Utah Association of Health Underwriters
Presentation to the Business and Labor Committee

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In 2010, the Utah Legislature passed H.B. 294. This legislation contained a number of changes to the small employer health insurance market, some of which have posed some adverse consequences to small businesses and individuals. We are pleased that the Business and Labor Committee is considering this Insurance Amendment Bill before you today. In particular, this bill will correct the issues of rate slope and rating tiers.

The best way to understand these two concepts is by actual examples. Each of these instances represents a Utah company with fewer than 20 employees that has had a medical insurance renewal within the past few months.

<u>Rate slope</u>: Rate slope is the maximum insurance premium difference allowed between the youngest and oldest person in a rate tier, for example, the difference in premium between 19 year old and a 65 year old employee. Prior to 2010, every insurance carrier in the state was free to set their own rate slopes. At that time, rate slopes ranged from 8:1 on the high end to 5:1 on the low end with the most common slope at a 6:1 ratio. H.B. 294 mandated a 5:1 rate slope. A smaller rate slope exponentially affects the youngest workers most dramatically. This can best be illustrated with the following examples:

- Sports Training Facility – Salt Lake County – May 1, 2011 insurance renewal date – Trend increase for this group was 12.6%
    - Two employees under age 26 received a 78.42% rate increase
    - Two employees, both age 33, received a 70.40% rate increase
    - One employee in the 51-56 age bracket received a 9.5% rate increase
    - This group should have received a 12.6% increase but because of the rate slope change, rates for this group increased 45.7%.

- Fitness Center – Weber County – May 1, 2011 insurance renewal date – Trend increase for this group was 11.8%
    - Two employees in the 30-35 age bracket received a 26.05% increase
    - One employee, age 54, received a -16.24% decrease
    - One employee, age 49, received a -11.36% decrease
    - The difference between the two extremes exceeds 42%

Fifth Rating Tier: - A Rating Tier is a defined segment of employees; for example single versus family coverage. In 2010, H.B. 294 restricted the market to four rating tiers for small employers – single, employee and spouse, employee with children and family coverage. Prior to its passage, the insurance carriers were able to define their own rating classifications. The issue of adding a fifth classification arose because prior to this legislation many insurers had a "two party" rate which could be defined as an employee and spouse or an employee and one child. By narrowing the scope of insuring two people to an employee and spouse, many single parents faced staggering rate increases. Again, this is best illustrated by example:

- Hair Salon – Salt Lake County – February 2011 insurance renewal date – Trend increase for the group was 9.6%
  - One employee, age 21 with one child experienced a 45.2% increase
  - This increase represent an annual cost of $1,832, making coverage virtually unaffordable
  - Three other employees had rate decreases and two others premiums increased less than $10 per month

- Construction Management Company – Utah County – March 2011 insurance renewal date – Trend increase for the group was 10.4%
  - A 31 year old employee with one child was given a 28.3% rate increase
  - The rating classification contributed to a $1,231 annual increase for this employee.

The purpose of insurance is to spread risk but also to collect premium appropriate to the risk. This is why a reckless driver with multiple moving violations pays a higher premium than a more mature person with a clean record. Applying this same principal to health insurance is a natural extension of this principle. In order to keep rates down for everyone it is imperative to keep young healthy people in health insurance pools. Compressing the rate slope and shifting single parents to a more expensive rate tier tend to drive these healthy people from the market.

On behalf of the Utah Association of Health Underwriters, we ask that you support the Insurance Amendments legislation before you. This will go a long way to correct the issues of rate slope and rating tiers and make insurance more affordable for many citizens of Utah and move the market back to an equilibrium that previously existed.