

Overview: Insurance Markets 101

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Private Health Insurance System

■ Sources of Coverage

■ Medical insurance

- Large group
- Small group
- Individual market

■ Workers compensation

■ Long-term care

■ Medical liability

■ Regulatory Authority

■ Federal government

■ States



Medical Insurance

- Risk pooling basics
- Issue and rating rules
- Benefit package considerations for policymakers
- Other considerations for policymakers



Risk Pooling Basics

- Risk pools are large groups of individuals (or groups) whose medical costs are combined to calculate premiums.
- Pooling risks together allows the costs of the less healthy to be subsidized by the healthy.
- In general, the larger the risk pool, the more predictable and stable the premiums can be.



Risk Pooling Basics (cont.)

- BUT, creating larger risk pools will not necessarily lower premiums.
- Must consider the size of the risk pool AND how it is comprised.
- If a pool attracts those with higher expected claims (i.e., adverse selection), premiums will be higher.
- Pools created as a by-product of membership in a group (i.e., group was created for purposes other than buying insurance) tend to be less subject to adverse selection.



Risk Pooling Basics (cont.)

- Large employer groups
 - Workers automatically obtain coverage as a side benefit to employment.
- Small/medium size employers
 - Workers automatically obtain coverage as side benefit to employment, but employers can move into and out of the insurance market.
- Individual market
 - Individuals enter insurance market for the express purpose of obtaining health insurance.



Risk Pooling Basics (cont.)

- Consider two pools, with the same number of members
 - Pool A: Fewer groups, more members per group
 - Pool B: More groups, fewer members per group
- Pool A will likely be more stable

* For this and other information on risk pooling basics, see the American Academy of Actuaries' issue brief, "Wading through Medical Insurance Pools: A Primer" (Sept 2006).



Issue and Rating Regulations

- Regulations attempt to balance the goals of access to health insurance and premium affordability.
- Issue rule examples
 - Guaranteed issue
 - Allow underwriting
- Rating rule examples
 - Pure community rating
 - Modified community rating
 - Experience rating



Issue and Rating Regulations (cont.)

- If alternative pooling arrangements (e.g., regional health markets, cross state purchasing) are created by state or federal initiatives to operate alongside existing arrangements, adverse selection could result if issue and rating rules are not the same in both markets.



Benefit Package Considerations for Policymakers

- Standard or minimum benefit plan:
 - What's covered
 - Cost sharing requirements
 - Provider network
- Can define a benefit package; or can set a dollar value and allow plan flexibility; but difficult to define both coverage and premium.
- How should any premium subsidies be calculated, especially for non-standard plans?
- Adverse selection implications of different benefit packages need to be considered.



Other Considerations for Policymakers

- Risk Sharing
 - Are risk sharing mechanisms (e.g. reinsurance, risk adjustment, risk corridors) needed to address insurers' risks (e.g. pricing risk, adverse selection)?
- Competition
 - Competition within a regional health market
 - Competition with plans outside the regional health market
- Transition issues
 - New rules may favor some consumers, but make others worse off. Should changes be phased in?
 - Special rules may be needed to ensure that carriers new to a market don't have an advantage over existing carriers.

