

Health Insurance Reform Working Group
ACA Changes to Small Employer Definition and Rating Factor Rules

Size of Small Group Market

Section 1304(b)(2) of the ACA defines a small employer as an employer having at least one but no more than 100 employees. However, Section 1304(b)(3) provides states the option of defining small employers as having at least one but not more than 50 employees in plan years beginning before January 1, 2016.

Under existing Massachusetts law (M.G.L. c. 176J) and regulation (211 CMR 66.00), the small group market applies to those eligible employers with between 1 and 50 eligible employees. Beginning with July 1, 2007, the Massachusetts nongroup and small group markets were merged into one market that applies to all eligible individuals and eligible small employers.

Research to Consider Impact of Change

The DOI has contracted with consultants to evaluate the impact this change will have on the market for coverage in both the 51-100 as well as in the 1-50 markets. The study is to look at the rate impact on both markets and the number of groups in the 51-100 market that may purchase coverage, as well as the number that may choose to self-insure rather than buy coverage in the expanded small group market.

In conducting this review, the consultants will collect information from carriers - as part of a special examination - that will enable the consultants to estimate the projected costs in a manner similar to an analysis that was done prior to the merger of the nongroup and small group markets in 2007. A proposed data collection tool is being distributed and will be discussed by the consultants and why the information is necessary to conduct the analysis.

Questions for Stakeholder Feedback

1. What questions do carriers have about the data collection tool?
2. What are the types of pros and cons that should be analyzed when considering whether the state should implement the ACA definition of small employer (i.e., 1-100 employees) prior to 2016 or seek to maintain its existing definition until at least that date?
 - a. Financial impacts
 - b. Level of risk impacts
 - c. Rate development impacts
 - d. Other impacts
3. How much operational lead time would carriers need to change their informational systems and marketing systems to implement a changed definition of small employer?
4. What thoughts may carriers have about transition periods to implement such expansions to the market? What has worked or not worked in past transition periods when there have been expansions in the number of groups covered under the small group market?

Rating Factors

Section 1201 of the ACA, amending the Public Health Service Act to create section 2701, establishes that premiums in the individual and small group markets may vary only by family structure, geography, the actuarial value of the benefit, age (limited to a ratio of 3 to 1), and tobacco use (limited to a ratio of 1.5 to 1).

Under existing Massachusetts law (M.G.L. c. 176J) and regulation (211 CMR 66.00), rates charged in the individual and small group markets are allowed to vary using factors that are similar to the following federal factors: family structure (called the rate basis type in Massachusetts regulation), geography (called the area rate factor that is limited within a .8 to 1.2 range), the actuarial value of the benefit (called the benefit level rate adjustment factor), age (limited along with other factors within a 2:1 rating band), and tobacco use (within the same 2:1 band as the age factor). In addition to the noted federal factors, under Massachusetts law, carriers are also able to use the following rate adjustment factors for the following characteristics: industry, participation rate (of employees in the offered group product), wellness program participation, group size factor and use of intermediary to obtain health coverage.

In effect, the ACA will require the elimination of certain rating factors that are being used in the Massachusetts market.

Research to Consider Impact of Change

The DOI has contracted with consultants to evaluate the impact this change will have on the market for coverage in the merged nongroup/small group market. The study is to look at the rate impact on all types of group comparing rates before and after the implementation of the ACA rules.

In conducting this review, the consultants will collect information from carriers, as part of a special examination, that will enable the consultants to estimate the projected cost. A proposed data collection tool is being distributed and will be discussed by the consultants and why the information is necessary to conduct the analysis.

Questions for Stakeholder Feedback

1. What questions do carriers have about the data collection tool?
2. What are the pros and cons that should be analyzed when considering the elimination of rating factors that are currently being used??
 - a. Financial impacts?
 - b. Level of risk impacts?
 - c. Rate development impacts?
 - d. Other impacts?
3. How much operational lead time would carriers need to change their informational systems and marketing systems to eliminate current rating factors?
4. What thoughts may carriers have about transition periods to implement such expansions to the market? What has worked or not worked in past transition periods when there have been changes under the small group market?