These provisions will increase the affordability of small employer health plans while providing quality health care to Alaska residents.

21.55.110 -- Underwriting and Rating Requirements. This provision provides stability and predictability of rates; renewability of the insurance contract; guarantees the availability of insurance to all small employers and removes the concern of people with preexisting conditions that they would have to satisfy additional preexisting condition exclusions if they change jobs or if their employer changed insurance carriers. Once someone had satisfied a plan's 12-month preexisting condition restriction, he or she would no longer be required to satisfy those requirements again when changing jobs or when the employer changes insurers.

The premium pricing limitations included in this chapter limits an insurer's ability to vary rates for groups in similar geography, demographic composition and plan design. Specifically, an insurers premiums for similar groups could not vary by more than 35 percent for the carrier's midpoint rate. There is also a 15 percent limitation on how much a carrier could vary rates by industry. Finally, carriers would have to limit a group's year-to-year premium increases to no more than 15 percent above the carrier's trend (the year-to-year increase in the lowest new business rate). These provisions assure the small employer availability of and accessibility to predictable and renewable insurance rates.

21.55.120 Guaranteed Issue Carriers. The top 10 insurers in Alaska based on total premium volume in the small employer market are determined to be guaranteed issue carriers. Other insurers

are permitted to be guaranteed issue carriers if they notify the Reinsurance Board one year in advance of the insurer becoming a so designated. Guaranteed issue carriers are required to offer at least one small employer health plan to a small employer requesting small employer coverage. These carriers may reinsure an individual or group within the provisions of 21.55.060 and must comply with the Reinsurance Board's plan of operation requirements for guaranteed issue insurers.

21.55.130 Small Employer Benefit Plans. The Reinsurance Association board is required to design small employer health benefit plans that are eligible for reinsurance. The board also designs the benefit levels, copayments and deductibles for these plans. The small employer benefit plans designed by the reinsurance board are the only benefit plans which may be reinsured. Benefit plans with benefits exceeding the small employer benefit plan will only be reinsured to the level of benefits included in the board's approved plan. The plans are permitted to include various cost containment features to assure the services are medically appropriate, rendered in the appropriate setting at reasonable prices.

21.55.140 Conditions for Ceasing to Do Business. Insurers ceasing to do business in the small employer market are required to give notice of this decision to the insurance department, the reinsurance board, the policyholder and the employer. Coverage is required to be continued for one year after the date of notification. An insurer is also prevented from reentering the small group market for at least five years from the date the

notice was given that they decided to cease to do business in this Alaska market.

21.55.250 Definitions. This section describes all the terms used in this chapter.

Section 3

The term "insurer" was redefined for this chapter to include HMOs. Therefore, it is necessary to cross reference the definition of HMO for these purposes to the provisions of this chapter. Section 3 achieves this purpose.

Section 4

The term "insurer" was redefined for this chapter to include hospital or medical service corporations. Therefore, it is necessary to cross reference the other sections of the insurance code related to these organizations for the purpose of applicability to this chapter.

Section 5 Transition. Not all sections of the chapter become effective upon enactment. This section lists those portions of the chapter which begin at dates later than the July 1, 1991 effective date.

Section 6 Lists the effective date of the chapter as July 1, 1991.



Health Insurance Association of America

April 23, 1991

Mr. Rod Mourant
Office of Senator Drue Pearce
Alaska State Legislature
P. O. Box V
Juneau, AK 99811

Dear Rod:

Thank you very much for all of your assistance in having SB-242 move out of committee after its first hearing and with our concerns and opposition with SB-83. Working with you has been an absolute delight! I look forward to doing so again in the near future.

If I can ever be of any assistance to you or Senator Pearce, or if either of you have any questions regarding SB-242, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jaw", is written over the typed name.

Jan Andrea Meisels
State Affairs Associate

JAM:mlp

cc: Gordon Evans

APR 26 1991



Health Insurance Association of America

April 23, 1991

The Honorable Drue Pearce
Alaska State Senator
Alaska State Legislature
P. O. Box V
Juneau, AK 99811

Dear Senator Pearce:

Thank you very much for all of your support regarding SB-242 and HIAA's small group market reform legislation. I appreciate your assistance in having the bill move out of committee after its first hearing and all the time and attention you and Rod Mourant took with me regarding the support of SB-242 and our opposition and concerns with SB-83.

I look forward to working with you in the future on other pieces of legislation.

Sincerely,

A handwritten signature in cursive script, appearing to read "Jan", is written over a horizontal line.

Jan Andrea Meisels
State Affairs Associate

JAM:mlp

cc: Gordon Evans

Metropolitan Life Insurance Company
One Madison Avenue, New York, NY 10010-3690



Robert O. Fleckenstein
Assistant Vice-President
Government and Industry Relations

The Honorable Virginia M. Collins
Vice Chair, Labor & Commerce Committee
State Senate
Juneau, Alaska 99811

RE: SB 242

Dear Senator Collins

Metropolitan Life supports efforts to reform the small group health insurance practices embodied in SB 242. We respectfully urge your Committee to favorably report this bill.

Sincerely,

A handwritten signature in cursive script that reads "Robert O. Fleckenstein".

Assistant Vice President

April 19, 1991
ROF:wsb

cc: Ms. Jan A. Meisels
HIAA

thePrincipal

Financial
Group

Principal Mutual
Life Insurance Company

April 19, 1991

The Honorable Virginia Collins
Alaska Senate
Vice Chairperson
Senate Labor & Commerce Committee
Juneau, Alaska 99811

RE Senate Bill 242 (Small Group Health Insurance Reform)

Dear Senator Collins

I am writing on behalf of Principal Mutual Life Insurance Company to support Senate Bill 242 relating to reforms in the Alaska small group health insurance markets. Principal Mutual is currently the sixth largest life insurance company in the United States measured by premium income and has been a major group health insurance carrier for many years.

We believe that Senate Bill 242 will effectively address the problem that many small businesses face today in obtaining health insurance at a reasonable premium rate for all employees. Senate Bill 242 will guarantee access to coverage for those employees by establishing an industry supported reinsurance pool which spreads the losses associated with high risk employer groups. The National Association of Insurance Commissioners just this week took preliminary steps toward approving a model act which would be very similar to Senate Bill 242. Senate Bill 242 will refine the existing insurance mechanism without unduly disrupting the marketplace.

Senate Bill 242 is a responsible approach to dealing with the problem of employee access to small group health insurance. We strongly encourage your support of this measure. It will work for Alaskans.

Sincerely



Merle T. Pederson
Assistant Counsel

MTP:paa
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SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERENCE

DATE: 4/5/91

FURTHER: HESS
Finance

Date of 5-Day Notice: 4-11-91
(in accordance with Uniform Rule 23)

DATE TURNED
INTO OFFICE: _____

L&C Committee considered SB 242

Health insurance for small employers; efd.

and recommended:

- replace with _____ CS _____ same title
- attached amendment(s) new title
- _____ letter of intent adopted
- do pass
- do not pass
- no recommendation
- individual recommendations
- further referral to _____

ATTACHES NEW FISCAL NOTE(S):

Department(s)/Date:	Department(s)/Date:
<input checked="" type="checkbox"/> fiscal note(s) <u>COMMERCE/4-18-91</u>	<input type="checkbox"/> zero fiscal note(s) _____
_____	_____
_____	_____

- appropriation-no fiscal note
- Governor's bill w/fiscal note

SIGNING DO PASS:

[Signature]
[Signature]
[Signature]

OTHER RECOMMENDATIONS:

[Signature]
 Chair: Signature and Recommendation



Alaska State Legislature

SENATE

Official Business

SENATOR VIRGINIA COLLINS

P.O. Box V
State Capitol
Juneau, Alaska 99811

SPONSOR STATEMENT

Senate Bill 242

Senate Bill 242, "An Act relating to health insurance for small employers; and providing for an effective date."

As the cost of health care has increased, an unacceptable number of Alaska residents are currently without appropriate health care coverage. Small employers find it very difficult to obtain affordable coverage, if any coverage at all. Over 90% of the businesses in Alaska are considered small businesses, having 25 or fewer employees.

The Health Insurance Association of America, an association of 300 private health insurance companies providing insurance for 95 million Americans, developed a model bill to address the issue of small employer health insurance coverage. Senate Bill 242 is HIAA's model bill.

The focus of the bill is to make certain changes in the small employer insurance market to provide more accessibility, renewability, predictability, and stability for the small employer who has 3 to 25 employees.

This bill creates the Small Employer Health Reinsurance Association, a private nonprofit legal entity. All insurers in the small employer insurance market make up the membership. The Association allows insurers to treat all individuals in a group the same way. High risks are spread broadly through the market rather than concentrated in one small employer group. Managed care and other cost containment provisions may be incorporated into the small employer health plans. Once someone with a preexisting condition satisfies the preexisting condition restriction, he or she is not required to satisfy requirements again when changing jobs or when the employer changes insurers. Premium costs are capped and reinsurance association loss assessments are capped.

The Small Employer Health Reinsurance Association is a self-supported association. The only cost to the State is for travel by the Director of the Division of Insurance. That cost is minimal.

Your support and co-sponsorship of Senate Bill 242 would be appreciated.

DIVISION OF LEGAL SERVICES

LEGISLATIVE AFFAIRS AGENCY STATE OF ALASKA

P.O. Box Y, Juneau, Alaska 99811
(907) 465-3867 or 465-2450
FAX (907) 465-2029

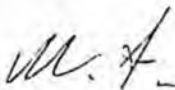

Deliveries to: 240 Main Street
Court Plaza, Room 500
Mail Stop 3101

MEMORANDUM

April 12, 1991

SUBJECT: Small employer health insurance - (SB 242)

TO: Senator Virginia Collins

FROM: Michael F. Ford 
Legislative Counsel 

The following is a section by section analysis of SB 242:

Section 1 - Findings.

Section 2 -

Sec. 21.55.010 - Establishes the Small Employer Health Reinsurance Association and requires certain insurers to be members.

Sec. 21.55.020 - Establishes the board of directors of the association and provides for specific board representation and organization.

Sec. 21.55.030 - Establishes the general powers of the association.

Sec. 21.55.040 - Requires the association to submit a plan of operation to the director of the division of insurance. Allows the director to adopt regulations to implement AS 21.55 if the association fails to submit a suitable plan of operation. Requires members to comply with the plan and establishes specific components of the plan.

Sec. 21.55.050 - Establishes specific provisions that apply to reinsurance provided by a member to employees or dependents of employees of a small employer. Imposes certain restrictions on reinsurance of group plans other than small employer health benefit plans and establishes limits for premiums charged for reinsured coverage and for coverage provided by a health maintenance organization. Provides for member assessments, by the administering insurer.

Sec. 21.55.060 - Exempts the association from the Administrative Procedure Act.

Senator Virginia Collins

April 12, 1991

Page 2

Sec. 21.55.070 - Exempts the association from payment of taxes, except for real or personal property taxes.

Sec. 21.55.080 - Provides immunity from civil actions filed against a member of the association for a negligent act on behalf of the association.

Sec. 21.55.100 - Establishes when an individual or group health benefit plan is subject to AS 21.55 and provides that other laws requiring coverage, reimbursement, utilization, or consideration of a specific health care provider do not apply to a health benefit plan provided to a small employer. Exempts a health benefit plan offered to a small employer from certain restrictions contained in other laws.

Sec. 21.55.110 - Establishes underwriting and rating requirements applicable to health benefits plans covering small employers.

Sec. 21.55.120 - Requires a guaranteed issue insurer to offer at least one small employer health benefit plan and that the plan provide certain coverage. Allows a guaranteed issue insurer to reinsure, make special premium arrangements, or appeal unfair administrative or credit risk.

Sec. 21.55.130 - Requires the board to design small employer health benefit plans that are eligible for reinsurance by the association, including the form and level of coverage. Provides that a plan may include certain cost containment features. Requires the plan be submitted to the director of the division of insurance for approval.

Sec. 21.55.140 - Establishes certain conditions that must be met before an insurer or welfare arrangement may cease doing business in the small employer market.

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Sec. 21.55.250 - Definitions.

Section 3 - Provides that a health maintenance organization is subject to the small employer health insurance provisions contained in AS 21.55.

Section 4 - Provides that a hospital or medical service corporation is subject to the small employer health insurance provisions contained in AS 21.55.

Section 5 - Transition section.

Section 6 - Effective date.

MFF:plm
91-250.plm

SB242

HEALTH INSURANCE FOR SMALL EMPLOYERS (A NON-PROFIT LEGAL ENTITY)

MEMBERS OF THE HEALTH REINSURANCE ASSOCIATION

LICENSED HOSPITAL OR MEDICAL SERVICE CORPORATIONS
WELFARE ARRANGEMENTS / MULTIPLE EMPLOYER ARRANGEMENT
LICENSED ALASKA HEALTH INSURERS OFFERING A HEALTH PLAN

BOARD OF DIRECTORS

NINE INDIVIDUALS SELECTED BY MEMBERS *
DIRECTOR OR DESIGNEE IS NON-VOTING EX-OFFICIO MEMBER

* PROPOSED REPRESENTATION

HMO REPRESENTATIVE
HOSPITAL OR MEDICAL SERVICE CORPORATION
SIX MEMBERS FROM SMALL BUSINESS HEALTH INSURERS
ONE MEMBER FROM LARGE BUSINESS HEALTH INSURERS

DIRECTOR OF INSURANCE

APPROVES BOARD MEMBERS
APPROVES PLAN OF OPERATION
REVIEWS ANNUAL REPORT
HEARS APPEALS BY MEMBERS

COST

SELF-SUPPORTED ASSOCIATION
(ONLY COST TO STATE:
DIRECTOR OF INSURANCE TRAVEL)

SB242

PURPOSE

TO MAKE CERTAIN CHANGES IN THE EMPLOYER INSURANCE MARKET TO PROVIDE MORE: ACCESSABILITY, RENEWABILITY, PREDICTABILITY, AND STABILITY.

TO ENSURE FAIR ACCESS TO AND CONTINUITY OF COVERAGE FOR SMALL EMPLOYERS AND THEIR EMPLOYEES.

HIGHLIGHTS

GUARANTEED ACCESS TO COVERAGE: ALL SMALL EMPLOYER GROUPS WOULD BE ABLE TO OBTAIN BASIC COVERAGE REGARDLESS OF RISK.

COVERAGE OF WHOLE GROUPS: NEITHER AN EMPLOYER NOR AN INSURER WOULD BE ABLE TO EXCLUDE FROM GROUP COVERAGE, HIGH RISK INDIVIDUALS.

RENEWABILITY OF COVERAGE: AT RENEWAL TIME COVERAGE WOULD NOT BE CANCELLED DUE TO DETERIORATING HEALTH.

CONTINUITY OF COVERAGE: ONCE INDIVIDUAL MEETS PREEXISTING CONDITION RESTRICTIONS, HE OR SHE WOULD NOT HAVE TO MEET AGAIN WHEN CHANGING JOBS OR CARRIERS.

PREMIUM PRICING LIMITS: INSURERS WOULD BE REQUIRED TO LIMIT HOW MUCH THEIR RATES COULD VARY FOR GROUPS SIMILAR IN GEOGRAPHY, DEMOGRAPHIC COMPOSITION AND PLAN DESIGN.

March 11, 1991

SMALL EMPLOYER MARKET REFORMS AND REINSURANCE MECHANISM

On February 21, 1991 the HIAA Board of Directors reaffirmed its commitment to the comprehensive set of recommendations adopted a year ago that the Association believes can be achieved in the context of a viable private marketplace. The essence of our proposal is to make certain changes in the market so that it provides substantially more predictability and protection to the purchasers of coverage.

The small employer market precepts that the HIAA recommends are:

1. **Guaranteed Access to Coverage.** All small employer groups would be able to obtain private health insurance for basic coverage regardless of the health risk they present. A reinsurance mechanism would allow carriers to make this basic prototype benefit coverage available to any small employer for no more than 150 percent of the average premium for similar groups.
2. **Coverage of Whole Groups.** Coverage would be made available to entire employer groups; neither an employer nor an insurer would be able to exclude from the group's coverage individuals who present high medical risks.
3. **Renewability of Coverage.** At renewal time, employer groups and/or individuals in these groups would be assured that their coverage would not be canceled because of deteriorating health.
4. **Continuity of Coverage.** Once a person is covered in the small employer market and satisfied a plan's preexisting condition restrictions, he or she would not have to meet those requirements again when changing jobs or when the employer changes carriers.
5. **Premium Pricing Limits.** Insurance carriers would be required to limit how much their rates could vary for groups similar in geography, demographic composition and plan design. More specifically, a carrier's premiums for similar groups could not vary by more than 35 percent from the carrier's midpoint rate (halfway between the lowest and highest rate). There would also be a 15 percent limitation on how much a carrier could vary rates by industry. Finally, carriers would have to limit a group's year-to-year premium increase to no more

than 15 percent above the carrier's "trend" (the year-to-year increase in the lowest new business rate).

GUARANTEEING AVAILABILITY

The "top ten" carriers in a states' small employer market would have to guarantee issue prototype benefit coverage to all applicant small employer groups. Other (non-top ten) carriers could choose to also act as guaranteed issue carriers, although they would not be required to do so. There would be a publicly available list of guaranteed issue companies. Insurers rejecting groups would be responsible for referring the group to this list (or telephone number).

Guaranteed issue carriers would have access to both individual and group reinsurance at issue, renewal and for new entrants. These carriers would have to make prototype benefits available to all small employers, at a rate of no more than 150 percent of adjusted average market premiums. They would face no cost-sharing for group reinsurance (priced at 150 percent of adjusted average market premium minus a ceding factor), could require an advance premium deposit (not to exceed three months) for poor credit risks, and could make special arrangements to cover employees in groups with exceptionally high employee turnover rates.

Insurers that choose not to guarantee issue would not be obligated to accept all applicant small employer groups. However, consistent with the whole group precept, they would be required to accept or reject entire employer groups. These carriers would only have access to individual reinsurance and only for new entrants to existing cases. This is to provide financial relief for the new entrants that they would be required to accept under the continuity precept.

Both guaranteed issue and other carriers would have access to individual reinsurance (priced at 500 percent of adjusted average market claims experience, and including a \$5,000 deductible but no coinsurance payments). Both carrier types would be included in the assessment base for tier one financing of reinsurance losses.

Non-guaranteed issue carriers that wish to become guaranteed issue carriers, or guaranteed issue wishing to become non-guaranteed issue, would be required to announce one year in advance their intentions to change. Carriers newly converting to guaranteed issue would not be allowed to apply more favorable guaranteed issue reinsurance terms to business already on their books when they make such a change.

Guaranteed issue carriers would be able to appeal to the reinsurance board in the event that they experienced an unfair share of administrative and credit risks. Where the Board finds

that a carrier has experienced such an unfair burden, a decreased reinsurance price to offset administrative expenses may be allowed, or a temporary suspension of guaranteed issue may be granted to the carrier.

A carrier would not have to guarantee issue business received from any agent or broker, but would be free to directly issue coverage to such business or to refer the business to one of its own agents.

HIAA believes this approach allays apprehension over who the designated carrier would be and what their practices are. Another major advantage of this approach is that it does not mandate that every carrier in the market guarantee issue. This will be more efficient since carriers that are only marginally operating in a number of local markets would not have to incur all of the fixed costs associated with acting as a designated carrier (e.g., offering a prototype plan). Further, it will be easier to monitor carriers' cost management of reinsured cases since there will be fewer designated carriers to oversee. Finally, it avoids the problem of one designated carrier (or a very small number of designated carriers) being treated by legislators as a quasi-governmental program and subject to extremely adverse regulatory or financial treatment (e.g., setting rates below market norms).

DEFINING SMALL EMPLOYER GROUPS

Employer-based plans issued to firms with only one or two employees should be excluded from the small employer market reforms and reinsurance. Such plans should continue to be regulated under a state's group or individual insurance laws.

High risk pools should be established in every state and would act to guarantee availability of coverage to persons without access to employer based coverage (i.e., individuals without an attachment to the workplace, as well as high risk persons employed by businesses with one or two employees). High risk pools would not be available to individuals working for firms with at least three employees offering employer-financed coverage to any or all employees.

The following small employer market reforms would not apply to employer-based individual policies: (a) guarantee issue -- carriers would not be required to guarantee issue individual policies to new employer-based groups of individuals (except for new adds to existing groups of individuals as described below) and (b) rating and renewability regulation -- individual rates will not be regulated if there is effective rate regulation in a particular state. In making a determination as to whether there is effective regulation of rates one should analyze the Department's practices rather than relying solely on the

statutory or regulatory authority in place in a particular state.

Individual policies would not have access to the small employer reinsurance mechanism. However, reinsurance assessments would be imposed on employer-based individual policies for employers with 3 to 25 lives to offset the relatively higher costs due to the guaranteed availability of small group coverage to all small employers.

The following small employer market reforms would apply to individual (as well as group) employer-based plans for small employers with 3 to 25 employees: (a) The HIAA precept on whole groups: the same plan must be made available to all eligible employees of the firm, including high risk employees and new adds and (b) Pre-existing conditions: if a person was covered by (or satisfied preexisting condition exclusions under) the previous employer-based plan, the new employer-based plan must waive preexisting condition requirements for those conditions.

FINANCING SOURCES

First tier assessments should be capped at four percent of small employer market premium. For second tier financing, HIAA should be open to a range of alternative broad sources of financing that might be achievable in a given state.

LIST OF BILL SECTION HEADINGS

SB 242

- *Sec. 1. Findings (page 1)
- *Sec. 2. AS 21 New chapter
 - ARTICLE 1 - Small Employer Health Reinsurance Association (pages 1-9)
 - Sec. 21.55.010. Creation; Membership (page 2)
 - Sec. 21.55.020. Board of Directors; Organization (page 2)
 - Sec. 21.55.030. General Powers (pages 2-3)
 - Sec. 21.55.040. Plan of Operation (pages 3-4)
 - Sec. 21.55.050. Health Care Reinsurance (pages 4-9)
 - Sec. 21.55.060. Administrative Procedure Act (page 9)
 - Sec. 21.55.070. Tax Exemption (page 9)
 - Sec. 21.55.080. Limitation of Liability (page 9)
 - ARTICLE 2 - Small Employer Health Insurance Plan (pages 9-18)
 - Sec. 21.55.100. Applicability (page 9)
 - Sec. 21.55.110. Underwriting and Rating Requirements (pages 10-13)
 - Sec. 21.55.120. Guaranteed Issue Insurers (pages 13-14)
 - Sec. 21.55.130. Small Employer Health Benefit Plans (pages 14-15)
 - Sec. 21.55.140. Conditions for Ceasing to Do Business (page 15)
 - Sec. 21.55.250. Definitions (pages 15-18)
- *Sec. 3. AS 21.86.260(a) amended regarding health maintenance organization (page 19)
- *Sec. 4. AS 21.87.340 amended regarding Other Provisions Applicable (page 19)
- *Sec. 5. Transition (page 20)
- *Sec. 6. Effective date (page 20)


SB 242: "An Act relating to health insurance for small employers;
and providing for an effective date."

The department is in favor of this legislation.

One of the more challenging issues facing this country and Alaska is the ever-increasing number of people unable to afford or even find health care insurance. Persons going from one employer to another who have acquired a medical condition find themselves, in too many cases, uninsurable.

Certain underlying conditions need to be met to satisfy public expectations of a health insurance market that can continue to be provided by private health insurers. These include: guaranteed access to coverage; coverage for entire groups, renewability of coverage; limits on pricing; and continuity of coverage. This legislation addresses these issues by establishing a reinsurance mechanism comprised of all entities writing health care coverages in Alaska. Through this mechanism, coverage is made available that provides that the preexisting conditions restriction is applicable to a person only one time. Once a covered person has satisfied the plans preexisting condition restriction, he or she would not have to again face the restrictions when changing employers or insurance company. The plan contained in the bill assures availability of coverage, prevents picking and choosing of employees in a group, assures renewability and places a cap on premium increases.

This legislation gives the private health care insurance system an opportunity to address these challenges.


Glenn A. Olds, Commissioner

Date: 4-18-91

FISCAL NOTE

STATE OF ALASKA
1991 LEGISLATIVE SESSION

BILL NO. SB 242

Revision Date: 4/5/91 Department Affected: Commerce & Economic Dev.
 Title: An Act relating to health insurance for small employers BRU: Insurance
 Component: Operations
 Sponsor: Senator Collins
 Requestor: Senator Collins COMPONENT SERIAL NO.

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Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 92	FY 93	FY 94	FY 95	FY 96	FY 97
PERSONAL SERVICES	0					
TRAVEL	6.0	1.5	1.5	1.5	1.5	1.5
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	6.0	1.5	1.5	1.5	1.5	1.5

CAPITAL						
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REVENUE						
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact:

ANALYSIS: (Attach a separate page if necessary.)

In the first year, a substantial number of meetings with industry will be required to assure that the operations of the association are satisfactorily established. Eight meetings are anticipated in the first year and two per year thereafter.

Prepared By: Donald P. Koch, Chief of Market Surveillance Phone: 465-2577
 Division: Insurance Date: 4/18/91
 Approved by Commissioner: Glenn A. Olds *[Signature]* Asst. Comm.
 Agency: Department of Commerce & Economic Development Date: 4-18-91

Distribution (by preparer): Legislative Finance, Legislative Sponsor, Requestor, OMB, & Impacted Agency(ies).