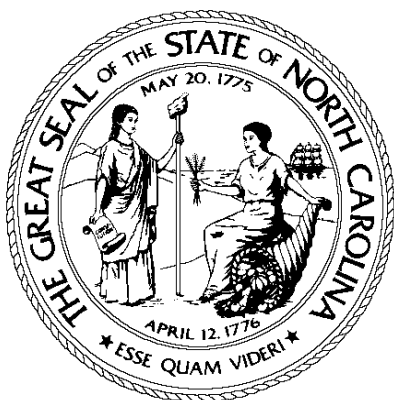


2005 Small Group Experience Report



North Carolina Department of Insurance
Jim Long, Commissioner

North Carolina's 2005 Small Group Experience Report

Purpose

North Carolina's 2005 Small Group Experience Report is intended to compare data collected from small employer carriers for the years 1992 through 2005. This 2005 Experience Report is an addendum to the Small Group Experience Report for previous years. The small group data from 2004 has produced some differing results and some which support the major findings from those older reports. The update is intended to:

- Identify points of interest from the 2005 data, and
- Compare Average Monthly Premiums for the Standard Plan from July 1, 2005 to July 1, 2006.

Important Notes to the Reader on Using the Data in This Report

1. Limitations of Comparing Data from Year to Year

Before beginning a comparison of the data, it should be noted that since 1992, the statutory definition of a small employer has changed three times. The original definition defined a small employer as a person who employed no less than 3 and no more than 25 eligible employees. In 1994, that definition was changed to include an employer with no less than 2 and no more than 49 eligible employees. In 1995, the definition was changed to include any employer with no more than 49 eligible employees (no lower limit) and to specifically include self-employed individuals. The last amendment to the definition – which was made in 1997 - and became effective July of that year - changed the definition to include any employer with no more than 50 eligible employees, including a self-employed individual. Thus, for most of the data in this report, comparison over the long-term should be limited to data as of the year end 1997 in order to ensure validity. These frequent changes in

the definition make comparison of the data for the entire market from year to year since the initial enactment impossible and hinder efforts to measure the impact of the reforms. However, with nine years of data since the last change to the law became effective, a reasonable base of comparable data is now available.

2. Analysis of Health Maintenance Organization (HMO) coverage versus Indemnity Coverage and Previous Reports

In earlier reports released by the Department of Insurance (Department), when analyzing the differences between HMO coverage and indemnity carrier coverage, all of the data for Blue Cross Blue Shield of North Carolina (BCBSNC) was identified as HMO coverage because of BCBSNC's HMO line of business authority. Beginning with the 2001 report, BCBSNC was asked to provide its data broken down by the type of product, (Comprehensive Major Medical, Preferred Provider Organization (PPO), HMO and Point of Service (POS)). They were also asked to provide historical new issue and in force data from previous years split into the same categories. BCBSNC was able to provide data in the requested format back to 1997. Therefore, pre-2001 reports' observations regarding HMO coverage versus indemnity carrier coverage will not be in step with this report.

3. Analysis of Previously Uninsured and Previous Reports

As part of the data collected regarding new plans issued, carriers are asked to disaggregate the number of groups issued plans into those who were previously insured and those who were not. In the past, most carriers have been able to provide the data in the detail requested. However in the 2002 and 2003 reports, carriers failed to supply this data on a significant portion of the groups issued those years. Therefore, in analyzing this specific issue, the 2002 and 2003 data have been removed. For the 2004 report, carriers were required to include this information even if the insurer had to provide an estimate. This eliminated the problem of the data not being reported.

Section I - 2005 Major Findings

A. North Carolina's two standardized benefit plans that carriers are required to offer (statutory plans) continue to represent only a small portion of the small group market, and that portion is steadily decreasing. (Table 1)

Previous Experience Reports showed that statutory plans accounted for a small portion of both new plans issued and of the total plans in force. According to data reported for 2005, this remains true. 1.4 percent of the plans issued during 2005, and 1.3 percent of the plans in force at the end of 2005 were a statutory plan. Further, the portions of newly issued and in force plans that are statutory plans have declined since 2000, by 73.6 percent and 58.1 percent respectively.

Table 1
Percent of Small Groups Covered by Statutory Health Plans,
North Carolina, 1992 - 2005

Year	Percent of Groups Issued Statutory Coverage	Percent of Groups Covered by Statutory Coverage
1992	1.2%	0.3%
1993	3.1%	1.1%
1994	3.5%	1.7%
1995	6.3%	3.2%
1996	5.3%	3.9%
1997	3.3%	3.1%
1998	2.7%	2.8%
1999	3.7%	2.4%
2000	5.3%	3.1%
2001	4.9%	3.0%
2002	4.6%	3.1%
2003	2.3%	2.1%
2004	1.9%	1.8%
2005	1.4%	1.3%

B. North Carolina's two standardized benefit plans are playing a diminishing role in the small group market. (Table 2)

For statutory plans, the number of groups issued or covered in force under such plans declined 80.4 percent and 68.6 percent respectively between 2000 and 2005. For traditional plans, the number of groups issued or covered in force also declined, but only by 21.4 percent and 25.1 percent respectively. Thus, while this data shows a decline in all groups covered (issued or in force), this decline has been much greater for statutory plans than for traditional plans.

Table 2
Number of Small Groups Covered by Statutory
and Traditional Health Plans,
North Carolina, 2000 - 2005

Year	Statutory Plans		Traditional Plans	
	Issued	In Force	Issued	In Force
2000	647	1,930	11,593	59,741
2001	574	1,676	10,540	53,688
2002	479	1,764	10,033	55,269
2003	241	1,149	10,090	52,836
2004	162	875	8,304	48,872
2005	127	606	9,114	44,769
Rate of Change Since 2000	-80.4%	-68.6%	-21.4%	-25.1%

C. Although the number of new groups being issued coverage declined every year between 1998 and 2004, a slight increase occurred in 2005. Though less than in earlier years, 18.2 percent of all plans issued during 2005 were provided to a group that was previously uninsured. This rate of new issue coverage for previously uninsured groups (18.2 percent) is the lowest since the reforms were enacted in 1992. (Table 3)

Small group carriers issued 9,241 new small group policies during 2005. A new policy can be issued when an employer replaces coverage from one carrier with coverage from another carrier, or when an employer who had not previously offered coverage to their employees (including a newly-established employer) begins to offer coverage. A change in the number of groups issued coverage is, by itself, difficult to label as positive or negative. (Fewer groups merely switching carriers or fewer new groups being covered due to a shrinking number of groups without coverage would not be considered negative developments.) However, the accompanying decrease in the number of total groups covered (shown later, in Table 9) provides some context to show that the increase in 2005 in policies being issued is not an entirely positive trend in this case.

Of the 9,241 policies issued in 2005, 1,684 or 18.2 percent of them were issued to an employer who did not previously offer insurance to their employees. Using the historical data that is available (i.e., 1992-2001, and 2004) this measure of the small group market is the smallest since the small group laws were enacted. Still, more than 1 in 5 groups issued coverage in 2005 did not have coverage prior to that year, and a total of 54,010 groups that had not previously been insured were issued coverage in 1992-2001 and 2004-2005. (Cumulatively, 29.4 percent of all groups issued coverage in the years 1992-2001 and 2004-2005 had been previously uninsured.) (Note: Comparison to 1992 is valid for this particular data point, since the changes in definition of the term “small group”, which limit comparison for most other data points in this report to 1997 and later, does not impact this particular measure.)

Historically, carriers have issued previously uninsured groups statutory coverage more frequently than they have issued traditional coverage. Since 1992, the average percent of previously uninsured groups issued statutory coverage is 44.7 and the average percent of previously uninsured groups issued traditional coverage is 30.4.

**Table 3
Small Groups Previously Uninsured When Issued,
North Carolina, 1992 – 2005***

Year	Previously Uninsured Groups	Total Issued Groups	Percent Previously Uninsured
1992	2,042	5,860	34.8%
1993	2,436	7,253	33.6%
1994	4,058	9,036	44.9%
1995	8,111	23,993	33.8%
1996	6,958	26,403	26.4%
1997	5,614	29,166	19.2%
1998	6,230	22,914	27.2%
1999	5,225	17,752	29.4%
2000	5,291	12,240	43.2%
2001	4,560	11,688	39.0%
2002*		10,512	
2003*		10,368	
2004	1,801	8,466	21.3%
2005	1,684	9,241	18.2%
Total	54,010	184,012	29.4%

* - Data on groups previously uninsured at issue from reporting years 2002 and 2003 is not included because the data received was only on a small fraction of all groups issued during those two reporting years.

D. HMO plans’ share of new plans issued is declining, having reached a peak in 2001. (Table 4)

As in previous years, the statutory HMO plans (whose benefits are richer than their indemnity counterparts) are significantly more popular than indemnity plans. Among new issues for statutory plans in 2005, HMO plans were issued 1.8 times as often as traditional statutory plans. However, the popularity of the HMO plans compared to PPO and indemnity plans has declined since 2002, both among statutory and non-statutory plans. When all plans issued are analyzed, HMO coverage made up 32.1 percent of the groups issued in 2005, down from 35.5 percent in 2004.

Table 4
Small Group Plans Issued by Carrier Type,
North Carolina, 2000 - 2005

Year	Total Plans	HMO Plans	Indemnity and PPO Plans	HMO as a Percent of All Plans	Indemnity/PPO as a Percent of All Plans
Statutory Plans					
2000	647	491	156	75.9%	24.1%
2001	574	369	205	64.3%	35.7%
2002	479	341	138	71.2%	28.8%
2003	241	168	73	69.7%	30.3%
2004	162	107	55	66.0%	34.0%
2005	127	81	46	63.8%	36.2%
All Plans					
2000	12,240	6,214	6,026	50.8%	49.2%
2001	11,114	6,158	4,956	55.4%	44.6%
2002	10,512	5,447	5,065	51.8%	48.2%
2003	10,331	3,850	6,481	37.3%	62.7%
2004	8,466	3,007	5,459	35.5%	64.5%
2005	9,241	2,966	6,275	32.1%	67.9%

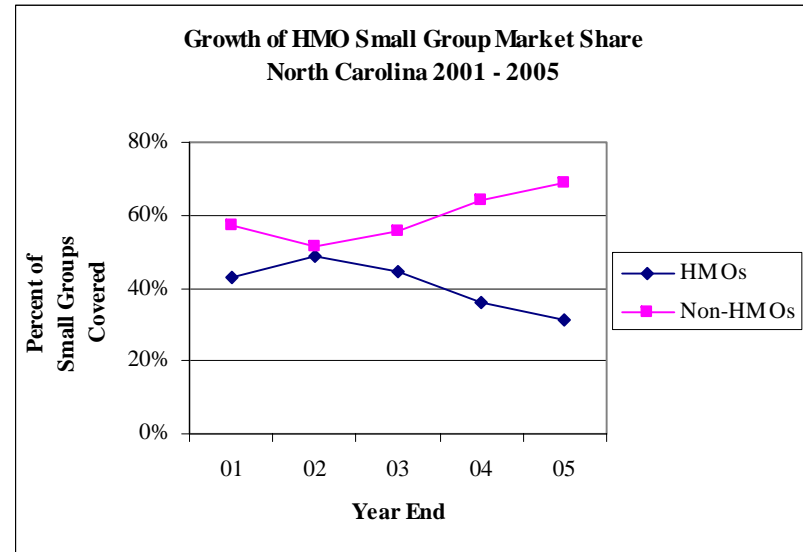
E. HMOs are a declining force in the small group market, with market share losses three years in a row. (Table 5 and Graph 1)

HMO coverage had been increasingly popular in earlier years, but that trend appears to have reversed beginning in 2003. In 2002 the small group market was split nearly equally between HMO and non-HMO plans. By the end of 2005, HMOs had slightly less than one-third share of the total groups covered, while non-HMO carriers had over a two-third share. This decrease in the penetration of HMO coverage may be due to the decline in the number of HMOs in the market (4 HMOs left the market between 2002 and 2005) or may reflect a shift in employers' purchasing habits or employee preferences – a move away from the real or perceived stricter form of managed care offered by HMOs.

Table 5
Groups and Lives Covered by Coverage Type at Years' End,
North Carolina, 2000 - 2005

	2001	2002	2003	2004	2005
Number of Small Groups Covered					
HMOs	23,672	27,847	23,918	17,844	14,064
Non-HMOs	31,692	29,186	30,067	31,903	31,311
Total	55,364	57,033	53,985	49,747	45,375
Number of Lives Covered					
HMOs	282,187	311,532	238,384	216,706	171,023
Non-HMOs	296,179	279,890	309,033	335,040	333,852
Total	578,366	591,422	547,417	551,746	504,875
Percent of Small Groups Covered					
HMOs	42.8%	48.8%	44.3%	35.9%	31.0%
Non-HMOs	57.2%	51.2%	55.7%	64.1%	69.0%
Percent of Lives Covered					
HMOs	48.8%	52.7%	43.5%	39.3%	33.9%
Non-HMOs	51.2%	47.3%	56.5%	60.7%	66.1%

Graph 1



F. The small group market in North Carolina is highly – and increasingly – concentrated, and the carriers occupying the top carrier spots have changed little over the years. (Table 6 and Graph 2)

The single largest carrier has controlled no less than 19.8 percent of the market (based upon the number of groups in force at year-end) since 1992, and only 2 different carriers have possessed the top position since 1992. (Note: Comparison to pre-1997 data is also valid for this data point.) For 2005, the carrier with the largest market share held 61.1 percent of the market, compared to 52.8 percent in the previous year. This 8.3 point increase represents a 15.7 percent growth rate in that carrier’s market share.

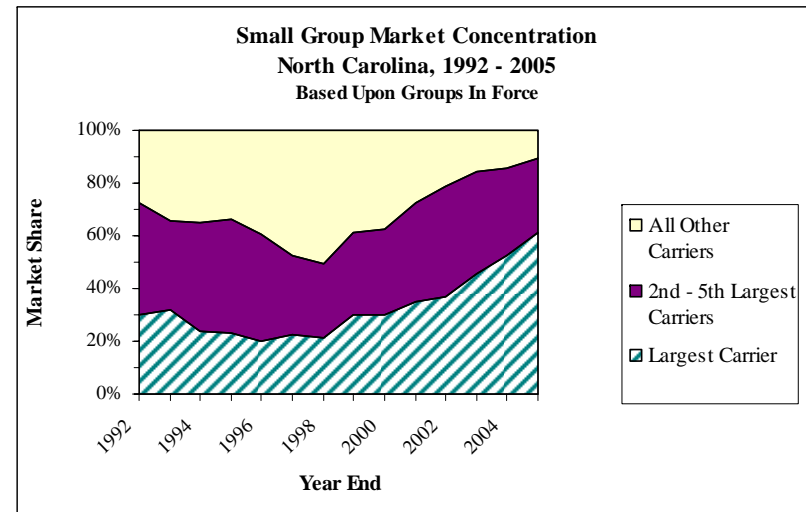
While the market share of the top five carriers increased from 2004 to 2005, the market share of the second through fifth carriers actually declined by 4.5 points, (13.7 percent), to 28.3 during that time period. So the change in the top five carriers’ market share was driven by the growth in the top carrier’s share.

Three of the top five carriers have not changed since 1998. Those carriers from largest market share to smallest in 2003 were Blue Cross Blue Shield of North Carolina, UnitedHealthcare of North Carolina, Inc., MEGA Life and Health Insurance Company. Principal Life Insurance Company joined the top five insurers in 2004 after an absence in 2003, and reappeared in 2005. Joining the other carriers in the top five in 2005 was WellPath Select, Inc., which was also in the top five in 2003. Since 1992 twelve different carriers have been on the list of the top five carriers. Blue Cross Blue Shield of North Carolina has been on the list every year and has been in the top spot every year but one. The next most frequently represented carrier is Principal Life Insurance Company (formerly Principal Mutual Life Insurance Company), which appeared ten times on the list from 1992 through 2005.

**Table 6
Small Group Market Share, North Carolina 1992 - 2005
Based Upon Number of Groups In Force at Years’ End**

Year	Single Largest Carrier	Top 5 Carriers	All Other Carriers
1992	29.8%	72.5%	27.5%
1993	31.8%	65.8%	34.2%
1994	23.9%	66.5%	33.5%
1995	22.9%	66.5%	33.5%
1996	19.8%	60.8%	39.2%
1997	22.7%	52.4%	47.6%
1998	21.0%	49.3%	50.7%
1999	30.0%	61.2%	38.8%
2000	29.9%	62.8%	37.2%
2001	34.9%	72.6%	27.4%
2002	37.1%	78.9%	21.1%
2003	45.6%	84.6%	15.4%
2004	52.8%	85.6%	14.4%
2005	61.1%	89.4%	10.6%

Graph 2



G. North Carolina has 28 small group carriers as of December, 2006. The state has lost many carriers in the last six years, with few replacements entering the market. (Tables 7 and 8)

Five carriers have entered the market since 2003. This has helped offset the exit of eight carriers during the same time period. Forty-six fewer carriers are in the market currently than as of December 1997, a decrease of 62.7 percent.

**Table 7
Number of Small Group Carriers as of Year End,
North Carolina, 2000 - 2006**

Year	Entered	Withdrawn	Total
2000	4	10	53
2001	0	15	38
2002	0	4	34
2003	1	3	32
2004	2	5	29
2005	1	2	29
2006	1	1	28

The exact reason for carrier withdrawals is not clear. Since 2000, withdrawing carriers have been asked why they were withdrawing. Of the 40 carriers that have withdrawn since 2000, 18 did so as a result of a merger or acquisition. The remaining carriers that withdrew cited reasons such as continued losses, business decisions and the regulatory environment.

Although the financial “bottom line” for small group products did appear as a factor in carriers’ decisions to exit the market previously, the two carriers that withdrew from the market in 2005 did so because of an acquisition of their parent company by the UnitedHealth Group.

**Table 8
Ratio of Claims to Premiums – Withdrawn Carriers vs. Active
Carriers, North Carolina as of December 2006**

	All Carriers	Withdrawn	Active
Groups Covered	45,375	714	44,661
Lives Covered	504,875	6,494	498,381
Premiums (thousands)	1,594,453	23,509	1,570,944
Claims (thousands)	1,199,903	16,485	1,183,418
Ratio (Claims/Premiums)	75.3%	70.1%	75.3%

As in years past no carrier that exited the small group market indicated that it was in financial duress as a result of its North Carolina small group business. Further, no carrier has ever applied to have its obligation to guarantee issue all plans suspended due to a financial incapacity to underwrite additional coverage although they are permitted to do so under North Carolina law. Furthermore, the North Carolina Small Employer Group Reinsurance Pool continued to be utilized very sparingly and by few carriers.

H. The number of small employer groups covered and the number of lives covered both decreased during 2005. The long-term trend for covered groups has been mostly downward, but the number of covered lives has “yo-yoed” up and down over time, with a net loss of 8.7 percent since 1997. (Table 9)

The number of groups covered decreased between 2004 and 2005, from 49,747 to 45,375 – a decrease of 4,372 groups or 8.8 percent. The number of groups covered has declined in five of the last six years (following two years of increases earlier) and is down by 36 percent from the all-time high (as of the end of 1999) of 71,285. Since December 31, 1997 (when the current definition of small group was in effect), the number of groups covered has declined by a net 21,409 (32 percent). However, compared to the number of small group covered in 1992, when the initial small group laws first became effective, the number of groups covered as of the end of 2005 still represents an increase of 63 percent.

The number of covered lives for 2005 was 504,875, down 8.5 percent from the previous year. Unlike the number of groups covered, the number of covered lives has not exhibited any long-term trend and in fact, since 1997 has seen alternating years of increases and decreases. Although through 2004 the year to year swings appeared to have cancelled each other out over the long term, the loss of 8.5 percent in 2005 resulted in a loss of 46,871 lives. This pushed the net change since 1997 (when the current definition of small group was in effect.) to the negative. Compared to the all-time high of 627,647 covered lives at year-end 1998, 2005 covered lives is down by 19.5 percent.

Table 9
Groups and Lives Covered at Years' End
North Carolina, 2001 - 2005

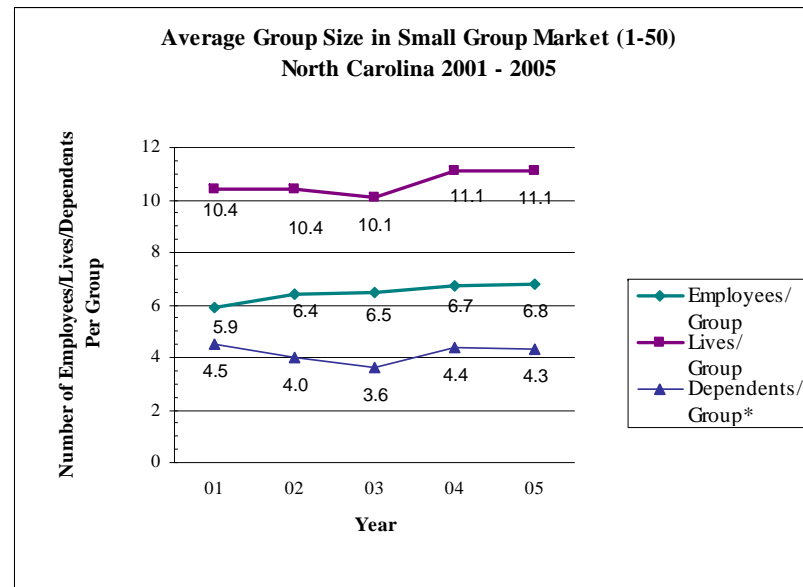
	2001	2002	2003	2004	2005
Number of Small Groups Covered	55,364	57,033	53,985	49,747	45,375
Percent Change from Previous Year	-10.2%	3.0%	-5.3%	-7.9%	-8.8%
Number of Lives Covered	578,366	591,422	547,417	551,746	504,875
Percent Change from Previous Year	-0.8%	2.3%	-7.4%	0.8%	-8.5%
Average Group Size (Lives)	10.4	10.4	10.1	11.1	11.1
Average Group Size (Employees)	5.9	6.4	6.5	6.7	6.8
Average Number of Dependents*	4.5	4.0	3.6	4.4	4.3

* - The average number of dependents covered is derived from subtracting the average number of employees covered from the average number of lives covered.

1. The average number of lives covered per small group plan did not change from 2004 to 2005. The average number of employees increased slightly and the average number of dependents per group decreased slightly. (Graph 3)

The 2005 data shows an average group size of 11.1 lives which is the same average as in 2004. The average number of employees per group also increased between 2004 and 2005 by 1.5 percent, from 6.7 to 6.8. The average number of dependents per group dropped in 2005 by 2.3 percent, from 4.4 to 4.3. This is a change from the increase in the average number of dependents from 2004 to 2005, but additional time and data are needed to determine whether this is a new trend or just an anomaly.

Graph 3



* - The average number of dependents covered is derived from subtracting the average number of employees covered from the average number of lives covered.

Section II - Analysis of Selected Premiums

For the sample data obtained, the average monthly premium for Standard plans increased by 4.4 percent between 2005 and 2006, following an increase of 32.9 percent from 2004 to 2005. The average change in premiums varied for each type of Standard plan (HMO, PPO and indemnity) and by the other rating factors allowed in the small group premium-setting. (Tables 10 and 11, and Graphs 4, 5, 6, and 7)

Background: Small group premiums in North Carolina are regulated under the State laws and administrative code. Among other things, this regulation limits the rating factors that can be used to determine the premium for a specific small group or individual covered under a small group, as well as the factors that can be used to determine premium increases. In determining premiums, after adjusting for benefit differences including plan type (i.e., HMO, PPO or indemnity), carriers may only apply group-specific factors based on the following: age/gender of the individual employee or age/gender mix of the group; family composition (i.e., which dependents and how many are covered along with the employee); and geographic location of the group. Carriers may also apply a group-specific discretionary factor to account for expected claims or administrative costs for the group – up to a limited amount – when determining premiums for a specific group. In determining premium increases, these aforementioned factors are the only ones that can be used to calculate a premium change that is higher or lower than the overall trend for the carrier’s entire book of small group business.

It is not possible to easily collect and present in a meaningful way data on all small group premiums. For illustrative purposes only, the Department asks small group carriers to submit limited data on premiums and premium increases – for Standard Plans and making certain assumptions about the persons to be covered. Carriers responding to the annual activity reports for 2000 through 2005 were asked to provide the average monthly premium for July 1 of the current calendar year for the Standard Indemnity, PPO and HMO health benefit plans for Wake and Mecklenburg counties for a group with less than 10 employees.

In submitting the sample data, carriers were instructed to assume the following premium classes:

- Age 35 male employee only
- Age 35 male employee and children
- Age 35 female employee only
- Age 35 female employee and children
- Family (Employee, spouse and children)

Important Note: Since the Standard Plans represent a very small portion of all small group plans in force (1.3 percent), all of the data presented in this section should not be considered to be representative of premiums or premium increases in the small group market as a whole.

Weighting each carrier’s reported premium by the number of lives covered in Standard plans, the monthly premium for Wake and Mecklenburg counties combined, for all plan types, increased 4.4 percent between 2005 and 2006, as compared to a 32.9 percent increase between 2004 and 2005.

The data contained in Table 10 also illustrates how premium changes vary by type of plan (indemnity, PPO, or HMO), premium class (which is a combination of age, gender, and policy type) and geographic location. In some cases, the variation is great (e.g., 22.5 percent average change for PPOs in Wake County versus 45.9 percent average change for HMOs in Wake County or 22.5 percent average change for PPOs in Wake County versus 34.5 percent average change for PPOs in Mecklenburg County) and in some cases the variation is very small (e.g., 27.0 percent average change for Female employee-child indemnity coverage in Wake County and 27.1 percent average change for Female employee-family indemnity coverage in Wake County.)

As shown in Table 11, the variation in rate changes due to plan type and geographic location exist even over the longer term.

Table 10
Average Change in Monthly Premiums from 7/05 to 7/06

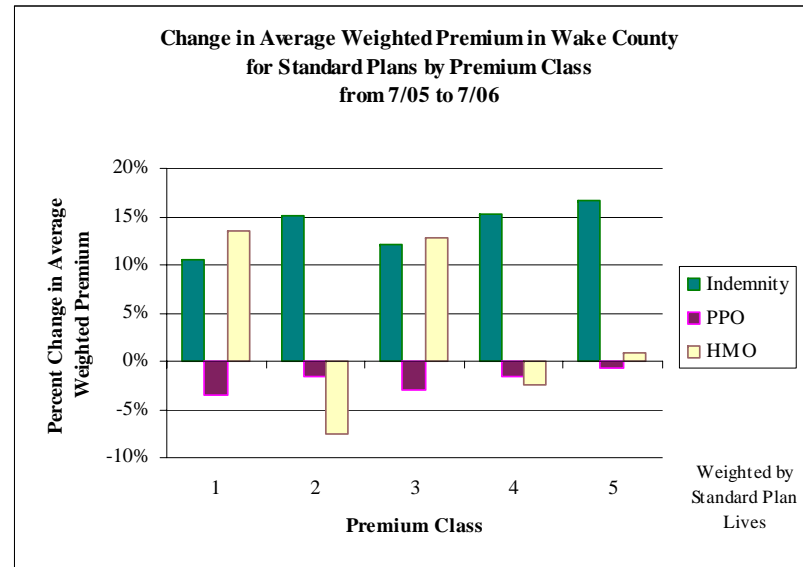
	Wake County	Mecklenburg County	Both Counties Averaged
Indemnity			
Male Employee Only	10.4%	9.4%	9.9%
Male Employee & Children	15.1%	13.5%	14.3%
Female Employee Only	12.0%	10.6%	11.3%
Female Employee & Children	15.2%	13.4%	14.3%
Family	16.6%	14.8%	15.7%
Average Change	13.9%	12.3%	13.1%
PPO			
Male Employee Only	-3.5%	-4.1%	-3.8%
Male Employee & Children	-1.7%	-2.5%	-2.1%
Female Employee Only	-3.1%	-3.8%	-3.4%
Female Employee & Children	-1.6%	-2.5%	-2.1%
Family	-0.7%	-1.7%	-1.2%
Average Change	-2.1%	-2.9%	-2.5%
HMO			
Male Employee Only	13.5%	12.1%	12.8%
Male Employee & Children	-7.6%	-9.0%	-8.3%
Female Employee Only	12.8%	11.4%	12.1%
Female Employee & Children	-2.5%	-3.9%	-3.2%
Family	0.9%	-0.5%	0.2%
Average Change	3.4%	2.0%	2.7%

Table 11
Annual Average Change in Premiums from 7/01 to 7/06

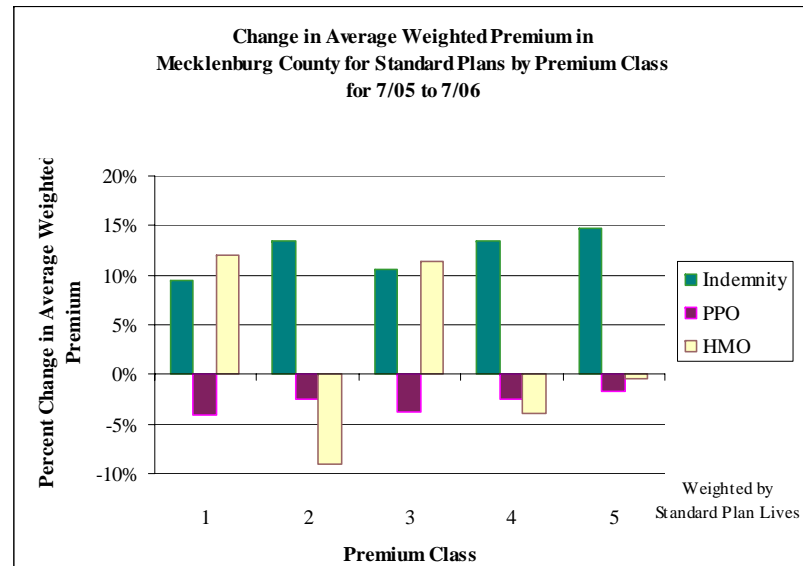
	01 to 02	02 to 03	03 to 04	04 to 05	05 to 06
Wake					
Indemnity	41.7%	24.5%	3.0%	23.6%	13.9%
PPO	6.5%	77.5%	-6.3%	22.5%	-2.1%
HMO	48.2%	12.8%	0.6%	45.9%	3.4%
Mecklenburg					
Indemnity	39.5%	27.8%	4.0%	23.9%	12.3%
PPO	1.1%	67.8%	-4.1%	34.5%	-2.9%
HMO	40.6%	-19.3%	-5.7%	44.6%	2.0%

Graphs 4 and 5 show in graphical form the variation in premium increases approved for July 2005 to July 2006, based on plan type and premium class. Comparing patterns between the two graphs shows the differences between plan type and premium class resulting from Wake County or Mecklenburg County geographic factors.

Graph 4

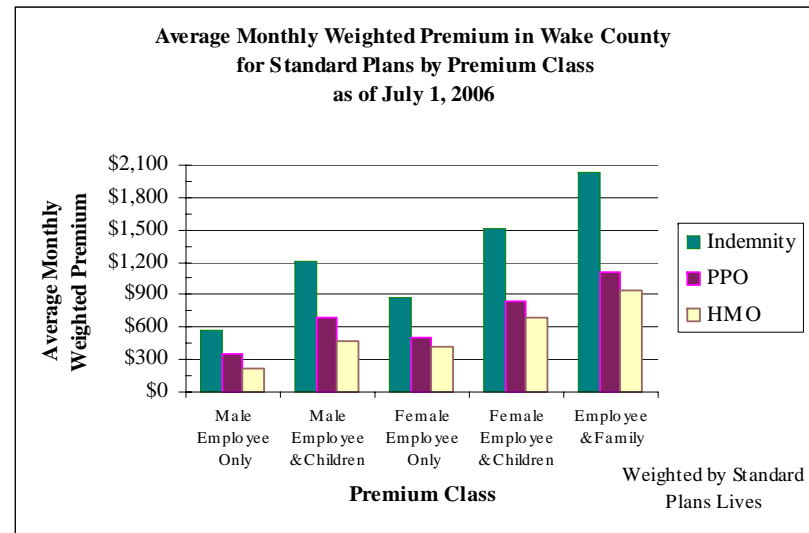


Graph 5

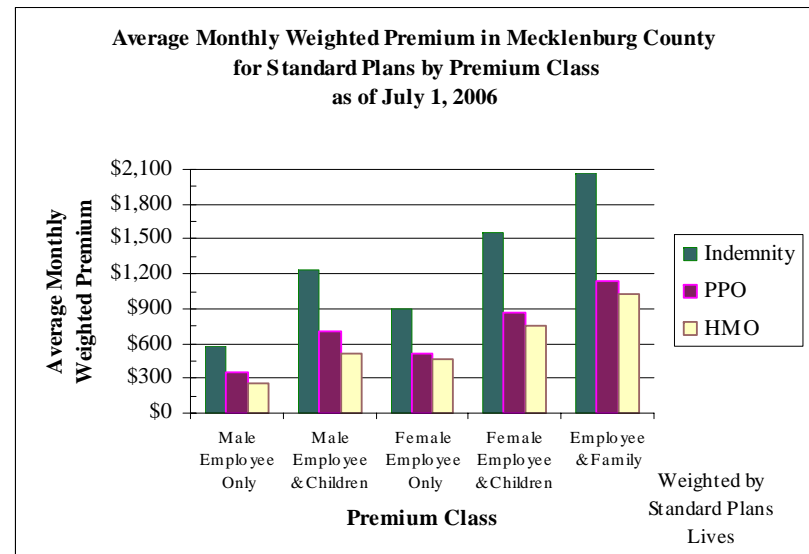


Sample monthly premiums for a 35-year old employee buying different policy types and plan types in Wake and Mecklenburg Counties are shown, in graphical form, in Graphs 6 and 7 below. In this example, for an employee in a firm that has 9 or less employees, employee-only coverage can range from \$227 for an HMO plan to \$894 for an indemnity plan (also depending in part on whether the employee is male or female), employee-children coverage can range from \$474 for an HMO to \$1,548 for an indemnity plan (also dependent on whether the employee is male or female), and from \$942 for an HMO and \$2,075 for an indemnity plan for family coverage. The fact that indemnity coverage is significantly more expensive than HMO or PPO coverage and that family coverage is more expensive than either employee-only coverage or employee-children coverage would, of course, be expected to hold in virtually every case.

Graph 6



Graph 7



Section III - Summary and Conclusions

The small group health insurance market is by nature very volatile and, therefore, variations in data from one reporting year to the next are not unexpected and have been common. The volatility in the data may be attributed to numerous factors, including inconsistency or errors in data reporting by carriers due to staff turnover and carrier consolidation. While keeping this in mind, there are some statements about North Carolina's small group market that can be made with relative certainty.

North Carolina's standardized benefit plans (Basic Plan and Standard Plan) that carriers are required to offer, known as "statutory plans", continue to represent only a small portion of the small group market. This likely is due, in part, to the fact that, with the exception of the HMO version of the Standard Plan, statutory plans provide limited benefits and/or benefit levels compared to other small group plans. Except for employer groups with one employee, small group carriers are required to offer small employers other small group plans in addition to the statutory plans.

The North Carolina General Assembly passed some new reforms for the small group health insurance market during the 2006 Session. The reforms included the ability for small group carriers to adjust the deductibles or co-payment levels of the statutory plans if approved by the Commissioner of Insurance. Further, the reforms included an option for small group carriers to designate two of their own plans in lieu of using the statutorily prescribed plans. The hope is that these reforms will provide small group carriers with plans whose benefits are more in tune with current market conditions thereby making the plans more popular among employers. Future activity reports will be amended to collect information on this issue.

Unlike recent years, the number of new groups being issued coverage increased somewhat during 2005. However, compared to previous years, a smaller portion of these newly issued groups were previously uninsured. 18.2 percent of all plans issued during 2005 were provided to a previously uninsured group, which is less than in earlier years and the smallest rate since the reforms were adopted in 1992,. Cumulatively, 29.4 percent of all groups issued coverage in the years 1992-2001, 2004, and 2005 had been previously uninsured.

The HMOs' role in the small group market continued its downward trend. Historically, HMOs have sold a larger share of statutory plans than have indemnity and PPO carriers. In 2005, HMOs issued statutory coverage at a rate of 2 for every 1 indemnity or PPO plan issued. This likely is due to the fact that HMO Standard Plans offer richer benefits than do other Standard Plans. (Such a difference is not true for the Basic Plan, and is not necessarily true for the non-statutory plans, which cover most of the small group market.) Continuing to support the apparent retreat by employers from the perceived stricter forms of managed care offered by HMOs, HMOs covered less groups and lives in 2005 (21.0 percent drop for both) compared to previous years. The HMOs' trend of increasing market share ceased in 2003.

North Carolina's small group market is highly – and increasingly – concentrated. As of December 2006, 28 carriers sell small group plans. Since the year 2000, 40 carriers have exited the market, but 18 of these did so as a result of a corporate merger or acquisition. After decreasing between 1992 and 1997, market share of the top carrier and the top five carriers has increased between 1998 and 2005. Since 1998, the top carrier has shown a 191.0 percent growth in market share. As of the end of 2005, the top carrier – Blue Cross Blue Shield of North Carolina – held 61.1 percent of the market. This was an increase of 15.7 percent from 2004. The next four largest carriers held another 28.3 percent. With an 89.4 percent share held by the top five carriers, the market is the most concentrated it has been since the reforms were adopted in 1992.

As of the end of 2005, 45,375 employer groups, representing 504,875 lives, were covered in the small group market. The number of small employer groups and lives decreased during 2005. In these statistics' increases and decreases the market is again illustrating the "yo-yo" pattern that has been evident since 1998. Although the number of groups covered is estimated to have increased 62.6 percent since the small group laws went into effect in 1992 (no estimate for the change in number of covered lives is available), the number of groups and covered lives decreased 36.1 percent and 19.6 percent, from 71,049 and 627,647, respectively, since the end of 1998.

The average number of lives remained constant and the average number of employees covered per small group plan increased slightly between 2004 and 2005. For 2005, the average group size was 11.1, with 6.8 employees and 4.3 dependents. Note should be taken that there has been some year-to-year variation in the change in both of these measures. However these variations have been somewhat small and the averages mostly stable with no annual change being more than +/- 10 percent. No analysis has been made as to what, if anything, this might indicate about the size of the employer groups that have small group coverage or their employees' dependent coverage decisions.

The average monthly premium for standard plans increased 4.4 percent between 2005 and 2006 – down from an average 32.9 percent increase between 2004 and 2005. But premiums and premium changes for statutory plans are not necessarily good indicators of premiums in the small group market in general. Average change varies by plan type (HMO, PPO and indemnity) and by allowed rating factors.

In addition to the reforms adopted in the 2006 North Carolina General Assembly Session pertaining to the statutory plans, the General Assembly also adopted changes to the adjusted community rating methodology required in the small group market. The new provisions include the widening of the permitted experience risk bands from +/- 20 percent to +/- 25 percent, reintroduction of a rating factor pertaining to industry (with some limitations), and the ability to calculate area factors on a medical system basis rather than a county by county basis. Once again these reforms were intended to stimulate activity in the small group market by giving small group carriers the ability to more accurately reflect a specific group's risk in a given rate.

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