

Colorado Division of Insurance

Risk Pools and Adverse Selection



Dora
Department of Regulatory Agencies

General Idea

Quality of Pool More Important Than Size



Photo by flickr user marcnc

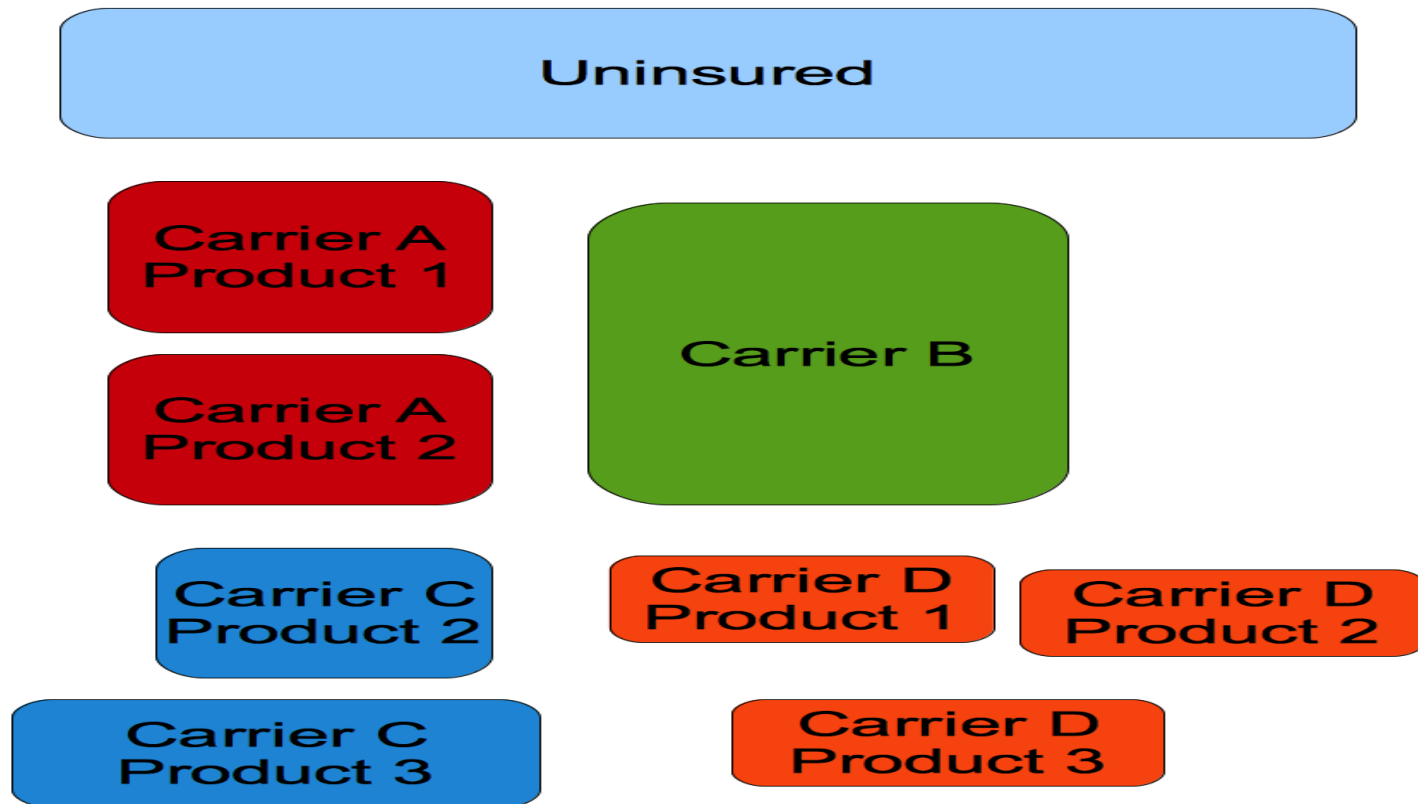


Photo by flickr iLoveMountains.org

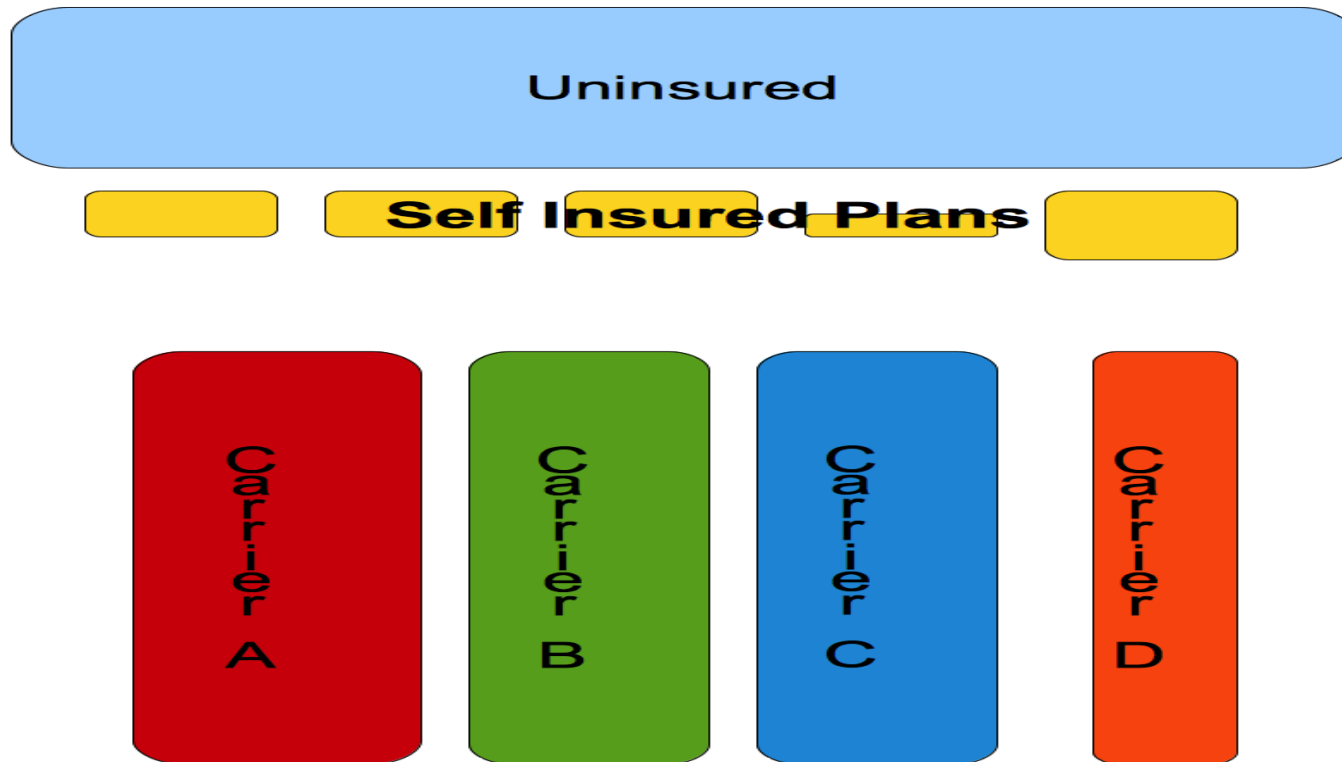
Where is Adverse Selection

- Market
 - ó Do healthy people purchase insurance
- Exchange
 - ó Does the revenue match expenses for products in the Exchange
- Carrier
 - ó Does one carrier attract a population where revenues don't match expenses

Current Individual Market

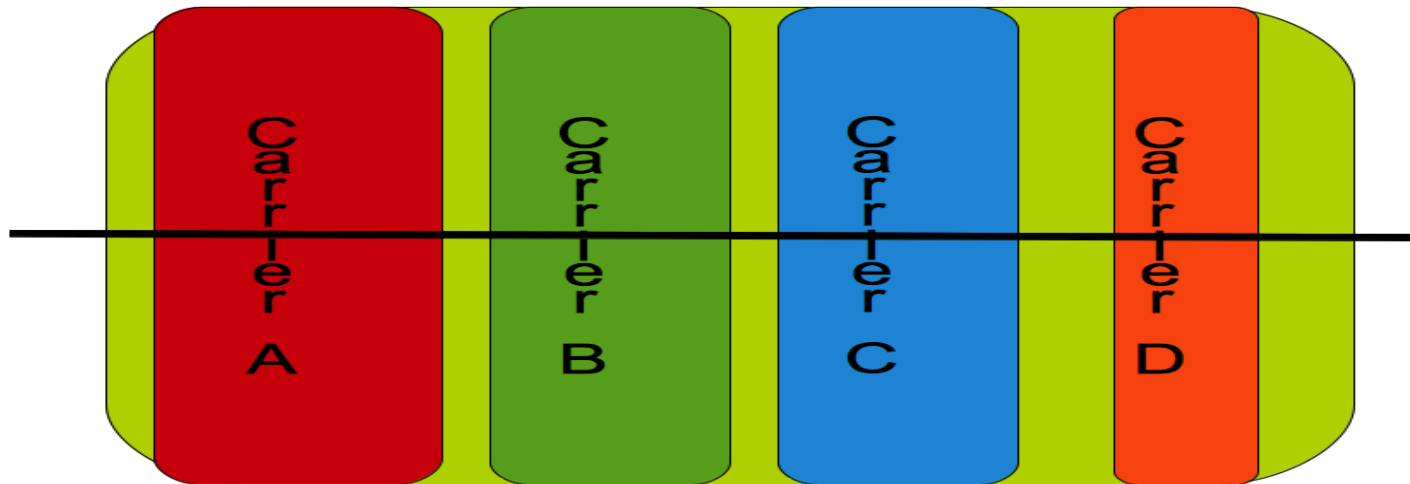


Current Small Group Market



Ideal 2014 Market

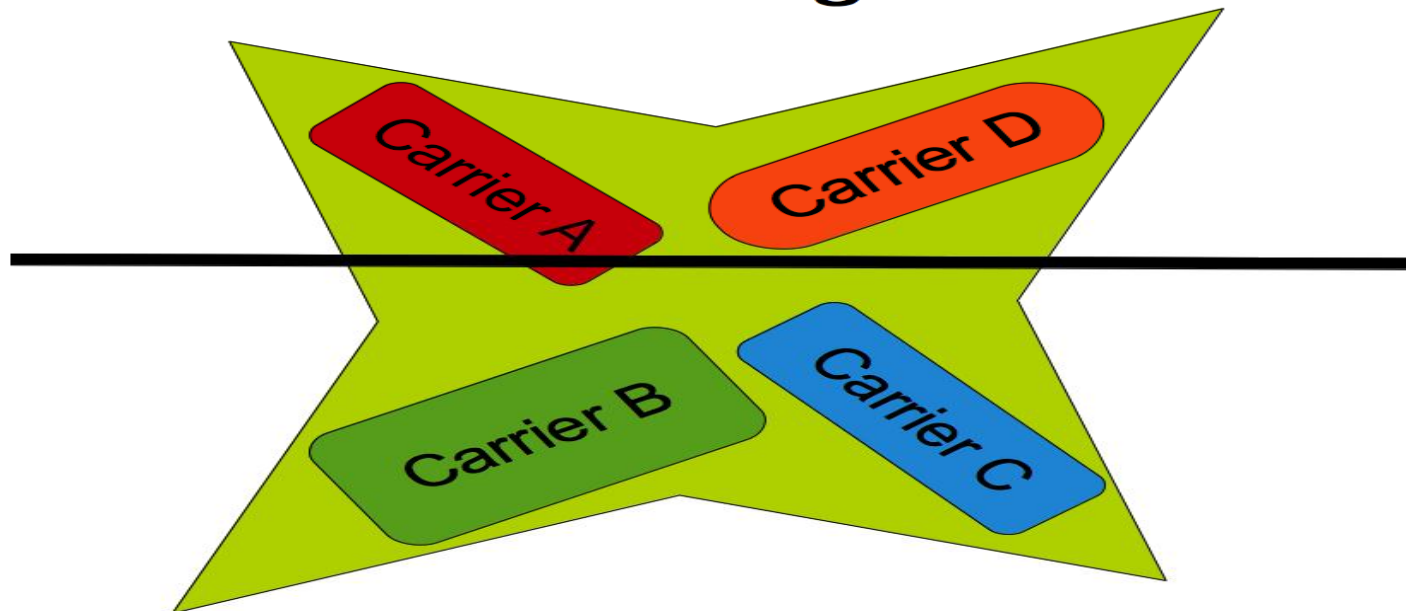
Non-Exchange Market



Exchange Market

Dysfunctional 2014 Market

Non-Exchange Market



Exchange Market

Causes of Dysfunction

- Bad risk adjustment mechanism
 - Selection effects dominate
 - Risk transfer inside/outside breakdown
- Administrative cost differentials
 - Non-subsidy members choose based on cost
 - Additional costs to meet Exchange requirements
- Information differences
 - Exchange rates are known by October, non-Exchange can file till the end of October
- Other rules
 - Open enrollment period in the outside market?

Decision Point

