EMPLOYER CONTRIBUTION REQUIREMENTS

For Small Group Coverage

New Mexico
Health Insurance Exchange
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Concept of Adverse Selection

- Adverse selection occurs whenever people make insurance purchasing decisions based on their own knowledge of their likelihood of making a claim
- Purchasing health insurance is an economic decision; the purchaser will compare the cost of the insurance to their likelihood of receiving an equivalent or better benefit in return, and make a purchasing decision that benefits them economically
- Adverse selection can also occur between insurers, between benefit plans, and between markets
- Adverse selection must be minimized in order for health insurance to remain a financially viable product.

Industry Tools For Limiting Adverse Selection

- Individual coverage
  - Medical underwriting
  - Charging higher or lower premiums based on age
  - Charging higher of lower premiums based on health status
  - Rescissions if misrepresentation on application
  - Pre-existing condition waiting periods
- Small employer coverage
  - Participation requirements
  - Employer contribution requirements

How Adverse Selection Can Occur in the New Marketplace

- Consumers have a choice between two health insurance markets – inside Exchange and outside Exchange
- To the extent that the rules are not the same for the two markets, one or the other may attract higher risk people
- Potential problem areas:
  - Plan design offerings
  - Network adequacy
  - Carriers not offering through Exchange
  - Exclusion of grandfathered plans
  - Different commission structures
  - Self-insuring

How the ACA Limits Adverse Selection

- Minimum essential coverage requirement
- Financial assistance with purchasing coverage
- Same plan, same premium
- Same rating rules
- Single risk pools
- Marketing requirements
- Exchange market participation requirements
- Risk spreading mechanisms – 3Rs

Employer Contribution Requirements

- Current market standard requires 50% contribution by employer for single coverage
- Individual vs small group coverage
  - If the employer makes little or no contribution to the plan, this could result in older or sicker employees choosing to purchase coverage in the individual market, where a richer level of coverage and subsidies might be available
- Exchange vs non-Exchange coverage
  - If the employer contribution requirements are less strict in the Exchange, the Exchange may attract an older or less healthy population
  - Single risk pool requirements mean Exchange carriers must spread the excess cost of Exchange business to non-Exchange business
  - Carriers participating in Exchange will have a competitive disadvantage outside the Exchange and will be less willing to participate in the Exchange