



**Employer Contribution and Participate Rate Update
Health Plan and SHOP Advisory Groups
November 12th, 2012**

Overview

On July 9th, 2012 the COHBE staff presented the following recommendation with regards to employer contributions and participation rates:

1. COHBE recommends setting a minimum contribution requirement in line with market conditions.
2. COHBE recommends setting a minimum participation requirement in line with market conditions.
3. COHBE recommends exploring the allowance of a defined contribution and creating a system for defined contributions unless disallowed by state and federal law. The Exchange will allow employers to set either a defined amount or a defined percent of a reference plan.

The COHBE staff and advisory groups have conducted further due diligence to define a system for defined contribution, in alignment with the formerly approved policy.

Current Market Conditions

According to industry best practice, carriers require both minimum employer contributions and minimum employee participation to avoid adverse selection. Federal guidelines state minimum participation in SHOP must apply to the group, not the carrier. This guideline enables an employer to meet the minimum participation rate even if the employees select plans from multiple carriers.

In Colorado, the market generally uses a minimum contribution equal to 50% of premiums or \$125 per employee / month. The minimum participation rate is about 70% to 75%.

Existing Rating Requirements

When setting premium rates, carriers may set a uniform size which employers can be composite rated. The market standard today is that employers with ten or more employees may be composite rated and any employer can choose age rating. This composite rating is viewed as very convenient for employers and employees. Composite rating is also used by employers to determine contribution rates.

Carriers must know the demographic of the group in order to develop a composite rate. Since employees in small groups will have the ability to select from a number of different carriers, carriers will not be able to develop a true composite for a small group.

COHBE's Proposed Approach

Since composite rating is not going to be possible for carriers to complete for small groups within the exchange, COHBE proposes the following:

- 1) Utilize age rating for all groups (e.g., not composite rating) AND
- 2) Provide tools for developing contribution amounts for employers that would enable contributions based on:
 - a. % of premium
 - b. Flat dollar amount
 - c. Composite rate equivalent
 - d. Reference plan (similar to defined contribution)
 - e. Other employer-driven models

One example of a tool that would help employers set a contribution amount is the “reference plan.” The reference plan approach enables employers to select a single plan, as part of a multi-plan offering, on which the employer will base their contribution. Employees are then able to elect other plans by agreeing to pay any premium differential from the baseline plan identified by the employer. This tool is beneficial because it allows the employer to clearly define expected contributions while also providing choice to the employee.

Health Plan Advisory Group Guiding Principles and Recommendations

After discussing the proposed approach, the Health Plan Advisory Group articulated several guiding principles. The guiding principles state that the COHBE approach to rating and contributions should:

- Enable employers to control their costs while supporting employee choice
- Enable employers to provide contributions through a range of methods
- Not shift the burden to an older employee to cover excess costs based on their age
- Not be an additional burden on the carriers

Utilizing these guiding principles, the group agreed that age based rating and the new contribution calculation tools will be beneficial for the employees, employers, carriers, and COHBE. The group also specified that the deviation from the current market standard of composite rating is a direct result of the broad choice that employers and employees will have on the exchange, as previously defined by the board. In this scenario COHBE's approach has been developed to help emulate the outside market within its structural constraints. The specific recommendations of the Health Plan Advisory Group include:

1. Update the previous recommendation to read: COHBE recommends setting a minimum contribution requirement to *emulate* market conditions.
2. Update the previous recommendation to read: COHBE recommends setting a minimum participation requirement to *emulate* market conditions.
3. Move forward with the proposal to utilize age based rating with a suite of contribution “tools” that will benefit the employer and employee.

SHOP Advisory Group Recommendations

After discussing the same topic, the SHOP Advisory Group had similar recommendations which are as follows:

1. COHBE should adopt employer contribution requirements in line with the outside market,
2. COHBE should adopt a participation requirement that is line with and continues to be in line with the outside market, and
3. COHBE should generate tools to help employers pick their actual contribution amount (i.e., percentage, flat dollar amount - defined contribution, reference pricing). Options should not be too complex, in compliance with state and federal laws, technically feasible, and meet employers' needs.