

SMALL GROUP POOLS: IOWA AND ELSEWHERE

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ISSUE:

There is considerable discussion at the state and national level regarding the rising costs of health insurance, particularly for the small group market. One of the most discussed options to resolve this problem has been the presentation of creating large pools which proponents believe will help the situation. This article is intended to look at that issue and provide some discussion points.

BACKGROUND:

- In Iowa, the small group market covers employer groups including 2 to 50 employees. It is a highly regulated market, both at the State and Federal level. Iowa reformed the small group market in the early 1990s, providing:
 - Rating bands which set limits on premiums that can be charged.
 - The offer of a guaranteed basic or standard plan for newly insured groups
- In addition, in 1993 the Iowa legislature created the ability to form purchasing pools, or Health Insurance Purchasing Cooperatives. One such pool was established; however, it “lasted only” a year and then had to be shut down with the local Blue Cross plan assuming the coverage for the lives in the pool.
- HIPAA also set some national standards for small group coverage in 1996.

CREATION OF LARGE POOLS:

The discussion on this issue varies depending on whether all players are required to participate in the pool or whether the pool is voluntary, i.e., employers could choose not to join. In order to discuss this issue several assumption need to be made:

- The program could use a single carrier or multiple carriers.
- There would be standardized benefit offerings that would be limited in number.
- There would be a statewide rating system which would result in the same rate for all employer groups for the same benefit package that would incorporate a long-term approach to rating/pricing so as to moderate annual fluctuations.
- An appropriate governance mechanism to administer the pool would need to be created.

A) Mandatory Participation:

PROS:

- 1) Creates a new model of delivering health benefits to small groups.
- 2) Costs of high risk would be spread across all employers, i.e., better risks would subsidize poorer risks this is only positive for the poorer risks.
- 3) Larger enrollment base reduces claims volatility from year to year.
- 4) Depending on the richness of the standard benefits, could create stability statewide that might serve as an incentive for small groups currently not offering health care coverage to employees to do so.
- 5) Uniformity of benefit programs statewide could provide portability and thus increased flexibility in career opportunities.

CONS:

- 1) Loss of the ability of the employer to design its own benefit program for its employees.
- 2) Would necessitate the sharing of cost between all small employers; lower cost employer groups would subsidize higher cost employer groups.
- 3) Loss of ability of employers to use differential benefit offerings to recruit/retain qualified employees.
- 4) Shifts dynamics of collective bargaining process for both unions and administration.
- 5) Size of pool may limit number of insurance carriers and reinsurance markets able to bid on this account.
- 6) Creation of a single pool does not, by itself, address the underlying drivers of insurance costs.
- 7) Any potential administrative savings from a single statewide pool may be offset by removal of competition within the marketplace.

B) Voluntary Participation:

PROS:

- 1) May provide some limited opportunities for economies of scale.

CONS:

- 1) Ability to retain healthier groups over the long term is unlikely given the ability of groups to self-select into the pool when their claims experience is poor.
- 2) Deterioration of rates over time as better risks exit the pool unless stringent participation requirements are imposed, i.e., they must be in the pool for at least five year.
- 3) Any savings on the administrative side as a result of economies of scale are likely to be offset by adverse selection problems creating increased benefit costs.