

SUBJECT: Small employer health insurance purchasing alliances

COMMITTEE: Insurance — favorable, without amendment

VOTE: 9 ayes — Smithee, Seaman, Eiland, Bonnen, Gallego, Keffer, Taylor, Thompson, Van Arsdale

0 nays

WITNESSES: For — Christopher Beam, Independent Electrical Contractors Gulf Coast; Luke Bellsnyder, Texas Association of Business; Anne Flournoy, ExecuTeam; Eric Glenn, Humana; William Herndon, Coastal Bend Pest Control Association; Lisa McGiffert, Consumers Union; David Pinkus, Small Business United of Texas; Tim Schauer, Memorial Hermann Healthcare System; Kim Suiter, National Multiple Sclerosis Society, Texas Chapters; Trey Watters, Smart Mail of Austin, Inc.

Against — None

BACKGROUND: In 1993, the 73rd Legislature enacted the Small Employer Health Insurance Availability Act, which permitted small businesses to form private non-profit health insurance purchasing cooperatives. It established the Texas Insurance Purchasing Alliance, a statewide nonprofit organization, to administer a limited set of plans. The Alliance was dissolved in 1998 because of structural pricing issues that caused employers to leave and carriers to withdraw. Some smaller regional purchasing alliances exist in Texas, including the San Antonio Employers Health Alliance and the Texas Health Care Purchasing Alliance in Houston.

Art. 26.15 of the Insurance Code defines the responsibilities of a health insurance purchasing cooperative. These include organizing the health coverage members of the cooperative, collecting premiums and administrative expenses, accounting, complaint resolution, and other administrative functions.

Insurance Code, sec. 26.32 sets guidelines for establishing index rates for underwriting small employer health benefit plans. The index rate for a rating

period for any class of business may not exceed the index rate for any other class of business by more than 20 percent.

DIGEST:

HB 897 would amend Art. 26.15 of the Insurance Code to prohibit health insurance purchasing cooperatives from limiting or restricting employer or employee choice among plans based on health conditions or duration of coverage. It also would consider a small employer health coalition the same as a single small employer for the purposes of regulation in the Insurance Code. The bill would apply to purchasing cooperatives the provision in Art. 26.21(c) that permits health insurance carriers to elect not to offer a health benefit plan to a small employer who offers employees multiple plans if the carrier would have less than 75 percent of the employer's eligible employees.

The bill would take effect September 1, 2003. It would apply only to health benefit plans issued or renewed on or after January 1, 2004. Plans issued or renewed before that date would be governed by current law.

SUPPORTERS
SAY:

Texas' small businesses need a less expensive way to offer health insurance to their employees. According to the comptroller's e-Texas report, *Limited Government, Unlimited Opportunity*, many Texans working for small employers do not have health insurance, accounting for a significant portion of the state's uninsured workers. A Texas Department of Insurance (TDI) survey in 2002 found that almost 70 percent of responding small businesses cited cost as the main reason for not offering health insurance coverage.

Cooperatives reduce the cost of health insurance plans for small businesses by allowing them to take advantage of economies of scale. A higher proportion of a small business' health insurance premium goes toward administration, because state law permits insurers to charge an additional 20 percent on premiums. Smaller firms also tend to pay more for a single sick employee because they cannot spread the risk like a larger firm. Because larger companies can spread the risk, they also have access to "guaranteed renewability," which means that their contract remains in force by timely payment of premiums. Small businesses often are at risk for losing their coverage each time the contract comes up for renewal.

HB 897 would ensure that small business health insurance purchasing alliances would pay less in administrative costs by treating them as single

small employers for the purposes of the Insurance Code. This would mean that carriers could not charge an additional 20 percent on their premiums. This would not impair insurers, as their administrative costs also would be reduced in their relationship with alliances.

The bill would allow cooperatives to avoid the problems that doomed the Texas Insurance Purchasing Alliance, which covered nearly 13,000 people at its peak. Several factors led to its dissolution, including the practice of insurers picking healthier groups and leaving a disproportionate number of high-risk members in the alliance, driving up premiums. Also, the variety of health plans offered in the alliance caused healthier enrollees to migrate toward cheaper plans, leaving some carriers with a high concentration of high-risk enrollees. Finally, many employers left the alliance because it was too expensive, causing plan enrollment to drop below the level carriers needed to make the alliance profitable.

HB 897 would prevent these systemic problems by prohibiting alliances from guiding employers' choice in plans. This change would help the alliance remain stable by ensuring that risk would not be concentrated in certain plans. It also would permit a health benefit plan to elect not to offer their plan to an alliance with multiple plans if the carrier would have less than 75 percent of the employer's eligible employees, protecting the carrier against plan enrollment dropping to unprofitable levels.

Small businesses are clamoring for health insurance purchasing alliances that work and result in lower costs for coverage. TDI's 2002 survey of small businesses found that 95 percent of companies identified a health insurance purchasing alliance as a solution to their problem of high health insurance costs.

**OPPONENTS
SAY:**

This bill would not address the fundamental problem of rising health insurance costs. While alliances may make insurance available for more small employers, the rising cost of health coverage is likely to overwhelm any savings achieved through the formation of an alliance.

NOTES:

HB 897 is identical to SB 522 by Nelson, which was referred to the Senate State Affairs Committee.

Many of the recommendations in this bill are part of the Comptroller's January 2003 e-Texas report, *Limited Government, Unlimited Opportunity*.