

The Rural Implications of Geographic Rating of Health Insurance Premiums

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The ACA restricts insurance rating individual and small group market to age, tobacco use, family composition, and **Geographic Rating**

***Question:** What are the implications for rural residents of geographic rating?*



What is Geographic Rating?

- Geographic rating provisions allow insurers to adjust premiums to reflect regional differences in the cost of medical care
- Most state laws permit some form of geographic rating in the individual and small group health insurance markets
- States typically designate the number and boundaries of geographic rating zones (i.e. by county or ZIP code)



Affordable Care Act Provisions

- Eliminates medical underwriting in the individual and small group markets;
- Requires guarantee issue to consumers regardless of health status;
- Restricts rating factors to age, tobacco use, family composition, and *geographic region*;
- States shall establish one or more geographic rating areas subject to review by the Secretary of HHS.



Competing Policy Goals?

- To reduce market segmentation and increase risk pooling in the individual and small group health insurance markets

However, at the same time...

- Geographic rating could increase market segmentation and decrease risk pooling by allowing insurers to adjust premiums to reflect variations in medical costs

Pros and Cons of Geographic Rating

Potential Advantages:

- Provide insurers with marketing flexibility
- Help ensure that insurance purchasers in low cost areas benefit from the efficiencies of their local health care system
- Encourage insurers to offer plans in high cost areas

Potential Disadvantages:

- Allocate the costs of areas with high levels of health care need onto the populations of those areas
- Undermine incentives for health plans to encourage efficiency among providers in high-cost areas
- In the context of an insurance mandate, geographic rating will place a differential burden on consumers



Why is Geographic Rating Important to Rural Areas?

- Prior research findings:
 - Rural residents pay higher average health insurance premiums
 - Geographic rating factors may not reflect insurers' actual costs
- Rural health experts have speculated that geographic rating under the ACA could have a substantial impact on health insurance premiums in rural areas



Study Purpose and Approach

Purpose:

- Assess whether and how geographic differences in premium rating factors might affect insurance premiums in rural versus urban areas

Approach:

- Collected county-level area rating factors through state websites and communications with state insurance department staff
- Classified counties as rural or urban based on 2003 Rural-Urban Continuum Codes
- Analyzed rural-urban differences in area rating factors used by private health plans in eight states

Key Findings

- Geographic rating does not uniformly favor rural or urban areas
- The range of area rating factors used across all rural and urban counties in a given state demonstrate a great deal of overlap, with premiums in some rural and urban areas rated identically
- In some states rural counties are assigned the highest average rating factors while in other states urban counties are rated higher
- There is little consistency, either within a given carrier or among carriers, in the application and computation of area rating factors



Premium Rate Review Under the ACA

- 43 states have rate review programs in the individual or small group market or both; HHS expects these states to be able to carry out effective rate reviews.
- While a state may technically have a rate review program, many state insurance departments lack the resource capacity and sufficient number of trained actuaries to review all filed rates.
- In states that lack the resources or statutory authority to carry out effective rate reviews, HHS will conduct reviews instead.



Policy Recommendations

- Sophisticated state and federal oversight will be needed to prevent the use of geographic rating to:
 - Perform medical underwriting
 - Gain market share in competitive areas
 - Cost-shift to other geographic areas
- States should consider imposing rating bands on area rating factors to limit the extent to which premiums may vary by geography
- State insurance departments will require ongoing technical assistance and support from HHS



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