

Fact Sheet:

Colorado Geographic Rating Requirements in Mountain Resort Counties

A key change in the Affordable Care Act (ACA) requires states to establish geographic rating areas in the small group market (employers with 50 or fewer employees) and the individual market. As the Colorado Division of Insurance (DOI) prepared to designate the areas for the 2014 plan year, staff considered the three options presented to all states through a federal regulation:

1. Establish one rating area for the entire state;
2. Use seven Metropolitan Service Areas (MSAs)* and one non MSA; or
3. Develop a unique structure for Colorado which required federal approval.

After considering the diverse geography of the entire state, the Colorado Division of Insurance selected Option #3.

Colorado Division of Insurance Review

The Division reviewed data from several sources and saw a need to request a total of 11 geographic rating areas that account for different medical costs for medical care in those geographical areas, and create the least amount of disruption to communities – the small group health insurance market already had 9 geographic rating areas (7 MSAs and two non MSAs).

Two factors significantly affected the cost of providing medical care to the residents in the mountain resort counties, which resulted in higher premiums for those counties:

- Direct costs - price per health care service delivered (doctors, hospitals, prescriptions, labs...)
- Utilization - frequency with which the population uses the health care system

Final Approval and Next Steps

After detailed analysis, the DOI submitted the proposed 11 geographic areas to the U.S. Department of Health and Human Services, which subsequently approved Colorado's expansion to 11 geographic areas. Due to the legal requirements of the premium rate review process, decisions regarding the geographic areas cannot be revisited for 2014 plans. While the mountain communities have experienced higher premiums than the Front Range for the last 25 years, DOI understands the frustration higher premiums continue to cause and is committed to reviewing the geographic areas.

The review process has already begun to evaluate if changes need to be made for premium rates that will be submitted to DOI in the Spring of 2014 for plans that will be effective January 1, 2015. The Division welcomes feedback from consumers and will implement a public process by which various stakeholders can voice their opinions about the geographic areas.

*A metropolitan statistical area (MSA) is a geographical region with a relatively high population center and close economic ties throughout the area. They are defined by the U.S. Office of Management and Budget.

Additional Information

- Prior to the ACA, the Colorado Division of Insurance did not determine the geographic rating areas in the individual market, but required the health insurance carriers to justify the geographic factors they used. In the small group market, the Division had nine ratings areas, 7 based on MSAs (population centers) and 2 others based on total county population for a total of nine.
- As the Division prepared to designate the areas, as required by the Affordable Care Act, two factors significantly affected the cost of providing medical care, and, consequently, the premiums for coverage in the resort counties:
 - Direct Costs – estimated change in the price per health care service delivered, including:
 - Contracts with doctors
 - Hospital Charges
 - Laboratory Services
 - Prescription Drugs
 - Diagnostic Imaging Services (x-rays, cat scans, MRI)
 - Utilization – frequency with which individuals use the health care system which is often affected by the following:
 - Aging population
 - Overall decrease in population's health
 - Changes in provider treatment patterns such as an increase in lab tests or outpatient surgeries
- For the last 25 years, on average, the mountain and resort communities have experienced higher premiums than the Front Range. The premiums varied from county to county, but the premium differences existed prior to 2013.
- Four resources were used to demonstrate significant health care cost differences and, therefore, justify the segmentation of the geographic areas:
 - Colorado All Payer Claims Database: A statewide data warehouse that includes medical claims, pharmacy claims, and eligibility and provider data from public and private health insurance carriers
 - Colorado Hospital Association Report on Hospital Charges and Average Lengths of Stay, July 2012
 - Proprietary commercial database of individual and small group members in the non-MSA counties of Colorado
 - U.S. Census Bureau Data

For more information:

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