# Merging the Individual and Small Group Markets

Jill S. Herbold, FSA, MAAA

## BACKGROUND

Section 1312 of the Patient Protection and Affordable Care Act of 2010 (ACA) requires that individual insurance enrollees inside and outside of the state's health insurance exchange are members of a single risk pool. It likewise requires the same for the small group insurance market. However, Section 1312 of ACA gives states the flexibility to require the merger of the individual and small group health insurance markets within the state.

The individual and small group health insurance markets in Indiana are currently separate markets, so merging them would be a change from the current status.

## MERGING DEFINED

Merging the individual and small group health insurance markets within a state means that individual premium amounts and small group premium amounts are based on the combined health cost experience of the small group and individual risk pools. This does not automatically require health benefit plans and premium amounts in the individual and small group markets to be the same. For example, absent state law or regulations to the contrary, health insurance carriers could use the merged risk pool experience as the starting point for their premium development then make actuarial adjustments for the benefit plans sold to each market and add market-specific administrative expenses, broker commissions, and other retention charges to arrive at total premium amounts.

## IMPACTS OF MERGING THE INDIVIDUAL AND SMALL GROUP MARKETS

Merging the individual and small group health insurance markets in Indiana may impact the following areas:

- Health benefit plan costs
- Enrollment
- Carrier participation
- Flexibility
- Market stability

### *HEALTH BENEFIT PLAN COSTS*

We have estimated that health benefit plan costs (premium plus member cost-sharing) in Indiana will decrease 1% to 2% for individuals and increase 4% to 6% for small groups if the markets are merged, in comparison to the expected health benefit plan costs in 2019 if the markets are not merged.[i] This inverse relationship is expected because we estimate that the average health status of the individual market in 2019 will be worse than the average health status of the small group market. The individual market has three subgroups: actively working without employer health coverage; disabled and not working; and not disabled and not working. The small group market average health status is similar to the first of these three subgroups because the small group market is composed of actively working people. The disabled and not working subgroups of the individual market have worse health status than the actively working, resulting in a worse average health status for the individual market.



May 2011

### *ENROLLMENT*

We have estimated that merging the individual and small group markets in Indiana is expected to result in a 30,000 to 60,000 decrease in enrollment for the small group insured market and a 20,000 to 40,000 increase in enrollment for the individual market. Higher health benefit plan costs for the small group insured market will lead some small groups to self-insure and others to drop health care coverage, thereby reducing enrollment in the small group insured market. Some of the people that lose coverage will move to the individual market. The individual market may also experience increased enrollment as lower health benefit plan costs encourage more enrollment of the uninsured versus paying the ACA-imposed tax penalty on individuals without health insurance.

### *CARRIER PARTICIPATION*

In Indiana today, carriers can make separate decisions regarding their participation in the individual and small group health insurance markets. A decision to merge the markets may lead to a requirement that carriers participate in the merged market to avoid a situation where carriers choose to participate in only the preferred health status small group market. Some carriers may not have the capabilities or desire to serve both markets and therefore may choose to exit if the markets are merged. Merging the markets may also be seen as a barrier to new carrier entry. Fewer carriers can lead to less competition and higher premiums.

### *FLEXIBILITY*

Merging the individual and small group markets may afford the state and health insurance carriers less flexibility to respond to the differing benefit and service needs of the individual and small group markets. Merging the markets may also present challenges for allowing large groups to access Indiana's health insurance exchange beginning in 2017, as the ACA allows.

### *MARKET STABILITY*

Merging the individual and small group markets may lead to short-term instability in premium rates, health benefit plans, and carrier earnings as consumers, employers, carriers, and others react to the changes. Over the long term, merging the markets will yield a larger risk pool on which premium rates are based and therefore may provide more stability in premium rates, risk adjustment, and carrier earnings.

## CONCLUDING REMARK

The individual and small group health insurance markets in Indiana will experience significant change over the next several years as the various provisions of ACA and its related regulations are implemented. Additional market change will result if Indiana requires the merger of the individual and small group health insurance markets. As ACA does not dictate a timeline for merging the individual and small group health insurance markets, Indiana may wish to experience the ACA-required changes to the markets before making a decision to merge them. Stakeholder input on this topic of merging the individual and small group markets may be more objective and concrete after the impacts of the ACA-required changes by 2014 are better known.

## LIMITATIONS

This issue brief has been prepared solely for the internal use of and is only to be relied upon by the Indiana Health Care Exchange Policy Committee. Although Milliman understands that this issue brief may be distributed to third parties, Milliman does not intend to benefit or create a legal duty to any third party recipient of its work.

Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

In developing the projections, we relied on data and other information from 2010 annual statements of life and health insurance companies and HMOs doing business in Indiana, other public sources, and a March 10, 2011 memorandum from the State Health Access Data Assistance Center to the Indiana Family and Social Services Administration. We have not audited or verified this data and other information. We performed a limited review of the data used directly in our analysis for reasonableness and consistency. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

The projections included in this issue brief are based on our understanding of ACA and its associated regulations issued to date. Forthcoming ACA-related regulations and additional legislation may materially change the impact of ACA, necessitating an update to the projections included in this issue brief.

The views expressed in this issue brief are made by the authors of this issue paper and do not represent the opinion of Milliman, Inc. Other Milliman consultants may hold different views.

## QUALIFICATION

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries, and meet the qualification standards for performing the analyses in this report.

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i Health benefit plan costs in the individual and small group markets in 2019 are expected to be higher than they currently are because of various ACA provisions. As discussed in the "Individual and Small Group Premium Changes Under the ACA" Milliman Health Care Exchange Issue Brief for the Indiana Exchange Policy Committee, the estimated ACA-driven premium rate change for the Indiana individual insured market beginning in 2014 is 75% to 95% and the estimated ACA-driven premium rate change for the Indiana small group market beginning in 2014 is 5% to 10%.