

## *Fact Sheet*

# **Employer Knowledge of Insurance Regulations**

During the mid-1990s, Congress and nearly every state enacted laws designed to make health benefits more affordable and accessible for small employers. Accessibility laws included “guaranteed issue” and “guaranteed renewal” requirements. Affordability laws, such as “rating bands,” changed the way insurers offering health benefits in the small group market determine premiums. These laws are discussed in more detail below.

### **Accessibility Laws**

*Guaranteed Issue*—Federal law requires insurers offering coverage in the small group market to offer coverage to any small group regardless of the health status or prior claims experience of the group’s members.

*Guaranteed Renewal*—Federal law requires insurers offering health benefits in the small group market to renew an employer’s health coverage at the employer’s option.

### **Affordability Laws**

Rating bands or rating restrictions place limits on the difference between the highest and lowest premiums an insurer can charge its group members. Nearly all states have enacted rating restrictions. The type of rating restrictions used varies by state.

*NAIC Rating*—Laws that restrict small-group insurance rates based on the National Association of Insurance Commissioners (NAIC) model, which was adopted in December 1991. This model statute limits premiums charged to small groups to a range of 2:1 for claims experience, health status, or duration of coverage.

*Very Tight Rating Bands*—Laws that allow very limited use of claims experience, health status, or duration in setting premium rates for small groups.

*Community Rating*—Laws that prohibit the use of claims experience, health status, or duration in setting premium rates for small groups. Some community rating laws also prohibit the use of demographic factors.

### **Knowledge of Accessibility and Affordability Laws**

According to the findings of the 2000 Small Employer Health Benefits Survey (SEHBS), small employers are largely unaware of the laws that the federal government and the states have enacted to make health insurance more accessible and more affordable.

- 61 percent do not know that insurers may not deny health insurance coverage to small employers even when the health status of their workers is poor. Employers offering health benefits are more likely than employers not offering health benefits to be aware of these guaranteed issue and renewal laws.
- 80 percent of employers do not realize that states in effect require insurers to spread the costs incurred by small employers with sick employees across a large pool of workers through the use of rating restrictions.
- 65 percent of small employers are not aware that there are limits to what insurers can charge employers with sick workers, compared with employers with healthier workers.

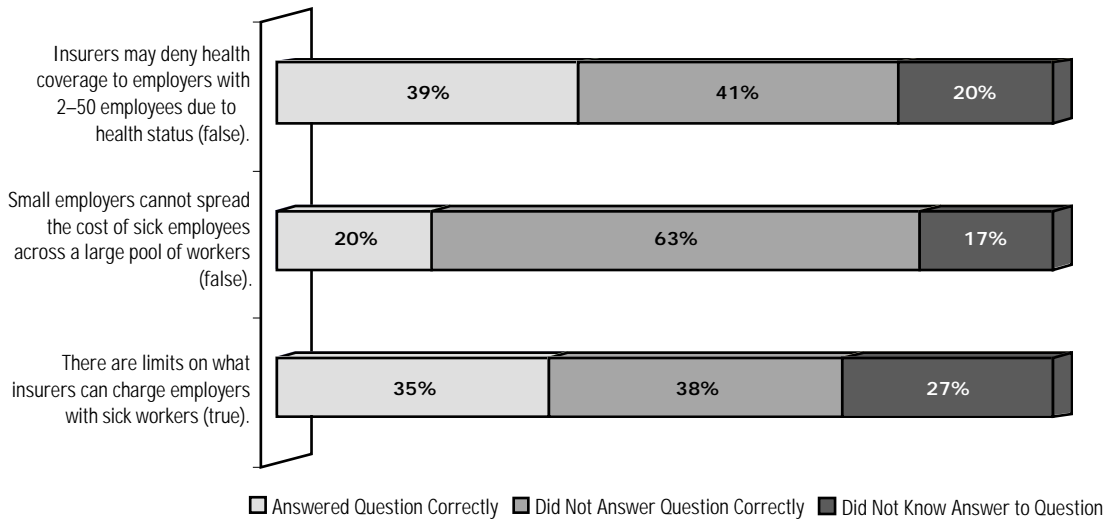
### **Implications**

Overall, state rating regulations are designed to require insurers to “pool” small employers together in order to provide cross-subsidies for employers with high-cost workers. As a result, small employers buying insurance in a geographic region should experience less variation in premiums due to the prior claims experience or the health status of their workers. In effect, insurers group all small employers into one large pool in order to determine premiums.

In general, small employers are not knowledgeable about state small-group market reforms passed during the mid-1990s that essentially make it easier for them to afford and obtain coverage. These laws prevent insurers from denying coverage to small employers with unhealthy workers, and also prevent them—through the use of rating restrictions—from charging unhealthy groups significantly more than healthy groups.

It is important for small employers to understand how the insurance market is regulated. Misconceptions about the market may result in fewer employers offering coverage because they are under the impression that they cannot either afford or obtain coverage due to their workers' health status.

**Many Small Employers Are Unaware of State and Federal Laws That Address Accessibility and Affordability of Health Benefits in the Small-Group Market**



Source: EBRI/CHEC/BCBSA 2000 Small Employer Health Benefits Survey.