

December 19, 2005

Kevin McCarty, Commissioner
Florida Office of Insurance Regulation
200 East Gaines Street
Tallahassee, FL 32399

Dear Commissioner McCarty,

Enclosed is a copy of the first report on the state of Florida's health insurance market as required by Section 627.6699(11)(o)5, F.S. This report is required as a part of amendments to the Small Employer Health Care Access Act made during the 2005 legislative session. These amendments direct the Florida Health Reinsurance Program (FHRP) to provide a forum for discussion of issues related to Florida's health insurance market, to recommend strategies to improve the market and to make recommendations and provide comment to the Office of Insurance Regulation on legislation impacting the health insurance market in Florida. This report provides the baseline for those activities.

If you have any question or comments concerning this report, please don't hesitate to contact me. FHRP looks forward to working with you, your staff and other stakeholders to improve Florida's health insurance market.

Sincerely,

James J. Bracher
Executive Director

Enclosure

cc: Rich Robleto, Chairman, Board of Directors
Board of Directors

**REPORT ON FLORIDA'S
HEALTH INSURANCE MARKET**

BY THE

FLORIDA HEALTH REINSURANCE PROGRAM

December 2005

Introduction

During its 2005 session the Florida Legislature made some significant changes in the Small Employer Health Reinsurance Program. (By extension, these changes also apply to the Individual Reinsurance Program since it is governed by the same Board of Directors. Both Programs operate collectively as the Florida Health Reinsurance Program.) First, it changed the composition of the Board of Directors from only representing health insurers and health insurance agents to one that includes representatives of employers, a person covered by an individual health insurance policy and a representative of the Agency for Health Care Administration. Second, the responsibilities of the Program were expanded to include an advisory role on health insurance issues to the Office of Insurance Regulation, Agency for Health Care Administration, Department of Financial Services, other executive departments and the Legislature. Further, the Program is directed to issue a report each year on the state of the health insurance market in Florida. This is the first report in that series.

Background

The Small Employer Health Reinsurance Program began in 1992 as one of the components of small group health insurance reform in Florida. The purposes of the Program are:

1. To support the goal of the Small Employer Health Care Access Act which is to promote the availability of health care coverage to small employers regardless of their claims experience or their employees' health status.
2. To facilitate the provision of a Standard Health Benefit Plan and a Basic Health Benefit Plan to be offered to all small employers, by providing reinsurance protection to small employer carriers.
3. To improve the overall fairness and efficiency of the small group health insurance market.

Since its inception in 1992, the Small Employer Health Reinsurance Program has provided reinsurance coverage for 5,797 lives in the small group health insurance market, collecting \$24,861,708 in premiums and paying out \$36,703,288 in claims. The difference was funded through assessments on small employer carriers who put lives into the Program.

The Individual Health Reinsurance began in 1997 as a part of the requirements of the Health Insurance Portability and Accountability Act (HIPAA) of 1997 to provide a mechanism for the provision of guarantee-issue individual health insurance coverage to certain persons who qualified under the provisions of the Act.

Changes to the Program

Two major changes were made to the Program during the 2005 legislative session. First, the composition of the Board was changed. Previously, the Board was composed entirely of insurance company representatives and agents plus the Insurance Commissioner or his designee who serves as chairman. The new Board is composed of five insurance company representatives, two health insurance agents, four representatives of employers or employer associations, one person who is covered under an individual health insurance policy and a representative of the Agency for Health Care Administration.

The responsibilities of the Program were also changed. It is charged with advising the Office of Insurance Regulation, the Agency for Health Care Administration, the Department of Financial Services, other executive departments and the Legislature on health insurance issues. More specifically, it shall:

1. Provide a forum for stakeholders, consisting of insurers, employers, agents, consumers and regulators, in the private health insurance market in this state.
2. Review and recommend strategies to improve the functioning of the health insurance markets in this state with a specific focus on market stability, access and pricing.
3. Make recommendations to the Office of Insurance Regulation for legislation addressing health insurance market issues and provide comments on health insurance legislation proposed by the Office.
4. Meet at least three times each year. One meeting shall be held to hear reports and to secure public comment of the health insurance market, to develop any legislation needed to address health insurance market issues and to provide comments on health insurance legislation proposed by the office.
5. Issue a report to the Office of Insurance Regulation on the state of the health insurance market by September 1 each year. The report shall include recommendations for changes in the health insurance market, results from implementation of previous recommendations and information on health insurance markets.

2005 Health Insurance Legislation

Only one major health insurance bill (HB811) passed during the 2005 legislative session. Among its provisions were modifications to the healthy lifestyles rebates on health insurance policies, allowing direct billing for individual policies directly to employees of an employer group and expanding the offering of high deductible plans meeting federal requirements for a health savings account.

Statistics on Florida's Health Insurance Market

The following is a brief recitation of changes in enrollment and premiums in Florida's health insurance market for the period 2001 through 2004.

Enrollment

During the period from 2001 to 2004, persons provided coverage by insurers writing in Florida declined from 5,148,105 to 4,410,444, a decline of 14.3%. Enrollment by market is as follows:

Enrollment in Florida's Health Insurance Market

	Covered Lives			
	2001	2002	2003	2004
Instate Individual Guarantee Issue	7,439	12,673	11,594	10,310
Instate Individual Underwritten	431,289	419,191	447,150	482,618
Total Instate Individual	438,728	431,864	458,744	492,928
Conversion	14,644	23,473	31,712	28,150
Instate Groups of One	89,326	59,650	23,236	39,119
Instate 2-50 Member Groups	1,150,063	991,762	968,631	994,547
Total Instate 1-50 Member Groups	1,239,389	1,051,412	991,867	1,033,666
Instate 51+ Member Groups	3,038,429	2,817,372	2,808,605	2,426,634
Out-of-state Guarantee Issue	2,726	1,160	1,062	1,236
Out-of-state Individually Underwritten	155,340	206,921	196,313	195,938
Total Out-of-State Individual	158,066	208,081	197,375	197,174
Out-of-state Groups of One	3,876	4,207	2,264	1,648
Out-of-state 2-50 Member Groups	28,275	48,395	26,053	14,451
Total Out-of-state 1-50 Member Groups	32,151	52,602	28,317	16,189
Out-of-state 51+ Member Groups	226,698	249,517	212,303	215,703
Total All Insured	5,148,105	4,834,321	4,728,923	4,410,444

During this period enrollment declined in all market segments except the individual market where enrollment increased 12.4% in the in-state market and 24.7% in the out-of-state market.

Premiums

During this same period premium dollars totaled:

Premium Dollars in Florida's Health Insurance Market

	Premiums			
	2001	2002	2003	2004
Instate Individual Guarantee Issue	15,740,423	12,851,314	12,951,899	48,445,137
Instate Individual Underwritten	654,490,599	691,569,288	743,356,152	828,279,051
Total Instate Individual	670,231,022	704,420,602	756,308,051	876,724,188
Conversion	36,345,337	59,134,324	122,330,067	115,961,444
Instate Groups of One	268,738,002	192,010,015	119,237,654	167,245,168
Instate 2-50 Member Groups	2,738,261,615	2,674,966,413	2,944,493,581	3,148,232,145
Total Instate 1-50 Member Groups	3,006,999,617	2,866,976,428	3,063,731,235	3,315,477,313
Instate 51+ Member Groups	6,031,328,343	6,601,359,748	7,401,537,475	8,161,459,254
Out-of-state Guarantee Issue	7,497,385	6,547,837	8,144,268	10,136,853
Out-of-state Individually Underwritten	239,265,455	315,883,933	394,648,980	428,042,783
Total Out-of-State Individual	246,762,840	322,431,770	402,793,248	438,179,636
Out-of-state Groups of One	9,990,527	13,934,146	10,021,808	7,508,735
Out-of-state 2-50 Member Groups	46,571,175	128,818,101	120,087,311	81,533,772
Total Out-of-state 1-50 Member Groups	56,561,702	142,752,247	130,109,119	89,042,507
Out-of-state 51+ Member Groups	94,999,943	540,802,698	554,388,060	609,153,631
Total All Insured	10,143,228,804	11,237,877,817	12,431,197,255	13,605,997,973

Premium dollars increased in all markets. Total premium dollars increased 3,463,769,169 or 34.1% during the period.

Summary

Early next year the Board expects to begin to more fully assess the functioning of Florida's health insurance market, to hold public meetings to receive input from stakeholders and to become an active participant in the improvement in Florida's health insurance market.