The ACA’s Small-group Designation: What it Means

By Raymond DePaola | Director of Underwriting | 2.2.2016

Now that it’s 2016, health & welfare benefits managers and HR professionals are digging into the latest changes in the ACA to see what surprises are in store for them this year. Perhaps the biggest Healthcare Reform change is a further fine-tuning to the definition of “small group.” For some employers this may mean an introduction to community rating. Suddenly, a significant number of businesses are to be part of the small group designation, and the way they purchase health & welfare benefits for their employees will change.

First, a quick history of community rating
Prior to 2014 and for the purpose of setting health insurance rates, insurance carriers determined a “small group” to be “community rated,” meaning rates for those employers would be based on the insurance carrier’s total book of business claims experience, and not the claims experience of that individual employer’s participant population. Small-group community rates would, however, be impacted by the employer group’s demographics, including age, gender, geography, industry and health status. Carriers defined what constituted a small group. Typically, it was 50 covered employees or less, but some carriers defined it as low as 30 employees, while other carriers put the number as high as 100.

Carriers generally rated mid-size and large group employers at least partially on their own experience. There’s logic to this. A greater pool of employees creates a larger sample size and therefore the employer’s claims experience is considered more credible.

In 2014, the ACA solidified the definition of small group as an employer with 50 or fewer employees. Demographic adjustments were restricted to age, geography and tobacco use. This was ostensibly a warm-up for the changes that took place on January 1, 2016, when the definition of a small-group employer jumped from one with 50 or fewer employees to those with 100 or fewer. One caveat: Each state has the option to grandfather the status of those employers with between 51 and 100 employees allowing for the continuance of experience rating. So, if you fall into this group, you need to know what’s happening at the state level.
What the new definition of small group means for community rating

There are obviously a great number of employers with 50 to 100 employees and being placed into the small-group category changes the way they purchase health insurance.

For employers with more than 100 employees, there’s no change on this front; they’ll continue to be experience-rated. However, for businesses with between 51 and 100 employees who were previously experience-rated, there are several ramifications and potential decision points. Specifically, they’ll have to look at their own claims experience in order to get a read on what to expect.

For employers negatively impacted by community rating, self-funding may be an option.

Healthier businesses, those whose claim experience has been good in the past, will now receive higher than expected rate increases, because they are now being pooled with the less healthy employer plans. Conversely, unhealthier organizations that have had higher levels of utilization can expect to get a break in their rates, as they’ll now be grouped with healthier companies and will, in effect, have their insurance subsidized. Additionally, groups that have higher utilization—healthcare workers, older male population, etc.—now have positive impact on rates due to the elimination of industry and gender adjustments.

One group singled out by the ACA—smokers—can have their own set of rates, which will be much higher.

In states that allow for grandfathering, employers will have the option of choosing which set of rules they want to play under. Healthier employers will likely choose to be experience-rated in order to avoid subsidizing their less healthy counterparts, while the higher utilizing companies will be put into a community-rated pool with other high utilizers, meaning that their already high rates could jump even higher.

Considerations for negatively-impacted employers

For employers negatively impacted by moving into the world of community rating, it may be time to think about self-funding options. Several insurance carriers, including Cigna and Aetna, are offering “level funding programs,” which have the feel of a fully insured plan—with even monthly rates and a capped liability, but with the advantage of being partially experience-rated.

Insurance carriers are faced with the dilemma of whether to promote these types of self-funding arrangements to smaller groups, because driving groups with good claims experience away from their fully-insured community rated pool likely will result in an inordinate percentage of “poor risks” remaining in the community rated pool, and the need for even higher rate increases to that remaining pool. You can be sure carriers will be monitoring the impact of adverse selection on this pool and adjust their pricing and product offerings accordingly.
For employers, it’s important to understand their own utilization history and behavior in order to determine whether a self-funded option is right for them, and to take advantage of the insurance carriers’ growing pains in regard to these many changes as well as their continuing desire to compete for the employer plan’s business.

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