



# Senate

General Assembly

**File No. 140**

February Session, 2004

Substitute Senate Bill No. 480

*Senate, March 18, 2004*

The Committee on Insurance and Real Estate reported through SEN. CRISCO of the 17th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

## **AN ACT CONCERNING ADMINISTRATIVE COST SAVINGS UNDER SMALL EMPLOYER HEALTH PLANS.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Subdivision (27) of section 38a-564 of the general statutes  
2 is repealed and the following is substituted in lieu thereof (*Effective July*  
3 *1, 2004*):

4 (27) "Case characteristics" means demographic or other objective  
5 characteristics of a small employer, including age, sex, family  
6 composition, location, size of group, administrative cost savings  
7 realized by an association group plan or a plan written pursuant to  
8 section 5-259, as amended, and industry classification, as determined  
9 by a small employer carrier, that are considered by the small employer  
10 carrier in the determination of premium rates for the small employer.  
11 Claim experience, health status, and duration of coverage since issue  
12 are not case characteristics for the purpose of sections 38a-564 to 38a-  
13 572, inclusive, as amended.

14 Sec. 2. Subdivision (5) of section 38a-567 of the general statutes is  
15 repealed and the following is substituted in lieu thereof (*Effective July*  
16 *1, 2004*):

17 (5) (A) With respect to plans or arrangements issued on or after July  
18 1, 1995, the premium rates charged or offered to small employers shall  
19 be established on the basis of a community rate, adjusted to reflect one  
20 or more of the following classifications:

21 (i) Age, provided age brackets of less than five years shall not be  
22 utilized;

23 (ii) Gender;

24 (iii) Geographic area, provided an area smaller than a county shall  
25 not be utilized;

26 (iv) Industry, provided the rate factor associated with any industry  
27 classification shall not vary from the arithmetic average of the highest  
28 and lowest rate factors associated with all industry classifications by  
29 greater than fifteen per cent of such average, and provided further, the  
30 rate factors associated with any industry shall not be increased by  
31 more than five per cent per year;

32 (v) Group size, provided the highest rate factor associated with  
33 group size shall not vary from the lowest rate factor associated with  
34 group size by a ratio of greater than 1.25 to 1.0; [and]

35 (vi) Administrative cost savings realized by an association group  
36 plan or a plan written pursuant to section 5-259, as amended, that (I)  
37 reduce overall risk retention, and (II) are measurable and specifically  
38 realized by the plan or association for items such as commissions,  
39 marketing, billing or claims processing functions; and

40 ~~[(vi)]~~ (vii) Family composition, provided the small employer carrier  
41 shall utilize only one or more of the following billing classifications:  
42 [(a)] (I) Employee; [(b)] (II) employee plus family; [(c)] (III) employee  
43 and spouse; [(d)] (IV) employee and child; [(e)] (V) employee plus one

44 dependent; and [(f)] (VI) employee plus two or more dependents.

45 (B) The small employer carrier shall quote premium rates to small  
46 employers after receipt of all demographic rating classifications of the  
47 small employer group. No small employer carrier may inquire  
48 regarding health status or claims experience of the small employer or  
49 its employees or dependents prior to the quoting of a premium rate.

50 (C) The provisions of subparagraphs (A) and (B) of this subdivision  
51 shall apply to plans or arrangements issued on or after July 1, 1995.  
52 The provisions of subparagraphs (A) and (B) of this subdivision shall  
53 apply to plans or arrangements issued prior to July 1, 1995, as of the  
54 date of the first rating period commencing on or after that date, but no  
55 later than July 1, 1996.

This act shall take effect as follows:	
Section 1	July 1, 2004
Sec. 2	July 1, 2004

**INS**      *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

**OFA Fiscal Note**

**State Impact:** None

**Municipal Impact:**

Municipalities	Effect	FY 05 \$	FY 06 \$
Various Municipalities	Savings	Potential	Potential

**Explanation**

The bill allows small employer health plan rates to reflect administrative cost savings. Municipalities with coverage in such small employer health plans may experience varying degrees of savings. The Office of the State Comptroller, which administers the Municipal Employees Health Insurance Program (MEHIP) at no cost to the state, has indicated the savings may be 2% of premiums for small employers.

**OLR Bill Analysis**

sSB 480

***AN ACT CONCERNING ADMINISTRATIVE COST SAVINGS UNDER SMALL EMPLOYER HEALTH PLANS*****SUMMARY:**

This bill expands the list of case characteristics that can be considered when establishing premium rates for small employer health care plans. In particular, the bill allows small employer rates to reflect the administrative cost savings realized by joining an association group plan or the state employee health plan, in addition to age, gender, geographic area, industry, group size, and family composition. The cost savings must (1) reduce overall risk retention and (2) be measurable and specifically realized by the plan or association for administrative functions such as commissions, marketing, billing, or claims processing.

EFFECTIVE DATE: July 1, 2004

**BACKGROUND*****Small Employer***

The law defines a "small employer" as any person, firm, corporation, limited liability company, partnership, or association actively engaged in business for at least three consecutive months that, on at least 50% of its working days during the preceding 12 months, employed no more than 50 employees, at least half of them employed in the state. A small employer includes a self-employed individual.

By law, small employer premiums are based on a community rate and then adjusted for specific case characteristics. Rates cannot be based on the health status or claims experience of the small employer or its employees and their dependents.

***State Employee Health Insurance Plan***

Current law authorizes the comptroller, with the attorney general's

and insurance commissioner's approval, to arrange group hospital, medical, and surgical health insurance for small employers under the state employee health plan. The law requires the insurance to (1) be underwritten according to the small employer community rating law and (2) use the same participation requirements that apply to employees of community action agencies, nonprofit corporations, and municipalities.

**COMMITTEE ACTION**

Insurance and Real Estate Committee

Joint Favorable Substitute

Yea 10    Nay 7