

- SUBJECT:** Revising small and large employer health group cooperatives
- COMMITTEE:** Insurance — favorable, as amended
- VOTE:** 8 ayes — Smithee, Martinez Fischer, Deshotel, Eiland, Hancock, Hunter, Taylor, Thompson
- 0 nays
- 1 absent — Isett
- SENATE VOTE:** On final passage, April 9 — 31-0, on Local and Uncontested Calendar
- WITNESSES:** For — (*Registered, but did not testify:* Jennifer Ahrens, Texas Association of Life and Health Insurers; Michelle Apodaca, Texas Hospital Association; Chuck Bailey, Firstcare; Marisa Finley, Scott & White Center for Healthcare Policy; Kandice Sanaie, Texas Association of Business; Jared Wolfe, Texas Association of Health Plans)
- Against — None
- On — Patricia McCandless, Texas Association of Health Plans;  
(*Registered, but did not testify:* Ana Smith-Daley, Texas Department of Insurance)
- BACKGROUND:** Two or more businesses may form private, non-profit health insurance purchasing cooperatives. The original form of private purchasing cooperative is considered a single employer for the purpose of benefit elections and administration, allowing member employers to gain administrative savings and cost-savings from purchasing plans in volume.
- Health group cooperatives are a type of private purchasing cooperative that may include only small employers, only large employers, or both. All employers participating in a single health group cooperative are considered a single employer for the purposes of rate setting and benefit elections. An employer electing to participate in a health group cooperative must commit to purchasing coverage through the health group cooperative for two years. Health benefit plans issued for health group

cooperatives do not have to include all state-mandated health benefits.

A special type of health group cooperative — a sub (p) — may elect to limit its membership to small employers and cannot include more than 50 eligible employees. Sub (p) health group cooperatives are considered a single small employer for rate setting and for issuance and renewal of coverage.

DIGEST:

SB 972 would allow health group cooperatives to elect to treat participating employers within the cooperative as separate employers for the purpose of rating health benefit plans. The bill also would allow, under specified circumstances, eligible single-employee businesses to participate in a health group cooperative.

**Health group cooperative elections for rating.** A health group cooperative could file an election to treat participating employers within the cooperative as separate employers for purposes of rating health benefit plans. The health group cooperative would provide written notice of this election to all participating employers and employers considering joining the cooperative. The notice to participating employers would be made at least 90 days before the date the election would become effective and would contain a quote for the premium rate that would apply to the employer when the plan was renewed. The election to treat participating employers as separate employers for the purpose of rating would apply to plans issued or renewed on or after the effective date of the election.

The bill would remove the requirement that each plan offered by the cooperative be made available to all employees participating in the cooperative and instead would require all plans to be offered to all employers covered by the cooperative.

**Single-employee businesses in health group cooperatives.** Eligible single-employee businesses would be businesses owned and operated by a sole proprietor that employed an average of fewer than two employees on business days during the preceding calendar year. The TDI commissioner would adopt rules governing the eligibility of a single-employee business to participate in a health group cooperative, including rules prohibiting coverage of a single-employee business that was formed solely to obtain health coverage.

Single-employee businesses could participate in a health group cooperative, with the exception of a sub (p) cooperative, if the cooperative elected to permit participation by these employers and the cooperative also included small employers, large employers, or both small and large employers. A health group cooperative could file an election with the TDI commissioner to permit eligible single-employee businesses to join the cooperative and enroll in health benefit coverage if the health group cooperative first had obtained a written agreement from a health plan issuer to issue coverage to the cooperative if its membership included single-employee businesses.

Guaranteed issuance, rating requirements, and mandated benefits applicable to small employers would apply to single-employee businesses that were members of a health group cooperative.

A health group cooperative could rescind its election to permit eligible single-employee businesses to join the cooperative if the election to allow coverage of these businesses had been in effect at least two years and the cooperative provided the required notice to both TDI and single-employee business members. A health group cooperative that made such a rescission could not file an election to allow single-employee businesses to receive health coverage through the cooperative for five years after the rescission.

The revisions made by this bill would apply to health benefit coverage issued or renewed by a health group cooperative on or after its effective date.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2009.

**SUPPORTERS  
SAY:**

SB 972 would revise health group cooperatives by granting them more flexibility in setting premiums and expanding the opportunities they afforded people to obtain health coverage.

SB 972 would allow health group cooperatives to determine if their members would benefit more if they were treated separately or as a single employer for rating purposes. This flexibility would encourage more communities to establish health group cooperatives that increased the local rate of insurance coverage. The health group cooperative for Lubbock-area businesses is an excellent example of how cooperatives can lead to more

consumers receiving insurance. A low percentage of small firms in Texas, only 33.6 percent in 2005, offer health insurance, yet about 8,000 of the participants in Lubbock's cooperative are employees of small businesses. About 20 percent of the participants previously had no major medical coverage.

All members of a health group cooperative currently are treated as a single employer for the purpose of setting premiums. This structure increases premium costs for businesses with employees with lower health risks to balance the higher coverage costs for cooperative participants with greater health risks. A health group cooperative does not serve its purpose to insure more people if the businesses that have employees with lower health risks drop health coverage because they do not feel the benefits they receive through the cooperative's health plan are worth the costs. In addition, no employers benefit if the costs for an insurer to offer health plans to a health group cooperative become so great that the insurer ceases to offer the coverage. SB 972 would allow health group cooperatives to elect to treat members separately for the purpose of rating if this measure would benefit members or prevent an insurer from ceasing to offer coverage.

Allowing a health group cooperative to treat employers separately for the purpose of rate setting would convey benefits not afforded by a standard private purchasing cooperative. Unlike standard private purchasing cooperatives, health group cooperatives are not restricted by having to offer all state-mandated health benefits. They also confer more stability by requiring members to join for two years and also allow the members to elect to limit membership to employers from a specific industry or to maintain the issuance and pricing restriction benefits of a small employer health plan.

By allowing sole proprietors to join health group cooperatives, SB 972 would expand the opportunities for small business owners to obtain health coverage. Some sole proprietors go without insurance because premiums in the private, individual market are too high. In this market, insurers also may refuse to cover a sole proprietor.

A health group cooperative could elect whether or not to allow single-employee businesses to participate and could rescind this election at a later date. With the option afforded by SB 972 to treat participating employers separately for rating purposes, a cooperative would be able to choose if the

health risks of participating sole proprietors were spread over the cooperative at large or borne only through the premiums paid by the sole proprietor. Single-employee businesses would not be allowed to join sub(p) cooperatives, because insurers are not allowed to decline coverage to a sub(p) cooperative and it would be inappropriate to compel them to assume the risk of coverage for sole proprietors in a small group.

OPPONENTS  
SAY:

By allowing health group cooperatives to elect to treat employers separately rather than as a single employer for the purpose of setting premiums, SB 972 could deny some employers one of the cost-saving characteristics of health group cooperatives that prompted them to join. In addition to reduced administrative costs, health group cooperatives make insurance affordable for small employers because the treatment of all participating employers as a single employer spreads risk, which reduces their premiums. If a health group cooperative elected to treat employers separately for rating purposes, many participating small employers could drop health coverage for their employees because they no longer could afford the premiums. Those small employers that recently had joined a cooperative could experience major increases to their premiums in their second year of coverage due to such an election, yet they would be required to fulfill their two-year commitment to the cooperative unless they could demonstrate financial hardship. The original form of private purchasing cooperative already treats participating employers separately for rating purposes, so employers desiring this option should form a private purchasing cooperative instead.

NOTES:

The House companion bill, HB 2586 by Smithee, was reported favorably, as substituted, by the Insurance Committee on April 9 and placed on the May 8 General State Calendar.

The committee amendment would specify that the provisions of SB 972 applied to health benefit coverage issued or renewed by a health group cooperative on or after the bill's effective date.