



Broker Briefing

Understanding Rate Increases Due to the Elimination of Small Group Rate Banding

Rocky Mountain Health Plans recently released rates for 1st Quarter 2009. With regard to groups that are renewing, we would like to provide more detail surrounding the rate increases for 1st Quarter 2009.

Breakdown of Rate Increases

As you know, with the end of Rate Banding on January 1, 2009, as a result of House Bill 1355, all Small Groups have to be rated without considering their health status or claims experience. Rocky Mountain Health Plans Small Groups that currently have discounted rates due to Rate Banding ("A" through "F5") will have their rates raised to the "F" level. "F" is the 1.00 factor level. In addition, groups will see a trend increase ranging from 0.2% to 10.8% depending on their county and type of product (HMO v. PPO).

Groups may also see rates change based on their own particular demographic changes, such as:

- Members aging up to a new age bracket
- Adding or dropping employees
- Adding or dropping dependents

Here is a breakdown of a rate increase due to the elimination of Rate Banding:

- Group XYZ started with a \$100 rate.
- They received a 25% discount ("A" band), so they drop \$25 and end up paying \$75. Compared to \$100, \$25 is minus 25%.
- With Rate Banding gone, they have to go back up to \$100, which is a \$25 jump.
- Compared to the \$75 they are currently paying, \$25 is a 33% increase because \$25 is 1/3 (or 33%) of \$75.

Now combine the elimination of Rate Banding (above) with the implementation of a trend increase:

- Group XYZ with an "A" rate will see a 33% rate band increase and a 6.5% trend increase.

Keep in mind that the rate band increase and the trend increase are not added together, but rather multiplied by each other:

- $1.33 (33\%) \times 1.065 (6.5\%) = 1.416$ rounded up = $1.42 = 42\%$ increase.

Remember, this rate increase change is not unique to Rocky Mountain Health Plans. All carriers in Colorado are required to move their Small Groups to a 1.00 Rate Band level on January 1, 2009.

As always, if you have any questions, comments or need assistance, please call your Rocky Mountain Health Plans or CNIC Account Manager.

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