Analysis of the Health Insurance Marketplace, Modernization, and Affordability Act of 2006 (HIMMAA)

Kenneth E. Thorpe
Emory University[1]

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Overview

This note examines the impact of the HIMMAA on the number of newly insured individuals in small firms. I also examine the impact of the proposal on the existing small group marketplace. A brief discussion of the proposal is presented below.

The HIMMAA would result in lower costs of purchasing health insurance for small groups, primarily by allowing insurers to offer "basic" benefits that exclude state benefit mandates (if they offer an "enhanced" package of benefits as well that meet federal benefit mandate rules). There are approximately 14 million uninsured in firms that would benefit from the lower cost of insurance. This will reduce the cost of insurance, and result in approximately 380,000 to 470,000 newly insured. At the same time, however, the HIMMAA proposes that the states adopt the NAIC model small business rating rules. States can either conform to these or not. Yet, since 37 states have more restrictive rating rules, the use of the NAIC rules as a national standard will have a significant and likely disruptive impact on the existing small group market in these states. Whether theses states adopt the NAIC rules or not, less expensive groups in the community and modified community rating states would face strong incentives to move to the new NAIC regulation. Overall, over 1 million workers currently insured in the

[1] I thank HIP USA for financial assistance in developing the analysis. They assumed no role in developing the estimates. All conclusions are solely those of the author and do not reflect those of Emory University or HIP.

small group market would switch to receiving coverage through the new market governed by the NAIC rating rules. This switching of low-cost workers would result in higher premiums in the existing small group markets in these 37 states. As a result, approximately 490,000 currently insured workers would drop their insurance coverage. ***On balance the HIMMAA could result in a net reduction in coverage of 20,000 to 110,000 workers.***

The Proposal

The HIMMAA creates a new framework for creating small business health plans (SBHP). SBHPs must meet certain requirements and is organized as a professional, trade or industry organization, or a chamber of commerce. SBHPs also face some limitations in coverage. They may not self-insure and while they can organize as an interstate purchasing group, they must purchase insurance from state regulated insurance carriers.

The HIMMAA contains several important differences from today's small group insurance market. The first key difference concerns the rules for rating premiums. The HIMMAA outlines a federal model based on the National Association of Insurance Commissioners (NAIC) 1993 state model rules.

States are given the option of adopting the national rules or retaining their current rating rules for small businesses they currently regulate. Once adopted the rules would apply to the existing market and the new SBHP markets as well. Alternatively, states may decide not to adopt these rules and retain their existing small group rating rules and be a non-adopting state. However, insurance companies in states that do not adopt the national rules (non-adopting states) can petition the Department of Labor to use the federal rating rules. As noted above, the federal rules are based on the 1993 NAIC model rules for small business. The rules establish an index rate for a class of business that shall not exceed 20 percent and within a class of business the premiums cannot vary by more than 25 percent. Insurers may establish up to 9 separate classes of business. However, associations can be their own class, so the actual number of classes is not known. There is also an exemption for associations for rate limitations between classes. For the remaining small employers,

insurers may use industry type to rate, the differential between industries cannot exceed 15 percent. In subsequent years, insurers could increase premiums by medical trend and up to 15 percent.

Benefits offered by eligible insurers could also differ from today's small group market. These insurers may offer a basic policy that does not include state mandated benefits if they also offer an "enhanced" plan. The enhanced plan would be based on the benefits offered by state employee plans of the five largest states. Such benefits are generally more generous than would be offered through a basic plan that does not include benefit mandates.

Analysis

The HIMMAA would have two major impacts on the small group market. First, by allowing insurers to offer plans that do not include benefit mandates, health insurance products would be less expensive than found in the small group market today. The lower cost of health insurance would result in more small firms offering coverage and with it a rise in the number of insured. The magnitude of these changes will depend on the price sensitivity of small employers that do not offer insurance today, and the percent reduction in premiums resulting from the basic plan.

In addition, the proposal allows insurers to choose from two sets of rating rules—the first for many states is based on less restrictive rules outlined under the NAIC plan and the second under existing state small business rating laws. This parallel construct would likely result in: states simply adopting the NAIC rules or insurers could petition to follow them to provide rating flexibility. The use of these parallel rating rules could have major impacts in states with more restrictive rating rules (community and modified community rating) that decide to remain non-adopting states. In such states, two sets of rating rules would exist, one based on experience rating for the SBHP small group market and the more restrictive rules for the existing small group market. This dual rating approach would create strong incentives for less expensive firms with healthier workers to leave and purchase insurance in the experience rated market. In this case, the cost of insurance in the existing small group market would rise, and raise serious issues about the sustainability of the

market. Over time, non-adopting states would face very strong incentives to adopt the national model rules.

I start by examining the existing rating rules in the small group market and compare them to the national NAIC model rules. Following earlier work, I group the states into three categories, based on how restrictive the rules are relative to experience rating. This analysis is based on our own state surveys, combined with a recent state NAIC survey. The NAIC survey estimates total variation in rates allowed by each of the states compared to the NAIC model rules. Total variation is based on allowed state rules concerning:

Composite bands
Age
Health, experience, and duration
Industry
Geography
Group size
Participation
Class of business
Total class of business

Total variation is the product of these rating factors in each state compared to the NAIC model rules proposed in S. 1955. States with more restrictive rating rules would potentially face potential disruptions in their existing small group markets if they moved to the NAIC rules.

1. Pure community rating
2. Modified or adjusted community rating that includes rating bands less than 25%. Modified rating allows variation for some demographic characteristics such as gender, and age, but not actual claims experience or measures of health status.
3. Experience rated—or NAIC style rating that allows rating bands of 25% or above, or allow essentially unlimited total variation in premiums.

The issue is whether the total variation in premium allowed in each of the states' small business market is more or less restrictive than the NAIC model rules. The states that allow total variation in rating that exceed the meet or exceed the NAIC rules include (Georgia, Hawaii, Louisiana,

Nevada, Pennsylvania, Tennessee, Idaho, Illinois, South Dakota, Texas, Wisconsin, and Wyoming and Utah) and the District of Columbia. These states would not be significantly impacted by the HIMMAA.[2] However, the remaining 37 states have rating rules that are more restrictive than the NAIC small group rating rules. A summary of these 37 states is presented in Appendix 1. There are approximately 23 million insured adults employed in these 37 states in firms potentially affected by the more liberal experience-rated rules envisioned under the HIMMAA.

Assumptions

Firms that now offer coverage. I use elasticities from the published literature that are similar to those used by the Congressional Budget Office in earlier estimates of the impact of association health plans on insurance coverage.[3]

Firms Decision to Switch from the Current Small Group Market to the New SBHP market. For this, I use the mid-point of the CBO analysis. A 10 percent reduction in the price of insurance in the new SBHP market premium would result in 6-7 percent of firms migrating.

Data for the analysis are based on premiums for firms in the small group market from the Medical Expenditure Panel Survey (MEPS) for 2003. I have aged these premiums to 2007 based on trends from the Centers for Medicare and Medicaid (CMS). Counts of the number of workers and dependents in firms under 50 are also derived from the MEPS with auxiliary data derived from the March supplement to the Current Population Survey for 2005.

[2] This does not mean that some rating factors are unlimited. For instance, Georgia limits the variation on health, experience and duration. Howerver, is has no limits on age, industry, class of business or geography that effectively make the total variation in premium essentially unlimited.

[3] Congressional Budget Office, Increasing Small-Firm Health Insurance Coverage through association health plans and healthmarts, CBO, Washington, DC. January 2000. I assume an elasticity of -0.7 for firm's decision to offer insurance given a change in the premium, see J. Gruber and M. Lettau,"How Elastic is the Firm's Demand for Health Insurance? Journal of Public Economics 88 (2004): 1273-1294.

Number of Newly Insured Individuals in the Small Group Market

I start by assuming that qualified insurers offer a basic plan without mandates (though since these are insured products in the state they will have to pay premium taxes, and other required assessments). Research on mandates assumes that they increase the cost of insurance by 4 to 5 percent. I use this range to develop an estimate of the number of newly insured.[4] Using these data, I estimate that approximately 380,000 to 470,000 individuals in small firms would become newly insured under this legislation.

Number of Currently Insured Switching from the Small Group Market to the New SBHP Market

About 23 million adults have health insurance in small firms in states with more restrictive health insurance rating rules than the NAIC rules. As an upper bound, I estimate what would occur in the 37 states with more restrictive rules than the NAIC model rules. My estimates, combined with earlier work, show that about 50% of these individuals have community-rated premiums that are at least 20 percent higher than they would be under experience rating.[5] For pure community rating states such as New York I assume approximately 40 percent of covered lives have more expensive rates in their current small group rates than would occur under the HIMMAA. For modified community rating states, I use a more conservative figure of 25%. In both community and modified community rating states, either the adoption of the NAIC rules, or non-adoption, would have a substantial impact on the small group market.

Using the switching elasticity outlined above, these changes would result in over a million currently insured individuals switching from the current small group market to the new experience rated market. The migration of these less expensive covered lives would result in higher premiums in these 37 states. This migration would increase

[4] G. Acs, C. Winterbottom, S. Zedlewski, "Employers Payroll and Insurance Costs: Implications for Play or Pay Employer Mandates". In Health Benefits and the Workforce, Washington, DC US Department of Labor, 1992. Also see discussion in the CBO analysis note 1.

[5] Also see, J. Buchanan and Susan Marquis, "Who Gains and Who Loses with Community Rating for Small Business?, Inquiry (Spring 1999): 30-43.

premiums by 3 to 4% resulting in 490,000 currently insured workers to lose their coverage.

Overall Impact on the Number of Newly Insured

Approximately 400,000 individuals would become newly insured under the proposal. However, migration of less expensive individuals to the experience rated pool would increase rates in the current small group market. Overall, I estimate that this migration would increase premiums on average 4% in the small group market. The higher premiums would result in 490,000 currently insured dropping their existing small group policies.

In short, the proposal would provide insurance coverage to approximately 380,000 to 470,000 previously uninsured. On the other hand, the proposal would have significant and potentially disruptive impacts on the insurance markets of 37 states with more restrictive rating rules than the NAIC model rules outlined in the legislation. In these states, insurance premiums are likely to rise by 3 to 4% and 490,000 workers in small businesses that currently have insurance would become uninsured. ***Overall, the proposal could, on balance result in a net reduction in coverage***.

Table 1. Net Effect on Newly Insured (Upper Bound Impacts)

	Newly Insured Lives	**Potential Dropping of Coverage in the 37 States**	**Net Impact: Newly Insured**
Lower	**380,000**	**490,000**	**-110,000**
Higher	**470,000**	**490,000**	**-20,000**

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	Number of Employees in Firms with less than 50 Employees Who are Eligible for and Enrolled in HI at Establishments that Offer It	Variation
	301,638	10.8
	74,425	2.5
	370,659	4.0
	213,668	3.3
	2,844,307	1.2
	459,552	7.9
	319,442	21.9
	85,518	7.0
	1,304,370	9.3

Total	23,425,167

SOURCE: NAIC and surveys of individual states

States in yellow thought more restrictive from state surveys, though data are not from the NAIC survey (April, 2006)