



Illinois Insurance Facts

Illinois Department of Insurance

The Small Employer Health Insurance Rating Act

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Note: This information was developed to provide consumers with general information and guidance about insurance coverages and laws. It is not intended to provide a formal, definitive description or interpretation of Department policy. For specific Department policy on any issue, regulated entities (insurance industry) and interested parties should contact the Department.

Background

The Small Employer Health Insurance Rating Act (215 ILCS 93) was signed into law in 1999 to improve the “efficiency and fairness of the small group health insurance marketplace” by reducing the magnitude of increases charged to small employer groups when one or more of their members develop a costly medical condition. Costly medical conditions can cause small employers to increase the employees’ share of the premium costs, reduce health insurance coverage or drop health insurance coverage altogether. Reducing the magnitude of such premium increases benefits both the small employer and the employees (and their dependents).

To help control costs, the Act restricts the range of rates, which can be charged to groups that have similar policy coverages and demographic, geographic, or other objective group characteristics. It also restricts the amount by which small group carriers can increase rates for a particular group due to its claims experience. Although **there are no specific numerical caps on premium rates or premium increases**, the overall effect of the Act is to compress the range of rates and rate increases that can be charged for all small employer groups of a particular class.

Applicability

1. The Act applies only to health benefit plans for small employers. A small employer is defined as one that employs an **average of 2 to 50 employees** during the preceding calendar year. The exact definition is found in the Illinois Health Insurance Portability and Accountability Act (215 ILCS 97/5). The Act does not cover individual health insurance policies or groups of one.
2. This Act applies to all benefit plans provided to Illinois employers regardless of the state in which the contract is issued. This interpretation is based on a recent Department of Insurance review of public policy considerations and case law as applied to the rating of out-of-state health insurance contracts.
3. The Act applies to each plan that is delivered, issued for delivery, renewed, or continued in Illinois after July 1, 2000.

Transition Provisions

For existing contracts renewed or continued after July 1, 2000, insurers are allowed a transition period to bring the premium rates into compliance for two of the three rating requirements of the Act. The third rating provision varies by whether or not the rates are already in compliance with the first

two requirements. The transition period ends December 31, 2002, at which time compliance is mandatory. In other words, insurers are allowed 2.5 years to adjust small employer group rates either upward or downward to come into compliance with the Act.

Rates for contracts issued on or after July 2, 2000, must comply with the Act at the issue date of the new policy contract. There is no transition period for those new small group policies.

Rating Provisions

The rating provisions revolve around several key terms: Class, Index Rate, and Rating Period. The provisions: restrict the amount by which premiums for similar groups with similar coverages can differ; compress the range of rates for all groups in all classes; and limit the period to period change in rates. **Rating provisions do not establish any specific caps on the rates or rate increases.** The provisions are summarized below.

1. The Act allows an insurer to categorize its small employer groups according to expected substantial differences in administrative costs or claims experience, if these differences are due to: a) multiple marketing systems; b) the groups being acquired from another insurer; or c) the insurer having marketing arrangements with multiple association groups. Each one of these categories constitutes a class. The Act allows a maximum of four classes. The Director has the authority to allow an insurer to set up more classes under certain circumstances.

In general, companies will use one rate manual for each class of business in order to comply with the Act.

Once established, small employer groups cannot be involuntarily shifted from one class to another.

2. The Act uses the Index Rate as the key mechanism for compressing the range of rates. For small employer groups in a particular class which have similar demographic, geographic, or other objective characteristics and similar coverages in their health benefit plans, the index rate is the arithmetic average of the lowest rate which is charged (or could be charged according to the rate manual) and the corresponding highest rate which is charged or could be charged. (The number of index rates for a particular class depends upon how it defines "similar" in the two contexts in which it is used.)

For each cluster of groups for which an index rate is calculated, the Act establishes that (A) the rates for any particular group cannot be more than 25% above or below the index rate. This is the **intraclass restriction** on rates.

When all index rates from all classes are considered, the Act requires that (B) any index rate cannot vary from any other index rate by more than 20%. This is the **interclass restriction** on premium rates.

3. The restrictions on rate increases from one rating period to the next (C) differ by whether the policy was issued on or before July 1, 2000, or after July 1, 2000.

For policies issued on or before July 1, 2000, insurers have until December 31, 2002, to bring premium rates into compliance for the rating restrictions shown as (A) and (B). During this transition period, the (C) rate increases are limited to the sum of:

- The change in the rate charged by the insurer for new business; and
- Adjustments in rates due to changes in coverage or demographic composition of the group.

For policies issued on or after July 2, 2000, the policy must be issued with rates in compliance with the (A) and (B) requirements. The (C) rate increases from one rating period to the next are limited to the sum of:

- The change in the rate charged by the insurer for new business; and
- A maximum 15% adjustment due to claim experience, health status, or duration; and
- Changes in rates due to changes in coverage or demographic composition of the group.

HIPAA Requirements

The Illinois Health Insurance Portability and Accountability Act (HIPAA)(215 ILCS 97) establishes underwriting and portability requirements for policies issued to small employers. The Act requires insurers to guarantee the issuance of any policy sold in the small employer market to any small employer group in the state (i.e. each health insurance carrier that offers health insurance coverage in the small group market must accept every small employer in the state that applies for such coverage). Exceptions to this guarantee apply if you do not meet the definition of a small employer as defined by the Act, or if you do not meet the minimum participation requirements as established by the insurer or HMO. **Therefore, insurers and HMOs who market to small employers may not refuse you coverage and are limited by the parameters of the Small Employer Health Insurance Rating Act in establishing premiums.**

For More Information

Call our Consumer Services Section at (312) 814-2427 or our Office of Consumer Health Insurance toll free at (877) 527-9431 or visit us on our website at <http://insurance.illinois.gov>

Related Topics

The following Illinois Insurance Fact Sheets and associated Department of Insurance Information may assist in your decision-making:

[Consumer Complaint Ratios](#)

[Health Maintenance Organizations](#)

[Facts About HIPAA – Preexisting Conditions](#)

[Health Insurance for Small Employers](#)