

# Stakeholder draft

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**Name of rule:** Adjusting geographic rating areas to increase market stability

**Rule number:** [2017-11](#)

**Stakeholder draft released on:** Thursday, December 21<sup>st</sup>, 2017

**Date / time of stakeholder meeting:** Friday, January 5<sup>th</sup>, 2018 at 1:00 p.m.

**Location of stakeholder meeting:** Office of the Insurance Commissioner headquarters / 5000 Capitol Boulevard / Tumwater, WA

**For questions or comments, please contact:** Jane Beyer

**Send comments to:** [rulescoordinator@oic.wa.gov](mailto:rulescoordinator@oic.wa.gov)

**Comment deadline:** Friday, January 5<sup>th</sup>, 2018 at 12:00 p.m.

## **Background:**

### Rulemaking proceedings

On August 23, 2017, OIC published a CR-101 for R 2017-11, initiating a rule making process related to adjusting geographic rating areas to increase market stability. OIC established a website for these rule making proceedings (<https://www.insurance.wa.gov/adjusting-geographic-rating-areas-increase-market-stability-r-2017-11>).

OIC has identified the following principles to guide its review of the geographical rating area rules at WAC 284-43-6680 and WAC 284-43-6700:

1. The review will be data driven.
2. Regions are composed of at least three contiguous counties, with the exception of King County.
3. The rules will balance:
  - a. Awareness of the potential impact on health plan rates for rural county residents, and
  - b. Reducing disincentives for issuers to offer health plans in rural counties.

Applicable federal law:

Federal statutes, regulations, and guidance issued by CMS outlines the factors that states can take into consideration when establishing individual market and small group market geographic rating areas. The OIC can consider the following factors:

- Provider reimbursement costs
- Practice pattern differences

Federal law does not allow the OIC to take the health status of enrollees into consideration when setting geographic rating areas (<https://www.insurance.wa.gov/sites/default/files/2017-09/2017-11-premium-hierarchy-chart.pdf>).

Data analysis:

To conduct the geographical rating analysis, OIC analyzed Washington State individual market and small group claims data from CY 2015 and CY 2016. OIC developed an underlying cost model using data derived from EDGE server files generated by issuers for CMS (federal) risk adjustment and submitted to OIC under a data call covered by ESHB 2222. Issuers offering health plans in the individual and small group markets are required by federal law to submit data to the EDGE server including information for each enrollee's demographics, health risk factors, plan choice information, and annual costs incurred. The OIC also required issuers to submit enrollee location data.

OIC staff developed a multivariate linear regression model that controlled for the above descriptive factors. The analysis identified differences in provider reimbursement costs, as allowed by federal law, to assess the marginal impact of location on insured health spending. OIC combined this value with the issuer-reported enrollment information for March 2017 to create a weighted relative cost for each county relative to an index, King County.

These cost indexes were then compiled across proposed rating regions to form a regional cost factor relative to King County. The variation of these factors is the rating factor range, which OIC used to compare cost ranges for proposed ratings regions.

**Stakeholder draft:**

The stakeholder draft language below would be effective for plan years beginning January 1, 2019. It reflects the results of OIC's data analysis and the principles described above.

**WAC 284-43-6701:** (1) The following geographic rating areas are designated for Washington state for nongrandfathered individual and small group health plans:

- Region 1: King
- Region 2/West: Clallam, Jefferson, Kitsap, Gray's Harbor, Pacific, Wahkiakum, Cowlitz, Lewis
- Region 3/South: Clark, Skamania, Klickitat
- Region 4/North East: Spokane, Lincoln, Ferry, Stevens, Pend Oreille
- Region 5/South Sound: Pierce, Mason, Thurston
- Region 6/South Central: Kittitas, Yakima, Benton, Franklin
- Region 7/North Central: Okanogan, Chelan, Douglas, Grant, Adams
- Region 8/North West: North West: San Juan, Island, Whatcom, Skagit, Snohomish
- Region 9/South East: Whitman, Walla Walla, Columbia, Garfield, Asotin

**WAC 284-43-6681 Geographic rating area factor development.** (1) For nongrandfathered individual or small group health plans offered, issued or renewed on or after January 1, 2019, if an issuer elects to adjust its premium rates based on geographic area, the issuer must use the geographic rating areas designated in WAC 284-43-6701.

(2)(a) Except as provided in subsection (b), the premium ratio for the highest cost geographic rating area, when compared to the lowest cost geographic rating area, must not be more than 1.15.

(b) An issuer that files to offer nongrandfathered individual health plans in every county in six or more rating areas designated in WAC 284-43-6701, may utilize a premium ratio for

nongrandfathered individual health plans under (a) of this subsection of up to 1.20 if the development of rating factors is actuarially justified and meets all applicable requirements.

(c) (i) King County is the index geographic rating area for purposes of calculating the premium ratio. The geographic rating area factor for the index area must be set at 1.00. If King County (area 1) is not in an issuer's service area, the geographic rating area of the county with the largest enrollment in the issuer's service area, must be set at 1.00; or

(ii) If the issuer is new to the Washington state market, the geographic rating area within the issuer's service area that has the greatest number of counties must be set at 1.00.

(d) A health-status related factor may not be used to establish a rating factor for a geographic rating area. Health factor means any of the following:

(i) Health status of enrollees or the population in an area;

(ii) Medical condition of enrollees or the population in an area, including both physical and mental illnesses;

(iii) Claims experience;

(iv) Health services utilization in the area;

(v) Medical history of enrollees or the population in an area;

(vi) Genetic information of enrollees or the population in an area;

(vii) Disability status of enrollees or the population in an area;

(viii) Other evidence of insurability applicable to the area.

(3) Assignment of a factor to a geographic rating area must be actuarially sound and based on provider costs and practice pattern differences. An issuer must fully document the basis for the assigned rating factors in the actuarial memo submitted with a rate filing.

(4) The geographic rating area factors must be applied uniformly to individuals or small groups applying for or receiving coverage from the issuer.

(5) For out-of-state enrollees covered under a health benefit plan issued to a Washington resident, an issuer must apply the geographic rating area factor based on the primary subscriber's Washington residence. For out-of-state enrollees who are covered under a health benefit plan issued through an employer whose primary place of business is Washington, an issuer must apply the geographic rating area factor based on the employer's primary place of business.

# Geographic rating regions — Draft of OIC Proposal

Color Key	Region	Relative Cost
Dark Blue	West	0.70%
Light Blue	South Sound	-1.41%
Light Purple	South Central	-6.19%
Light Pink	King	0.00%
Light Orange	North West	-1.69%
Orange	North Central	2.23%
Dark Orange	North East	-9.50%
Red-Orange	South East	-1.43%
Red	South	0.82%

