

Health Insurance Community Rating

What is meant by community rating?

- ◆ **Pure** community rating laws require health insurance companies to charge the same premium to everyone, regardless of age, sex, health history, lifestyle choice and regional demographics.
- ◆ **Modified** community rating laws allow premium variations to compensate for certain risk factors such as age, sex and family size, but not for others such as health status or life style choices.

What kind of community rating laws does Washington have?

Washington has modified community rating laws which only allow premium variations based on age, family size, length of time with insurance company, wellness activities (e.g., non-smokers), and geography.

Additionally, in the small group market (i.e., businesses with 2-50 employees), annual rate adjustments for each small group health benefit plan may vary only up to plus or minus 4 percent from the overall adjustment of the carrier's entire small group pool.

- Example: A carrier offers 4 small group plans: Plan A - a comprehensive \$100 deductible plan; Plan B - a comprehensive \$250 plan; Plan C - a semi-comprehensive \$500 deductible plan, and Plan D - a semi-comprehensive \$1500 deductible plan with a Health Savings Account (HSA). The carrier determines that the overall rate increase for the entire group will need to be 10%. Therefore, rate adjustments for each plan may be no more than 14% and no less than 6%. However, when the carrier looks at each plan individually, it determines that Plan A should actually be increased by 20%, Plan B increased by 16%, Plan C increased by 4% and Plan D increased by 2%.

In other words, individuals or groups that choose a semi-comprehensive or high-deductible plan with an HSA are not given rate increases that reflect their choice to accept more risk and take more responsibility for their health. By the same token, individuals who chose a comprehensive low-deductible plan are having their premiums subsidized by individuals in the other plans. This is also a barrier to HSA plans being priced low enough to encourage small employers to choose these plans. (See brief on Health Savings Accounts.)

How do Washington's community rating laws compare to other states'?

In the individual market, three states have pure community rating and four states (including Washington) have modified community rating laws. While the other 43 states do not have community rating laws, some do have restrictions on how much premiums can vary due to health status (referred to as health status rate bands). (*Source: Georgetown University Health Policy Institute, 2004*)

What are the impacts of Washington's community rating laws?

Washington's rating laws do not allow individuals' health insurance premiums to reflect the lifestyle choices they make (excluding smoking). Since over 50 percent of individuals' health is determined by their own lifestyle choices, shouldn't their health insurance rates reflect the choices they make? Just imagine if auto insurance companies could not adjust an individual's rate based on his driving record. There would be no incentive to be a good driver and avoid accidents and tickets, good drivers would be paying much higher premiums because of poor drivers, and poor drivers would not be paying premiums that reflect their driving records. Individuals who make health-conscious choices and lead healthy lifestyles should be rewarded with premiums that more accurately reflect their risk.

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Additionally, community rating restrictions have been found to increase the number of uninsured and so cost of premiums to everyone, as many healthy people, particularly the young and low-income, choose not to purchase health insurance because of the cost. When this happens there are fewer people in the insurance pool, and proportionately more sick people, so premiums need to be increased to cover the costs. And the cycle continues.

Potential legislation to change community rating laws

- In the small group market, increase the rate adjustment band for annual adjustments from plus or minus 4% to plus or minus 8%, and exclude HSA plans from the rating pool.
- Replace community rating restrictions with health status rate band restrictions. This would allow an individual or group's health status to be used in determining premiums, within reasonable rate band restrictions.