

The Small Group Health Insurance Working Group met on September 9, 2010, from 1:00 pm to 3:00 pm in Room 15 of the Minnesota State Capitol. The meeting was called to order and the August 26, 2010 meeting minutes approved.

The presentation entitled “Concepts of Self-Funding” was made by Cindy Sheffield, President, SOMI (a third party administrator) and Dan Struz, Executive Vice President, HCC Life Insurance Company (a stop loss carrier). (See Power Point Presentation). The presentation topics included Self-Funding Basics, Alternative Financing: Who Assumes the Risk; Self-Funding Advantages for an Employer; Risk Suitability: What type of Claims to Fully-Insure and What Type of Claims to Self-Fund; Who is Insured; Specific (Individual Coverage); Aggregate Coverage; Self-Funded/Stop Loss Cost Defined; Important Definitions: Incurred and Paid; Incurred Contract; 12/15 Contract; 12/12 Contract; Paid Contract; PPACA Effects on Self-Funded Plans; Small Group Impacts on Self-Funded Plans. In addition to the Power Point Presentation, members received handouts entitled: Fully Insured Cost vs. Self-funded Cost for ABC Company, comparing sample variable costs (claims), marginal/reserves, and fixed costs; and copies of Minnesota Statutes 60A.235 Standards for Determining whether Contracts are Health Plan Contracts or Stop Loss Contracts; and Minnesota Statutes 60A.236 Stop Loss Regulation; Small Employer Coverage.

John Gross asked about the statutory 180 day notice requirement. There is a one year timely filing requirement in the contract. If it is a 12/15 contract renewal, there is an automatic fall into the 2nd, if not covered in the 1st. If it is a 12/12 contract, it must be within the confines of the contract. There is a break after the first year and an insurer real risk.

Bill Gullickson asked about the reserves. If there is a 501(c) 9 trust, there is a full deductible of the funds, even if not used. If it is a regular assets account, and not spent, the funds must be used for life and health.

Rep. Loeffler asked whether the full range of benefits are covered including cancer treatment and maternity care. Mini meds are gone as well as the lifetime and annual limits. Benefits must meet federal requirements. However, most employers follow the Minnesota fully insured plan design. The employer owns the reserves and builds the reserves.

Chris Schneeman asked about the cost of eliminating the lifetime and annual limits. The largest claims to date have been \$2 million and it has taken three years to get there.

John Sjoberg asked whether there would be much impact on the price in changing the small employer definition to 100. There are 2,500 groups that self-fund and 27% of them have 50 to 100 employees. The majority of employers have less than 100 employees. It is more an issue of philosophy. It has to be the right fit. It is rare for a small group that chooses to self-fund to go back to the fully insured market.

Rep. Loeffler asked if there is a requirement for financial strength. There seems to be a lot of risk. Small employers are on the edge until established. There needs to be the required reserves and a good management plan for the liability. Employees are notified that if there is an issue with

claims that must be handled within 60 days. There are funding issues and federal regulatory compliance issues. It is not appropriate for start up businesses.

Tom Aslesen indicated that there are requirements for the fully funded maximum and COBRA. Financials are not reviewed.

Tom Aslesen asked if the industry had a comfort level with stop loss for the small employer with 50 – 100 employees. 200 lives is the average.

Tina Armstrong indicated that the stop loss statute is tied to the small employer definition. There would be an increase in the stop loss cost for the 51 to 100 market.

Rep. Loeffler asked about dependent coverage. Employers are not required to contribute to dependent coverage. There must be threshold participation by those who are eligible. It is up to the employer as to who pays.

Chris Schneeman asked if the offsetting tax savings on premiums for the small employer with under 100 employees swayed the decisions to self fund since 4% of the premium cost could be saved resulting in a smaller premium overall. Premiums in the fully insured market on the same risk would be \$100,000/ year in the fully insured market and \$30,000/year for stop loss. Taxes are not a significant factor in the decision accounting for only 2 to 3% of total plan costs.

Chris Schneeman commented that tax savings of 3 – 4% can make a difference.

Joe Pupkes indicated that tax savings are more on the order of 4 – 5% for larger groups which is significant.

Rep. Loeffler asked if there are significant differences on the bottom line attributable to tax savings and lower administrative costs when a small employer with 500 lives chooses between a bid for coverage by a third party administrator or a fully insured carrier. Yes. There are also differences in commissions and profit margins that the small employer must consider in choosing whether to manage claims or send to a carrier.

Nancy Nelson commented that small groups are typically offered a menu of services that may include everything from nurse lines to wellness discounts. The costs depend on the level of services. If the small group manages the plan they are taking on more risk. That affects the bottom line. The hope is that the rates go down, but that is not always the reality. For example chronic disease management services and wellness programs can have an impact on the bottom line.

Sen. Parry indicated that if the self funded small group takes advantage of the services that cost savings goes to the bottom line.

Tina Armstrong asked about the attachment point definitions in other states.

Rep. Loeffler asked about subsidies in the individual and small group market for the health insurance exchanges.

April Todd-Malmlov indicated that the subsidies are determined based on health coverage costs as a percentage of income.

John Gross stated that the actuaries are looking at ways to identify the cost impacts of changing the small employer definition from 2 – 50. A survey is being planned that will reflect what is happening in the market.

Tina Armstrong indicated that the Department of Commerce is planning to work with the Department of Commerce to develop a survey that will identify size ranges, the index rates and span of premiums related health status. Essay questions are also planned. This information will be aggregated market wide and is expected to be out soon. Carriers will need time to respond.

John Gross stated that the survey information would assist the Working Group in making key decisions about changing the small employer definition from 2- 50, 2 – 100 or 1 – 100.

Rep. Loeffler indicated that the Working Group has the broadest representation of employers of all the Working Groups and needs to use this diversity of background and expertise to make the small group market more approachable.

Tina Armstrong asked about other factors beside price that would provide assistance to the members and impact their decision making process. She also asked about the members preferences regarding the report drafting process.

Tom Aslesen indicated that key decisions of the Working Group are dependent on the survey results.

Tina Armstrong asked if the Working Group wanted to talk about different types of transitions at the state level to the new federal definition of 1 - 100 that is scheduled to go into effect in 2014. What about the employer who is hesitant to bring on new employees because of the impact on the premiums associated with the 51st employee? Or should the state change the definition to include the sole proprietor?

Joe Pupkes stated that the change to 1 – 100 has not been discussed much. There are concerns about covering the self-employed individual in the small group market. The federal changes in the small group definition will not occur until 2014 – 2016.

Rep. Loeffler indicated that the Working Group needs to make a recommendation about how fast this change will happen in Minnesota.

Chris Schneeman indicated that that the survey information is needed to make recommendations on changing the small group definition from 50 to 100. He asked whether any of the questions on the proposed survey form included an attempt to gather information on the impact of establishing a group of one.

Rep. Loeffler indicated that the decision has already been made at the federal level and the decision is whether Minnesota will opt for early adoption.

Cecelia Retelle indicated that she serves on the Exchange Working Group that is exploring the issues associated with creating a new health insurance marketplace for individuals and small groups that will be up and running in 2014. She cautioned the members about forcing businesses into something when they do not know the impact of the recommendation and do not have supporting data.

Rep. Loeffler indicated that the Exchange Working Group will also be looking at the possibility of merging the individual and small group markets. The Working Group will be better prepared to make that decision when the survey data is available.

Tina Armstrong indicated that the planned survey will not inform the members about the self-employed issue.

Cecelia indicated that the decision of 1 – 100 was not part of the Working Group charge.

Tina Armstrong indicated that the statute charge reads 100 or fewer.

Joe Pupkes expressed concern that the Working Group does not have enough time to take up this additional issue.

Scott Walker wants to explore the impact of a change in the small group definition to the self-employed and the very small employer that predominates in his line of work.

Joe Pupkes indicated that Minnesota is not a guaranteed issue state for individual coverage. If a person is rejected in the individual market should they be able to say that now they are a business and get guaranteed issue in the small group market? The current law is 2 -50. There will be impacts on the market and there is not enough time to get all the details.

Scott Walker wants this issue addressed in some way.

Tina Armstrong indicated that the federal law requires guaranteed issue in 2014.

Scott Walker had concerns as to whether that will ever happen. The issue will be sure to be addressed by making a recommendation now to expand the small employer definition to one. A micro-business needs to have a coverage option.

Rep. Loeffler is sympathetic to the concern and understands the potential impact to the individual market, guaranteed issue and MCHA. It would have been good if the state had pursued the grant funding necessary to generate data to better analyze these issues.

Scott Walker said that government should not be in the marketplace to create barriers to coverage. It is much more lucrative for the insurance companies to sell to the large groups.

Joe Pupkes indicated that the one person owner can apply for individual coverage.

Chris Schneeman wondered if the proposed changes in the federal laws and group mandates will destabilize the market. The individual can get lower cost coverage than the small group in the marketplace today. The employer pays most of the premium. A one employee company would be an unhealthy risk and adverse selection drives up the costs in the marketplace. There would be an increase in rate unpredictability. Actuaries would need to analyze the impact. He recommends staying with 2.

Bill Gullickson stated that there are 2,500 pages of federal law that include tax subsidies for individuals and small groups, including groups of one.

Tina Armstrong suggested that the report reflect that the members do not see the group of one issue as being part of the charge, but that a statement of the problem will be included in the report.

On the issue of Other Costs, e-mail feedback and possible on-line discussion was suggested.

Bill Gullickson indicated that his HR personnel could provide input on this topic and would send an e-mail.

Tina Armstrong suggested a recommendation on Section 125 Plans and 62U.07.

Rep. Loeffler wants to explore this issue. There are real benefits to small employers and their employees if Section 125 Plans are established correctly. There are concerning legal precedents. There are win-win opportunities for employers and their employees. There may be need within the exchange to assist and advise small employers on this topic and a recommendation for employer education.

Chris Schneeman reminded members that only six small employers received grants under the program. There is a state mandate for employers with eleven or more employees without health insurance to establish Section 125 plans or opt out. There is no enforcement of the mandate or any action taken against small employers who do not comply with the law.

Tina Armstrong requested a small group to work on the issue. Tom Aslesen, Bill Gullickson, Rep. Loeffler and Suzette Frith volunteered to participate.

John Sjoberg indicated that establishing Section 125 plans was a no-brainer for small employers.

Tom Aslesen indicated that Section 125 Plans were fundamental for clients offering health insurance coverage for their employees.

Chris Schneeman indicated that often small employers don't know what to do regarding Section 125 plans or access advice and particularly if they do not have a health insurance plan.

Bill Gullickson indicated that it is common for small employers do their own taxes.

Rep. Loeffler asked if this type of information about small employers could be accessed in the planned survey.

Nancy Nelson indicated that matching that type of information is difficult. Insurers do offer flexible services to small groups that include related insurance support services.

Tina Armstrong wanted to know if the members had a suggested recommendation on the uniform application.

Rep. Loeffler indicated that this issue could be worked on in the context of the health insurance exchange. It would be a perfect time to implement one set of questions delivered electronically rather than 35 sets of background information and individual applications that are 90% the same.

Nancy Nelson indicated that there will be a single form in the Exchange.

Joe Pupkes indicated that since a uniform application is a requirement of the exchange it would be best not to take over this function prematurely.

Rep. Loeffler commented that the Working Group can comment on the process before the software is developed in order to assist small employers and to advise the Exchange Working Group in their deliberations.

Joe Pupkes indicated that there are broader issues in the Exchange context including the public insurance programs requirements. The Working Group could put a lot of time and effort into a uniform application and everything would change in the Exchange. He volunteered to provide a draft recommendation for consideration by the Working Group.

Nancy Nelson agreed that the uniform application would have to include questions about income and assets.

Tom Aslesen indicated that there is a need to build the engine and get input that can integrate vendors.

Rep. Loeffler commented that with health care reform it is no longer necessary to use all of the questions that have been on applications in the past. The application needs to be shorter and relevant.

Nancy Nelson noted that the exchange will be guaranteed issue and health status will no longer be needed.

Scott Walker commented that small businesses are concerned about the privacy of their data and who owns the data after it is submitted.

Tina Armstrong indicated that privacy issues can be pulled into the report recommendation.

Tina Armstrong asked if there was a recommendation on self-funding of the small group from 51 – 100.

Rep. Loeffler indicated that employer education was needed to address the decision making process. Many small employers do not understand their options or have the resources to evaluate those options. There needs to be fewer barriers to employers offering insurance to their employees. Small employers may not understand the mechanism or obligations associated with self-funding including plan management and reserve expectations or how well self-funding currently works in the marketplace.

Chris Schneeman stated that if the small employer definition is expanded to include 50 – 100 only the healthy groups will convert to self-funding. What happens to the marketplace when the better risks opt out? What is the conversion policy? Does MCHA operate as the conversion policy? What about catastrophic risks? What is the impact of adverse selection?

Rep. Loeffler wanted to know if any of this type of information was available from MCHA.

Tina Armstrong indicated that the premiums rates for MCHA are capped at 125%.

Rep. Loeffler commented that maybe there needed to be some type of rate stabilization mechanisms and barriers for movement back and forth between the fully insured and self-insured markets to minimize the impacts of adverse selection.

