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COMMISSIONER OF INSURANCE

PATTY JUDGE
LT. GOVERNOR

BULLETIN 07-03

TO: All Interested Agents, Producers, Carriers and Consumers

FROM: Susan E. Voss, Commissioner

DATE: June 21, 2007

RE: House File 790-Association Group Health Care Plans

Health care and the costs associated with its delivery have been a constant topic in recent years. In particular, the idea of a small employer group “pooling” their employees/enrollees to provide for a decrease in premium rates has been debated at both the state and federal level. The idea has been suggested that these small employers (2-50 full time employees) could join together and be rated as one large group. This would provide for a greater number of lives in which to spread the risk and “possibly” reduce rates.

During the 2007 Iowa legislative session, House File 790 was passed to allow insurance carriers to create new classes of business expressly formed for “associations” of small employers. (Under old law, only 9 classes of business were allowed.) These new classes of business will allow insurance carriers to place these associations of small employers in their own, unique class of business. Carriers will have the flexibility of creating unique classes of business for one association or groups several associations into one class.

There has been a great deal of confusion about the effect of House File 790 on small employers and, in particular, associations of employer groups. There appears to be a belief that this law allows small employers who are members of a bona fide association to “pool” their employees into a large group for the purposes of premium rating and experience significant rate reductions. The purpose of this Bulletin is to clarify the impact of House File 790 and how it will directly affect small employers.

House File 790 provides greater flexibility for carriers to offer small group coverage to bona fide associations under current small group rating rules. It removes the restriction in current law that coverage can be provided only to an association with membership of at least 50 small employers. It also removes the restriction in current law on the number of classes (or groups) an insurer may establish for small group rating purposes. These new classes of business will be at the discretion of the carrier and can be created for a single association or allow several associations to form a class of business. These classes of business will contain only association groups. They will not include small employers that are non-association members.

House File 790 does not provide for the pooling of association small employer members to disregard their small employer size and be rated as one large group. While this was allowed pre-1993 and small employer health care reform, such mechanisms are not permitted under this legislation. Each small employer member of the association will be rated as a small employer pursuant to the rating structure in Iowa Code chapter 513B. Nothing in this bill voids the rating requirements for small employers in chapter 513B.

The bill does allow a carrier to place an association group into a new class of business separate from other small employers (that are not a member of the association.) It is possible that these new groups may provide some rate relief due to the rating of like association members into an association-only pool. But, it would be incorrect to characterize HF 790 as legislation that will dramatically reduce rates. Its purpose is to assist in the stabilization of future rate increases.

The Division will not be promulgating administrative rules concerning these sections of House File 790. However, the Division welcomes questions from the public in regard to this section of House File 790. Please direct your questions or calls to Klete Geren, Iowa Insurance Division Life and Health Actuary 515-281-4183 or klete.geren@iid.state.ia.us.