



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony to Insurance and Real Estate Committee

March 18, 2014

Raised S.B. No. 478: AN ACT CONCERNING THE DUTIES OF THE HEALTH REINSURANCE ASSOCIATION AND REQUIREMENTS OF THE CONNECTICUT SMALL EMPLOYER REINSURANCE POOL, UPDATING THE PREEXISTING CONDITIONS STATUTE, AND CONCERNING SMALL EMPLOYER PREMIUM RATE APPROVAL.

Senator Crisco, Representative Megna, and members of the Insurance and Real Estate Committee, the Insurance Department thanks the Committee for raising, S.B. 478: **An Act Concerning The Duties of the Health Reinsurance Association and Requirements of the Connecticut Small Employer Reinsurance Pool, Updating the Preexisting Conditions Statute, and Concerning Small Employer Premium Rate Approval**, at the Department's request and appreciates the opportunity to provide the following testimony.

As the title suggests, this bill revises the duties of the Health Reinsurance Association and the Connecticut Small Employer Health Reinsurance Pool, prohibits the use of pre-existing condition limitations, grants the Insurance Department the authority to review and approve small employer premium rates, and modifies small employer rating laws. Its provisions include:

1. Prohibiting the use of pre-existing condition limitations. Children under 19 have this protection currently. This bill expands this protection to adults.
2. Eliminating the use of gender, industry and group size as rating factors for small group to comply with federal law. This bill defines allowable rating factors as age, geographic location and actuarially justified differentials in expenses.
3. Modifying laws related to the high risk pool known as the Health Reinsurance Association (HRA). The HRA was set up to be the insurer of last resort to offer health insurance plans to individuals who could not otherwise be underwritten due to health status. The premium rates are required by statute to be between 125% and 150% of a market rate. Carriers must now make all health insurance plans available to individuals and small employer groups on a guaranteed issue basis and are prohibited from charging higher premium rates based on health status or claims experience, so HRA plans are no longer needed. The administrative costs of requiring HRA to maintain and update unnecessary plans are assessed to health insurance carriers and ultimately passed on to consumers in premium rates. Since the HRA plans are more expensive than the health plans currently available in the marketplace, HRA should be prohibited from selling these plans so that consumers do not accidentally purchase these more expensive plans. An important aspect of the bill is that it maintains the HRA as it will be the administrator of

the reinsurance program for individual insurance. The reinsurance program has lowered premium rates in the individual market by as much as 30% in 2014.

4. Conforming Connecticut's definition of small employer to federal law. The federal definition has been in place since 1996 when the Health Insurance Portability and Accountability Act (HIPAA) was enacted and did not include sole proprietors in the definition. Until last year, the Centers for Medicare and Medicaid Services (CMS) provided guidance that Connecticut was allowed to continue to use its statutory definition that included sole proprietors. In 2013, CMS notified the Insurance Department that the definition of small employer in Connecticut state law was now pre-empted by the federal law and is required to conform.

5. Eliminating plans created by the Connecticut Small Employer Health Reinsurance Pool (CSEHRP) that all health insurance carriers are required to offer. This requirement only serves to increase administrative costs that will be passed through to enrollees in the form of higher premium rates. HIPAA required all small employer plans for groups of 2 to 50 to be guaranteed issue. The statutory plans were maintained in state law to provide a guaranteed issue option to sole proprietors, but are no longer needed since sole proprietors can now purchase an individual policy on a guaranteed issue basis. This bill maintains CSEHRP to provide reinsurance needs in the small group market to help lower premium rates.

6. Modifying state statute to provide the Insurance Department with the authority to approve small employer indemnity rates. Currently, the Insurance Department reviews these rates as part of its "effective rate review process" however, as it stands now the Department does not have the authority to disapprove a small employer indemnity rate filing should it be found to be actuarially unreasonable. The Department's careful and thorough actuarial review of proposed rate increases is advantageous to small employers purchasing indemnity coverage.

The Department again, thanks the Committee for raising S.B. 478 and respectfully requests it receive a Joint Favorable report.

About the Connecticut Insurance Department: The mission of the Connecticut Insurance Department is to protect consumers through regulation of the industry, outreach, education and advocacy. The Department recovers an average of more than \$4 million yearly on behalf of consumers and regulates the industry by ensuring carriers adhere to state insurance laws and regulations and are financially solvent to pay claims. The Department's annual budget is funded through assessments from the insurance industry. Each year, the Department returns an average of \$100 million a year to the state General Fund in license fees, premium taxes, fines and other revenue sources to support various state programs, including childhood immunization.