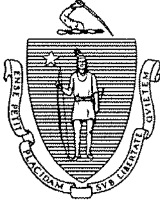
COMMONWEALTH OF MASSACHUSETTS
Office of Consumer Affairs and Business Regulation
DIVISION OF INSURANCE



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JULIANNE M. BOWLER
COMMISSIONER OF INSURANCE

December 29, 2006

Clerk of the Senate
Clerk of the House of Representatives
State House
Boston, MA 02133

Re: Report on the Impact of Merging the Massachusetts Nongroup and Small Group Health Insurance Markets under Chapter 58 of the Acts of 2006

Dear Clerks of the Senate and House of Representatives:

Chapter 58 of the Acts of 2006, "An Act Providing Access to Affordable, Quality, Accountable Health Care," was enacted on April 12, 2006. Within this act, Section 114 directed that a Special Commission be formed to "examine and study the impact of merging the non-group insurance market as defined in chapter 176M of the General Laws and small-group health insurance market as defined in chapter 176J of the General Laws," and "to file a report with the clerks of the senate and house of representatives no later than December 31, 2006."

As directed by Section 114, the Special Commission was established, consisting of Commissioner of Insurance, Julianne Bowler; the Secretary for Administration and Finance, Thomas Trimarco; the Commissioner of the Division of Health Care Finance and Policy, Amy Lischko; three members appointed by the President of the Senate: Senator Diane Wilkerson, Gary Lin, and Katherine Swartz; and three members appointed by the Speaker of the House of Representatives: Representative Ronald Mariano, Deborah Chollet and Rina Vertes.

As provided for under Chapter 58, the Special Commission engaged an outside contractor, Gorman Actuarial, LLC, to conduct the study. The Special Commission worked with the contractor, directing the completion of the report which is forwarded in its entirety for review.

As noted in the Executive Summary, the contractor has estimated that the merger of the small group and nongroup markets on July 1, 2007, along with the change in the rating rules, will result in an increase at that time to current small group premiums of about 1% to 1.5% and a decrease to current nongroup premiums of about 15%. This represents an approximate $25-38 million subsidization of the nongroup plans by small groups in the current market, or approximately $2.96-$4.50 per member per month. The report also noted that the impact to rates will vary substantially by carrier, ranging from a decrease estimated to be as much as 50% for some nongroup subscribers to an increase estimated to be as much as 4% for some small group subscribers.

The contractor has also estimated that, in subsequent years, in addition to the annual trend increase in health care spending and health insurance premiums, the premiums of the merged market may vary by as much as a 6.2% increase or 3.2% decrease depending on the way that various factors emerge as the uninsured population begins to enter the market. As it is important to understand that the possible range of increase or decrease in premium is based on the potential interplay of a variety of factors, the Special Commission has provided an additional summary of the assumptions that went into the projections, shown in the attached document. A detailed explanation of these projections can be found in Section 8.5 and Appendix 12.18 of the full report.

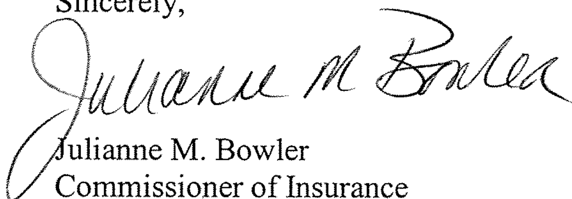
The Special Commission has estimated that the number of uninsured will decrease from the current estimates of 372,000 to 570,000 persons to between 75,000 and 110,000 by the year 2012, based on a medium uptake assumption. (The estimate of uninsured is expressed in ranges due to the use of two different surveys – the Massachusetts Household Survey and the adjusted U.S. Census Current Population Survey – for estimating the current number of uninsured in Massachusetts.)

The Special Commission would like to emphasize that in developing the above-noted projections, the contractor has made assumptions in certain areas for which decisions are still to be made, for which the impact is still to be determined or for which accurate data are not readily available. The Special Commission worked with the contractor in developing the assumptions and concurs with them. The use of these assumptions was necessary due to the time constraints for developing the report in order to meet the requirements of Chapter 58. Thus, these projections may differ from actual outcomes. The contractor accounted for these unknowns by conducting sensitivity analyses and providing ranges to most of the projections but it will also be important to monitor closely the various implementation stages of health care reform and make adjustments to the law if necessary.

The Special Commission would like to commend Gorman Actuarial for completing this comprehensive and well-documented study within the challenge of the time constraints and data availability. The Special Commission would also like to extend the its appreciation to the health carriers and intermediaries that participated in the study by providing the data needed in the time frames required.

The above-noted report is hereby provided for review.

Sincerely,



Julianne M. Bowler
Commissioner of Insurance

Uninsured Impact Assumptions

This document is a supplement to the Merger Final Report Dated 12/26/06. It was created by Gorman Actuarial at the request of the Special Commission to further clarify the assumptions that were used to estimate the premium impact due to the enrollment of the currently uninsured. We used four assumptions to create the sixteen scenarios for projected premium impact that are provided in Appendix 12.18. These assumptions are detailed in Section 8.5 of the report. The four assumptions that were combined and permutated to form the sixteen scenarios are:

1. That the current uninsured have morbidity (use of health services) that resembles either the Small Group population or the Non-group population. These populations were then adjusted to reflect the uninsured demographics. Scenarios 1-8 assume adjusted Non-group morbidity and scenarios 9-16 assume adjusted Small Group morbidity.
2. That the 10% group size load may be used by carriers either to reduce premium or to offset carrier administrative costs. Scenarios 1-4 and 9-12 assume the 10% group size load is used to offset administrative costs and scenarios 5-8 and 13-16 assume the 10% group size load is used to reduce premium.
3. That the uninsured who report their health status as Fair/Poor have a higher morbidity. Odd numbered scenarios assume that costs will be 150% of that for the insured population and even numbered scenarios assume that costs will be 200% of that for the insured population.
4. That the uninsured demographics are characterized by either the Massachusetts Household Survey or the adjusted U.S. Census. Scenarios 1,2,5,6,9,10,13 and 14 assume demographic characteristics based on the adjusted U.S. Census while scenarios 3,4,7,8,11,12,15 and 16 assume demographic characteristics based on the Massachusetts Household Survey.

For each of the sixteen scenarios we used four different estimates for the increase in enrollment of the uninsured into the insured population:

- Elasticity of Demand – a formula that estimates the likelihood of an individual purchasing insurance based on the relative cost of insurance as a percentage of income
- Informant Survey Low - 15% lower than Informant Survey Medium estimate
- Informant Survey Medium - an estimate based on a review of data describing the uninsured, the impacts of Chapter 58, and a survey of key informants
- Informant Survey High - 15% higher than Informant Survey Medium estimate

Table 1 shows the relative impact in CY 2012 for each of the four assumptions, while holding the other three assumptions constant. The percentage impacts shown are averages of all comparable scenarios. It shows the impact using each of the four uptake estimates. For informational purposes it also includes the number of currently uninsured that is estimated to be insured by CY 2012 for each of the two surveys.

Uninsured Uptake Assumption Impact Summary						
	Current Uninsured Buying Private Insurance by 2012 Using Adjusted U.S. Census	Current Uninsured Buying Private Insurance by 2012 Using Household Survey	Adjusted Non-group vs. Adjusted Small Group Morbidity for Uninsured Population	10% Group Size Load (used for administrative expenses vs. applied to premium)	Morbidity adjustment for perceived Health Status of Fair/Poor (150% vs. 200%)	Survey (Adjusted US Census vs. HouseHold)
Elasticity of Demand Formula	95,000	75,000	3.4%	1.1%	-0.4%	-0.5%
Informant Survey Low	125,000	110,000	4.7%	1.5%	-0.5%	-0.9%
Informant Survey Medium	145,000	125,000	5.4%	1.8%	-0.6%	-1.1%
Informant Survey High	165,000	140,000	6.0%	2.0%	-0.7%	-1.2%

Table 1 – Summary of Premium Impact due to Assumptions and Uptake Estimates – CY 2012

Looking at Table 1 we see that:

- Assuming adjusted Non-group morbidity as opposed to adjusted Small Group morbidity increases premium rates in the range of 3.4 to 6%.
- Assuming that the 10% group size load is used to offset administrative expenses instead of reducing premium has a 1.1% to 2.0% increase, depending on the uptake estimates.
- Assuming a 200% morbidity adjustment for those with Fair/Poor health status instead of a 150% morbidity adjustment increases premium by about a half of a percent.
- Depending on whether the estimate of the total uninsured is based on the Household Survey or the adjusted U.S. Census data, the premium rate estimated impact differs by about 1%; using the adjusted U.S. Census instead of the Household Survey data results in lower projected premiums.

Table 2 shows the assumptions that were used to give the outer range premium impact estimates, namely either a 3.2% reduction in premium (Scenario 13) or a 6.2% increase in premium (Scenario 4). Depending on the assumptions, the impact varies substantially.

	Premium Impact	Uptake Estimate	Uninsured Morbidity	10% Group Size Load	Morbidity Adjustment for Fair/Poor	Survey
Low	-3.2%	Informant Survey High	Adjusted Small Group Morbidity	Applied to Offset Premium	150%	Adjusted US Census
High	6.2%	Informant Survey High	Adjusted Non-Group Morbidity	Used for Administrative Expenses	200%	Household Survey

Table 2 – Example of Premium Impact using Endpoint Assumptions and Uptake Estimates – CY 2012

Appendix 12.18 provides the premium impact for each of the sixteen scenarios, using each of the four uptake estimates and for each year of the projection (CY 2007 through 2012).