



## Small-Group Renewals

Producer Talking Points

# ➤ 2011 Small-Group Renewals

## Key Factors Affecting Health Insurance Premiums

In these difficult economic times, Connecticut's small-group employers face cost pressures on all fronts. ConnectiCare understands this, and is continually working to provide the most value for every health insurance dollar.

To help you respond to your clients' inquiries regarding small-group renewals, we have prepared the following questions and answers, which address the key factors affecting health insurance premiums. Of course, if you have additional questions or would like to speak to someone, please call your ConnectiCare Sales Representative or **1-800-723-2986**.

### ❶ Q: Why did my rate increase?

**A:** You may experience a renewal rate increase for a variety of reasons. The most important reason is the cost of health care, which continues to increase dramatically each year because of:

- Advances in medical technology and drug therapies;
- Higher hospital and physician charges in many cases;
- Greater utilization of benefits; and
- Skyrocketing prescription drug costs.

You may also experience a renewal rate increase because of "age bands." ConnectiCare establishes rates for different age bands based on five-year increments. For example, if a subscriber has turned 40 as of the renewal date, she moves from the 35-39 age band to the 40-44 age band, which has a higher rate. The rate is based on the amount of care provided to all small-group members within each particular age band.

### ❷ Q: What else is contributing to my rate increase?

**A:** Other factors that may contribute to increased rates include the following:

**Medical cost-shifting** – The government's Medicare and Medicaid programs reimburse hospitals and physicians for less than it costs to provide health care. To make up for this shortfall, hospitals, doctors and other health care providers must charge higher fees to people who are covered by private health insurance, like ConnectiCare. Known as medical cost-shifting, this issue affects your insurance premiums. While we routinely negotiate contracts with quality providers to see competitive rates, such cost-shifting cannot be avoided.

**Economic pressures** – People who fear losing their job are consuming as much health care as possible while they still have coverage. The economy is stressful for many and this leads to increased utilization of medical services.

**Unhealthy lifestyle choices** – Whether it's a poor diet or lack of exercise, each person's lifestyle choices can affect medical expenses. At work, unhealthy employees can also reduce productivity because of illness and absenteeism. ConnectiCare offers a variety of preventive care and wellness incentives – such as discounts on weight management and fitness center memberships – to encourage and support healthy lifestyles.

**Patient Protection and Affordable Care Act (PPACA)** – Commonly known as health care reform, this federal law required certain benefit changes for some plans renewing on and after September 23, 2010, including the elimination of copayments on preventive and wellness services and the removal of lifetime and annual limits on certain services. ConnectiCare implemented all of these PPACA "immediate market reforms" for all new and renewing small groups beginning on September 23, 2010.

### ❸ Q: You said that some of our rate increase is due to medical utilization. But our employees have barely used any benefits in the past year. How can this be?

**A:** Like all health insurers, ConnectiCare must cover the cost of medical utilization by spreading it among all of our members. This is an essential principle of risk management that applies to all forms of insurance. For example, most every homeowner has a fire insurance policy, yet few will ever have to make a claim. The risk of fire casualty loss is spread over all policyholders.

In health insurance a small percentage of the population uses the majority of care (i.e. end-of-life patients, premature babies, serious accident victims, those with certain chronic conditions, etc.) Most people could not afford a prescription that costs \$25,000 per month, yet there are people who have to take them. Each policyholder pays for the cost of these services in his premium. In exchange, each policyholder is financially protected in accordance with his plan terms should he become seriously ill and incur high-cost claims.

At the same time, small employer groups are protected from their employees' actual claims experience. For example, if an employee has a \$1-million claim, the annual premium for the employee's company will not change because of the claim. The cost of the claim will be spread over all small-group policyholders. This is true for all health insurers that cover small groups in Connecticut. Each insurer is required by Connecticut law to "pool" all of its small-group claim experience and to rate all of its small groups together. See Q. 5 below for details.

**4 Q: Where do my premium dollars go? How is the money spent?**

**A:** Health insurers spend an average of 85-90 cents of every premium dollar on providing medical services to members. These include physician services, inpatient and outpatient hospital costs, drugs and other medical services.

Another 10-12 cents of each dollar is spent on providing customer service, processing claims and other administrative costs. Only 3-5 cents of each dollar represents profit. *Source: America's Health Insurance Plans.*

**5 Q: How does ConnectiCare determine the rates to charge Connecticut small groups?**

**A:** All health insurers in the state, including ConnectiCare, use "modified community rating" to determine rates for Connecticut small groups. First, we use the claims experience of all our small groups to develop a base rate. Then, to determine a final rate, the following factors may be considered:

- **Age** – On average older people spend more on health care than younger people.
- **Gender** – On average younger women spend more on health care than younger men, while older men spend more than older women.
- **Group size** – Small groups with one or two members cost more to administer than small groups with 3–9 members or 10+ members.
- **Geographic location** – Medical costs are higher in certain areas of Connecticut than in others.
- **Benefits mandated by State and Federal law** – These benefits must be included in your plan and they are factored into the premium we must charge.

- **Small Employer Health Reinsurance Pool**

- The State of Connecticut requires all health insurers who cover small groups to pay into this pool. An "assessment" is calculated and charged to each carrier in the state annually. This charge is passed on to small-group employers in their premium.

**6 Q: When can my rates increase again?**

**A:** Your rates are guaranteed for 12 months; they may increase upon your next renewal date. However, please note that premiums can increase or decrease before the renewal date if employees or dependents are added or deleted. *While your rates remain the same for 12 months, the composition of your group of covered members will affect your ultimate premium bill. See Q. 5 for information about modified community rating. Also, there is a potential for rates to increase in the middle of a plan year if ConnectiCare should be required by law to provide additional benefits before renewal that were not required at the time your rates were originally set.*

**7 Q: I cannot afford the increase at this time. What are my options?**

**A:** We understand the budget pressures that Connecticut small employers face, especially this year. We encourage you to contact your ConnectiCare agent or broker to discuss possible options such as:

- Changing to a plan that has different cost-share options or higher deductibles, which may reduce your premium. Your agent/broker can conduct research to find a plan that is better suited to your company's budget. An example of an alternative plan was included in your renewal package.
- Changing the amount your employees contribute to the premium.

We hope you find this information useful in answering client inquiries and understanding the factors that have influenced small-group rate renewals. We are committed to providing Connecticut's small employers with quality health benefit plans and the most value for their premium dollar. Please feel free to contact your ConnectiCare Sales Representative or **1-800-723-2986** for more information.

For more information please contact your ConnectiCare Sales Representative, or call our Producer, Sales and Customer Service Line at **1-800-723-2986**. You may also log on to the Producer section of our website at **[www.connecticare.com](http://www.connecticare.com)**



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