Community Rating: What is it?

• Pure community rating involves charging every policyholder the same premium, without regard to individual characteristics such as a person’s age, health status, gender, or other factors.

Maine’s Current Law – Modified Community Rating

• Maine has what is known as modified community rating, which limits the differences in the amounts insurance companies can charge based on certain factors.
• In Maine, the community rating law applies to the small group (i.e., policies sold to businesses with 2-50 employees) and individual (i.e., people who purchase insurance on their own – they do not receive coverage through an employer) markets.
• Under Maine’s modified community rating law, insurance carriers set an average rate for an insurance policy (called the “community rate”) and are then allowed to charge 20% more or less than the community rate. This is equivalent to a 50% difference between the lowest and highest amount charged, or a 1.5 to 1 ratio.
• This 20% rate variation is allowed for the following factors: age, geographic location, and industry.
• In current Maine law, there can be no rate variation based on health status or claims experience. However, insurance carriers can vary their rates on an unlimited basis outside of the rate bands for the following factors: family size, wellness program participation, smoking status, and group size (for employer coverage).

Why is Community Rating Important?

• Risks and costs are spread across a broad group of people, rather than allowing some groups (i.e., older people, adults or children with health care needs, or women of child-bearing age) to be priced out of the market.
• Community rating simplifies the rating structure by limiting the rate variation and the factors upon which rates can be varied.
• Community rating increases the transparency of insurance company rating practices by limiting the amount in rate variation, as well as the factors upon which rates can be varied. There is still a lack of transparency in the rating system, but community rating is a first step toward increasing transparency.

The Maine Debate on Community Rating

• Modified community rating is part of the Affordable Care Act and becomes the law of the land in 2014.
• The Affordable Care Act will set an upper limit of 3 to 1 (which allows for more variation than 1.5 to 1).
• There is ongoing debate in Maine on two related issues:
  o Eliminate Community Rating
  o Change the rating bands to match the standard in the Affordable Care Act