Health Economics Program

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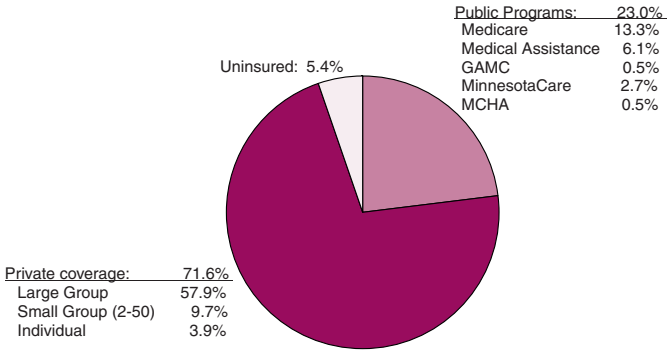
Trends in Minnesota's Small Group Health Insurance Market

Introduction

Minnesota has historically had one of the lowest rates of uninsurance in the nation. Having a strong private health insurance market has played a critical role in this success.[1] As shown in Figure 1, nearly three-quarters (72 percent) of the state's population has private health insurance coverage, and the vast majority of people with private coverage obtain it through an employer. About 10 percent of Minnesotans have health insurance through a small employer (defined as 2 to 50 employees). This issue paper compiles information from a variety of sources to provide an overview of trends in Minnesota's small group health insurance market.

Figure 1

Distribution of Insurance Coverage in Minnesota, 2001
(by Primary Source of Coverage)

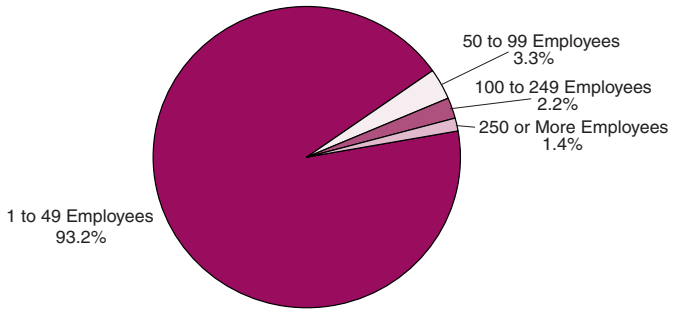


Note: GAMC is General Assistance Medical Care; MCHA is Minnesota Comprehensive Health Association.
Source: MDH, Health Economics Program

Small Businesses in Minnesota

Figure 2

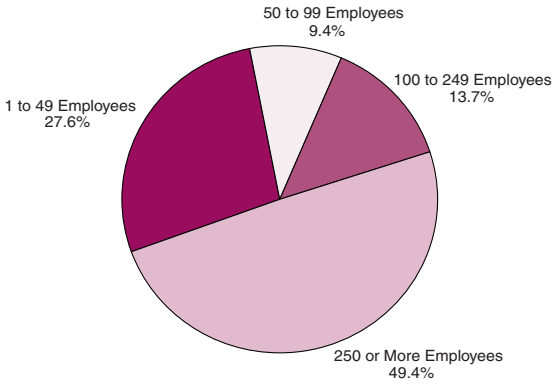
Distribution of Private Firms in Minnesota by Number of Employees, 2002



Source: Minnesota Department of Economic Security, data for first quarter 2002

Figure 3

Distribution of Employment in Minnesota by Firm Size, 2002



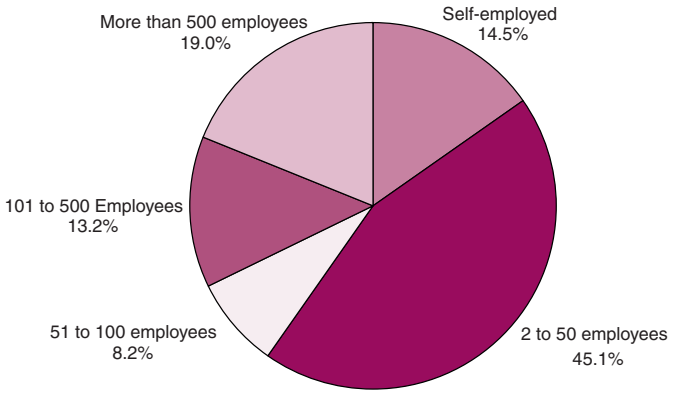
Source: Minnesota Department of Economic Security, data for first quarter 2002

As shown in Figures 2 and 3, most private businesses in Minnesota (about 93 percent) have fewer than 50 employees; however, the percentage of jobs that are in small firms is much lower (28 percent).

Rapidly rising health insurance premiums over the last few years have led to concern that access to affordable health insurance, particularly for Minnesotans employed by small businesses, could erode. This is particularly concerning because employees of small businesses make up a disproportionate share of the uninsured. As illustrated in Figure 4, among the uninsured who are employed, 45 percent work in businesses with fewer than 50 employees (this represents 32 percent of the total uninsured, or roughly 87,000 people) and an additional 15 percent are self-employed.[2]

Figure 4

Uninsured in Minnesota by Size of Employer
(of the 73% of uninsured who are employed)



Source: MDH, Health Economics Program, 2001 Minnesota Health Access Survey

Small Group Health Insurance in Minnesota

Policymakers have shown particular concern about ensuring access to affordable health insurance for people who work for small businesses. One reason for this concern is that premiums in the small group market can be volatile – a change in the health status of one person in a small group can have a large impact on the overall cost for the group, which can lead to premium swings. In addition, small employers lack bargaining power with health plans. Because of these concerns, the small group health insurance market is subject to special regulation.

Regulation of Minnesota's small group health insurance market is characterized by the following key features:

- Guaranteed issue, which means that small employer groups that meet specific requirements cannot be rejected for health insurance coverage.
- Guaranteed renewal, which means that health plans cannot refuse to renew coverage for a small employer group except under specific conditions.
- Restrictions on premium variation, also known as "premium rate bands," which are intended to reduce premium volatility.
- Minimum loss ratios, which are intended to limit profits and overhead of health plan companies by ensuring that a minimum percentage of premiums is paid out for medical claims. For health plan companies with more than 10 percent of the total private health insurance market in Minnesota and HMOs with more than 3 percent of the total market, the minimum loss ratio is 82 percent. For HMOs with less than 3 percent of the market, the minimum loss ratio is 71 percent for poli-

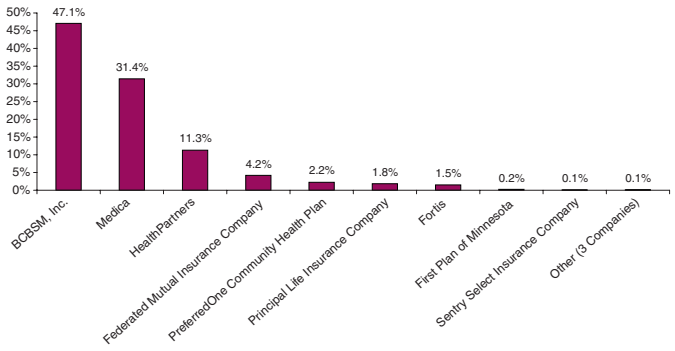
cies covering fewer than 10 employees and 75 percent for all other small employer policies. For other health plan companies, the minimum is 60 percent beginning in 2003.

- Regulatory approval of premium changes, which was modified in 2002 to allow companies to charge new rates as soon as they are filed rather than waiting for the approval process, which the Department of Commerce has 60 days to complete.

A few large companies dominate Minnesota's small group health insurance market. Figure 5 shows that three companies (Blue Cross Blue Shield of Minnesota Inc., Medica, and HealthPartners) hold a combined 90 percent of the market. The share of the market held by the top three companies has increased by 5 percentage points since 1997. Blue Cross Blue Shield of Minnesota's market share increased from 36 percent in 1997 to 47 percent in 2002.

Figure 5

Minnesota's Small Group Market: 10 Largest Carriers by Market Share, 2002



Note: Companies with common ownership were treated as one entity. Blue Cross Blue Shield of Minnesota includes BCBSM and Blue Plus; Medica includes Medica Health Plans and Medica Insurance Company; Fortis includes Fortis Insurance Company, Fortis Benefits Insurance Company and John Alden Life Insurance Company . Fully insured market only, market share based on premium volume.
Source: Minnesota Department of Commerce, "Report of 2002 Loss Ratio Experience in the Individual and Small Employer Health Plan Markets for: Insurance Companies Nonprofit Health Service Plan Corporations and Health Maintenance Organizations," June 2003.

Minnesota is not unusual in having a highly consolidated small group insurance market. A recent study by the U.S. General Accounting Office (GAO) showed that the small group health insurance market in most states is controlled by a small number of companies.[3] According to the study, the combined market share of the 5 largest companies was 75 percent or more for 19 of the 34 states studied and more than 90 percent in 7 of the states.

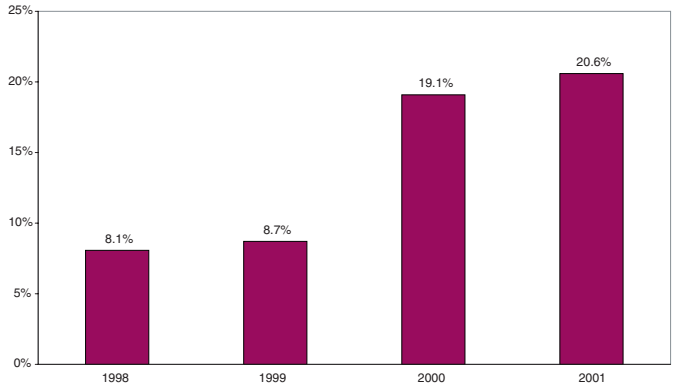
Premiums

In Minnesota and across the nation, premium increases in the small group market (and the private health insurance market as a whole) have returned to the double-digit rates that were last seen in the early 1990s. In the mid 1990s, premium growth in the private insurance market as a whole was very slow. Premiums grew an average of 1 percent or less each year from 1995 to 1997.[4] In 1998, however, premiums began to rise more quickly. In the small group market premium increases were particularly high in 2000 and 2001 (see Figure 6). In 2001, the average small group market premium per member per year was around $2,200 - an increase of over $900 from the 1997 level. In 2001, the annual premium growth per person in Minnesota's small group market was an estimated 21 percent. This was higher than the average premium increase in the private market as a whole, which was about 12 percent in 2001.[5]

Figure 6

Premium Increases in Minnesota's Small Group Market, 1998 to 2001

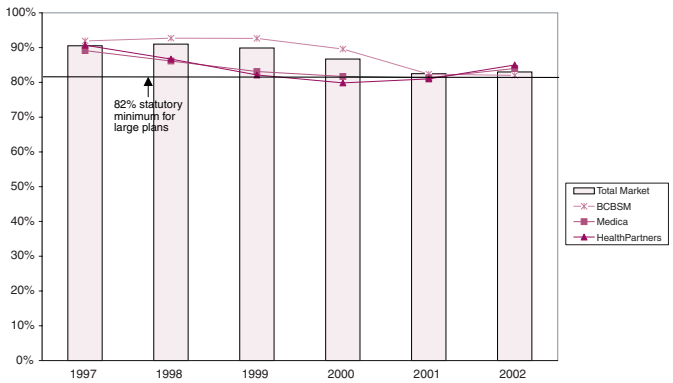
(Percent change in premium per member)



Source: Minnesota Health Coverage Reinsurance Association and Minnesota Department of Health

Figure 7

Loss Ratio Experience in the Small Group Market, 1997 to 2002



Note: Companies with common ownership have been consolidated for purposes of this analysis.

Source: Minnesota Department of Commerce, Loss ratio reports.

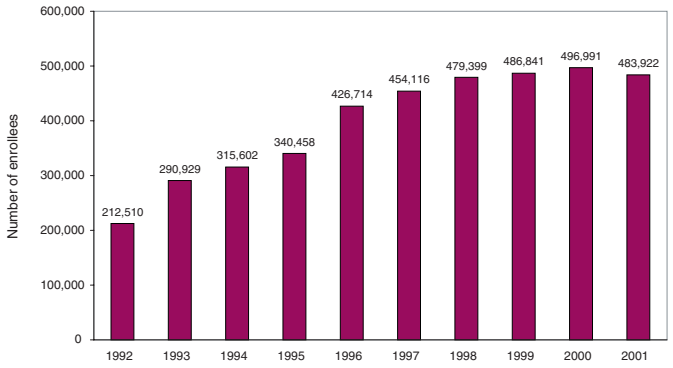
Recently approved premium rates in the small group market suggest that the double-digit premium increases will continue. In 2002, most of the approved "index rate" increases for companies with a large share of the small group market were around 10 percent (with a low of 5 percent and a high of 18 percent). In 2003, index rate increases continued to be above 10 percent.[6] There are, however, factors that might help to mitigate premium increases over the next few years. Minnesota's health plans have recovered from the financial losses they experienced in the mid-1990s. As a result, the next few years may be characterized by a shift toward more intense competition for market share, with plans competing more heavily on price. (Ultimately, however, premium increases are determined by growth in underlying costs. These costs have been growing at about 10 percent per year for the last few years.) Specific to the small group market, the loss ratios of the largest health plans are currently at or near the statutory minimum of 82 percent (see Figure 7), which means the plans have little room to raise premiums except to cover the cost of medical claims. Again, however, to the extent that underlying claims costs continue to grow in double digits, premiums may also continue to increase at relatively high levels.

Enrollment

As shown in Figure 8, enrollment in Minnesota's small group market grew rapidly in the mid-1990s, leveled off in the late 1990s and declined slightly in 2001. In 2001, about 484,000 people were enrolled in the small group market, a decline of three percent from 2000. It is likely that recent large premium increases and the economic slowdown were primary contributors to this decline. It is unclear whether the decline in number of people covered is a result of declining employment in firms that offer coverage, lower employer offer rates, or lower rates of employee takeup. Evidence from Minnesota and national surveys of employers indicates that employers have been more likely to change benefit sets and contribution policies rather than to drop coverage in response to rising costs.[7]

Figure 8

Minnesota Small Group Enrollment, 1992 to 2001
(Fully-Insured Market)



Note: Data from 1992 to 1995 was collected in a 1997 Health Economics Program survey and was adjusted for non-response. Data from 1996 to 2000 was collected by the Minnesota Health Coverage Reinsurance Association. 2001 data was collected by the Health Economics Program.

In addition, evidence suggests that takeup rates may fall as employee premiums rise, although most studies have concluded that the size of this effect is relatively small.[8]

Summary and Conclusions

Given the challenges associated with ensuring access to affordable health insurance for employees of Minnesota's small businesses, monitoring trends in the small group health insurance market is particularly important. Recent data show that enrollment growth in small group insurance products leveled off in the late 1990s and declined in 2001. Much of the slow growth and decline in enrollment is likely attributable to the combination of rapidly rising premiums and the economic recession.

Although recent decreases in enrollment are likely tied to these two factors, it is not clear whether they are the result of small employers ceasing to offer health insurance, employees choosing not to enroll or simply fewer jobs in firms offering coverage. Rather than dropping coverage altogether, most small employers appear to be increasing cost sharing requirements and reducing benefits. If premiums continue to rise rapidly, however, there is reason to be concerned about the continued affordability of coverage for both employers and employees. The Health Economics Program will continue to monitor trends in Minnesota's private health insurance markets.

Endnotes

[1] For example, the Urban Institute's National Survey of America's Families has found that of the 13 states (including Minnesota) that were studied, states with the lowest uninsurance rates also had the highest rates of private insurance coverage.

[2] Minnesota Department of Health, Health Economics Program, "Minnesota's Uninsured: Findings from the 2001 Health Access Survey," April 2002.

[3] U. S. General Accounting Office, "Private Health Insurance: Number and Market Share of Carriers in the Small Group Health Insurance Market," March 2002.

[4] Minnesota Department of Health, "Private Health Insurance in Minnesota: Premium Trends and Drivers of Cost Growth," September 2002.

[5] Minnesota Department of Health, Health Economics Program, "Private Health Insurance in Minnesota: Premium Trends and Drivers of Cost Growth," September 2002.

[6] Minnesota Department of Commerce, premium rate filings.

[7] Minnesota Department of Health, Health Economics Program, "Trends in Employer Sponsored Health Insurance: Preliminary Results from the 2002 Minnesota Employer Health Insurance Survey," March 2003; and The Kaiser Family Foundation and the Health Research and Educational Trust. "Employer Health Benefits: 2002 Annual Survey," September 2002.

[8] See, for example Chernew, Michael, Kevin Frick, and Catherine McLaughlin, "The Demand for Health Insurance Coverage by Low-Income Workers: Can Reduced Premiums Achieve Full Coverage?" Health Services Research, 32(4), 1997, 453-470. Blumberg, Linda, Len Nichols, and Jessica Banthin, "Worker Decisions to Purchase Health Insurance," forthcoming, International Journal of Health Care Finance and Economics, 2002; and David M. Cutler, "Employee Costs and the Decline in Health Insurance Coverage," NBER Working Paper 9036, National Bureau of Economic Research, Inc., July 2002.

The Health Economics Program conducts research and applied policy analysis to monitor changes in the health care marketplace; to understand factors influencing health care cost, quality and access; and to provide technical assistance in the development of state health care policy.

For more information, contact the Health Economics Program at (651) 282-6367. This issue brief, as well as other Health Economics Program publications, can be found on our website at:
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