Executive Summary

Lewis & Ellis, Inc. (L&E) was contracted, through the State of Colorado Department of Regulatory Agencies: Division of Insurance (DOI) in the spring of 2016 to evaluate the appropriateness of the nine (9) geographic rating areas that are currently in effect for Affordable Care Act (ACA) plans. The scope of the study includes an evaluation of moving to one rating area for the entire state.

L&E recommends keeping the current rating regions but consider limiting the geographic factor by a rating band. Currently, carriers in the market have geographic factors that differ by as much as 62% when comparing the lowest factor to the highest (this can be described as a 1.62:1 band). A sample 1.4:1 band and its impact is illustrated in the body of this report. The key factors leading to this decision are:

1) Provides a balance between paying for actual cost of services (which benefits low cost areas) and sharing in statewide average cost (which benefits high cost areas);
2) Lessens the probability of plan choice and carrier choice diminishing as compared to a 1 region scenario;
3) Will most likely have a minor overall rate impact to state wide premiums and a reasonably low impact to the low cost regions;
4) The current rating regions fall within industry standards;
5) The current rating regions are actuarially justified.
6) There is minimal disruption for carriers administratively and competitively.

L&E does not recommend moving to one rating. The key factors leading to this decision are:

1) Carriers may drop out of the market. We have already seen a decrease in the number of carriers as they face the challenges of competing in the ACA compliant market. Some carriers may have to increase prices in low cost areas too much and cannot compete.
2) The market may continue to trend towards a complete HMO and/or narrow network market in order to compete on price and maintain lower rate increases. Customer choice may become limited.
3) Carriers may offer very similar products in different regions, but distinguish the products using the allowable network rating factor. This in effect, would be rating by region in a one region state.
4) The market may find other methods to offer insurance, such as self-insured plans, Trusts, or Multiple Employer Welfare Arrangements (MEWAs). These alternate methods could lead to higher morbidity levels in the ACA market.
5) Customers may begin to pay the same healthcare premiums for similar products regardless of healthcare cost in their regions. This would benefit customers in high cost regions and but negatively impact customers in low cost regions.
6) Some carriers may drop out of the higher cost regions. This would allow them to offer lower prices in the low cost regions due to having lower overall cost. This may lead to a disadvantage for carriers offering rates in all regions. This can also prompt very limited products in high cost regions.
7) Administrative cost will increase. Carrier implementation of major regulatory changes increases administrative cost and overall healthcare premiums.