



Purchasing Strategies to Increase Value and Access

**State Coverage Initiatives
February 4, 2005**

choice.

simplicity.

affordability.



California Small Group Health Insurance Reform (AB 1672, 1992)

- **Guaranteed Issue of all products**
- **Guaranteed Renewal of all products**
- **Limits on pre-existing conditions**
- **Rating Restrictions: standard rates (modified community rating)**
 - Age (7 categories)
 - Family Size (4 categories)
 - Geographic Region (maximum of 9 regions)
- **Standard rates can vary by +/-10% (+/- 20% prior to 7/1/96)**
- **Full disclosure of all products and prices in a publication available to all employers and brokers**
- **Authorized start up and privatization of purchasing pool**

choice.

simplicity.

affordability.



PacAdvantage – What is it?

- Largest non-profit small employer health insurance purchasing pool in country
- Provides coverage to businesses of 2-50 employees
- Offers employees choice of health plan, co-payment level and product line (HMO, PPO, POS) as well as choice of dental/vision carriers
- Covers more than 9,000 small businesses
- Affiliated with Pacific Business Group on Health (PBGH) since July 1999
- Formerly known as the Health Insurance Plan of California

choice.

simplicity.

affordability.



PacAdvantage – What is the value to small employers and their employees?

- **Employee Choice**
 - Health Plan (7 participating plans – 3 of the state's largest 5 plans)
 - Products (HMO, PPO, POS)
 - Copay level (3 HMO levels, 2 PPO levels)
- **Affordable Costs (Employer Defined Contribution)**
- **Single billing, administration, enrollment**
- **Annual Open Enrollment period to switch plans/products/copays**
- **Ancillary services (Dental, Vision, Chiropractic/Acupuncture)**
- **Quality information provided to employees (PacPlan Chooser)**
- **Possibility of subsidies through a pool (SacAdvantage)**

choice.

simplicity.

affordability.

Product Line

Mission driven to provide expanded access to health care

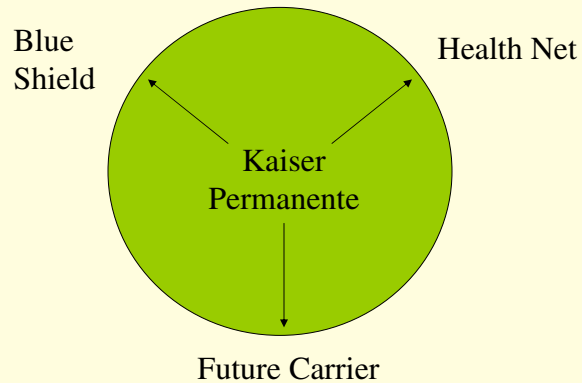
- **PacAdvantage Pool**
 - Traditional Pooled Choice Product
 - Maximum Choice / Maximum Benefit Range
- **PairedChoice**
 - Dual Carrier Selection
 - Simplified Choice / Lower Cost

choice.

simplicity.

affordability.

PairedChoice



choice.

simplicity.

affordability.



PacAdvantage – Lesson Learned #1

1. **Employee choice of health plans is a highly valued feature of a small employer purchasing pool.**
 - **Employers like defined contribution and the ability to let employees buy up to a higher benefit package.**
 - **Employers want a PPO option while allowing their employees to enroll in HMO options.**
 - **Employees prefer the choice of plans/benefits/copays that best meets their family need.**
 - **Employees in urban areas have as many as 15 health care options (more than employees in large businesses)**
 - **Small business employees have access to the choice their counterparts in large businesses have had for years.**

choice.

simplicity.

affordability.



PacAdvantage – Lesson Learned #2

2. **Purchasing Pools can not be required to follow more stringent rules in the market place or they will be adversely selected against.**
 - **Example of adverse selection problems:**
 - **Eligibility – requiring a pool to cover self-employed individuals while health plans outside the pool are not required to cover.**
 - **Rates – allowing health plans outside of the pool to vary their rates with steeper discounts for healthier groups and larger increases for riskier groups.**
 - **Benefits – requiring the pool to have a comprehensive benefit package that health plans outside the pool are not required to offer.**

choice.

simplicity.

affordability.



PacAdvantage – Lesson Learned #3

3. A voluntary purchasing pool by *itself* will not dramatically reduce prices nor significantly increase rates of insurance.
- Health Plan motivation is to sell direct, not to a purchasing pool where they are unlikely to receive 100% of the group's enrollment.
 - Health Plan enrollment from a purchasing pool is not the majority of their enrollment in the small group market.
 - Regulation in the small business market already combines all small employers in a “pooled” environment for rating purposes.
 - Choice as a feature is not enough to motivate previously uninsured employers to purchase.

choice.

simplicity.

affordability.



PacAdvantage – Lesson Learned #4

4. Purchasing Pools are great vehicles for subsidies for small employers and their employees.
- Pools are similar in structure to successful S-CHIP programs (Healthy Families Program) which are heavily subsidized by the federal and state governments.
 - Pools provide choice of plans for families similar to large firms.
 - SacAdvantage pilot program in Sacramento County is partnering with PacAdvantage to use subsidies for uninsured small employers in a pooled environment. It can work!

choice.

simplicity.

affordability.

What would we do differently if we had hindsight?

- **Operate the program similar to the open market**
 - Compensate and treat agents/brokers similar to marketplace
 - Use the same underwriting rules (e.g. 1099 employees)
 - Same Sales cycles (12 month guarantee from purchase month)
 - Allow plans to use their “street” rating regions
 - Use full complement of +/-10% rate bands
- **Design PPO offerings not to be adversely selected against**
- **Offer a stable Out-of-State product**
- **Limit the number of health plans at the beginning of the program (originally 24, today 7)**
- **Simplify and expand ancillary products**

choice.

simplicity.

affordability.

How was it successfully implemented?

- **Market reforms throughout helped stabilize the marketplace**
- **Pool follows the same rules as carriers in the marketplace – no legislative differences to cause adverse selection**
- **Several Health Plans were actively supportive, many others desired to participate when it was clear it was going to happen**
- **Run by a government agency with broad flexibility**
- **Political climate was conducive**
- **Strong support from Governor and tremendous free publicity generated at program opening**
- **Administrative vendor provided strong agent and customer service**
- **Transition to from State government to Non-Profit Sector**

choice.

simplicity.

affordability.



To learn more ...

www.pbgh.org

www.pacadvantage.org

choice.

simplicity.

affordability.