



Colorado
Legislative
Council
Staff

ISSUE BRIEF

Number 12-11

A Legislative Council Publication

October 5, 2012

HEALTH INSURANCE OVERVIEW

by Amanda King

Health insurance is a method of paying for health care services that spreads the risk and costs across a group of covered persons. In exchange for premiums and other cost-sharing mechanisms, such as deductibles and co-payments, health insurance companies pay for the costs of covered services. Health insurance companies set premiums, deductibles, and co-payments at a level that covers the estimated health care costs incurred by all members of the group. A person's employment situation, financial factors, and health status influences the type of insurance the person may qualify for or choose to enroll in.

This issue brief first provides an overview of Colorado's health insurance markets. Then, it discusses state-level regulation of health insurance plans in Colorado, including the process for appealing coverage decisions made by an insurance company.

Health Insurance Markets

Health insurance plans fall into the following categories: self-funded, large employer group, small employer group, and individual markets.

Self-funded market. These plans are typically offered by employers with more than 50 employees, but can be offered by employers with fewer than 50 employees. The employer sets a pool of funds in reserve and assumes the risk for health benefit claims.

Benefits are administered and claims are handled by either a third-party administrator or insurance company that has contracted with the employer.

Large employer group market. This market covers plans offered by employers with more than 50 employees. The insurance company assumes the risk for health benefit claims. Insurance companies can deny coverage based on the group's claim history. However, no individual in the group can be denied coverage if a plan is offered to the group.

Small employer group market. This market covers plans offered by employers that have no more than 50 employees. This is the most heavily regulated market in the state. Again, the insurance company assumes the risk for health benefit claims under plans offered in this market. Under current federal law, plans offered in the small employer group market are "guaranteed issue."¹ This means that small employers and employees of a small employer cannot be denied coverage due to pre-existing conditions. However, insurance companies that offer plans in the small employer group market can look at an individual's medical history and decide not to cover certain conditions for a certain period. Insurance companies can use rating factors including age, geographic area, standard industrial classification, and tobacco use when setting rates in the small employer group market.

¹Heath Insurance Portability and Accountability Act, P.L. 104-191.

Individual market. This market covers plans offered on an individual basis and not through an employer or other group. Insurance companies in the individual market are able to deny coverage and set rates based on the individual's health status. Plans do not have to be standardized and may not cover some mandated benefits that are offered in the other markets.

Changes to the markets due to the federal Affordable Care Act. Beginning in January 2014, the Colorado Health Benefit Exchange will begin operating as a marketplace for individuals and small employer groups. In 2017, the state has the option of expanding the exchange to include large employer groups. Also, beginning in January 2014, each insurance company that offers health insurance coverage in the individual, large employer group, or small employer group markets must accept every employer and individual that applies for coverage. At that point, rate variations in the individual and small employer group markets will only be allowed based on age, premium rating area, family composition, and tobacco use.

State Regulation of Health Insurance

In Colorado, the Division of Insurance in the Department of Regulatory Agencies regulates all types of insurance, including health insurance. The four primary responsibilities of the Division of Insurance are:

- protecting consumers;
- ensuring financial solvency of insurers;
- regulating the market to ensure fair and reasonable insurance prices, products, and trade practices; and
- regulating the rates set by insurers to ensure premium rates are not excessive, inadequate, or unfairly discriminatory.

The Division of Insurance does not have jurisdiction over all health insurance plans offered in Colorado. Self-funded health plans do not fall under the Division of Insurance's purview and are not subject to Colorado law, but are subject to federal

laws² and regulations. The Division of Insurance regulates plans offered to large employer groups, small employer groups, and individuals, but does so at varying levels depending on the market type.

To determine whether a health insurance plan is regulated by the Colorado Division of Insurance, a consumer may check his or her insurance card. If "CO-DOI" is printed on the card, the Division of Insurance has jurisdiction over the plan and it is subject to Colorado laws and regulation.

Insurance Appeals

If a policy holder has a dispute about a health insurance claim, he or she may attempt to resolve the issue by taking the following steps:

- reviewing his or her policy and the explanation of benefits;
- contacting his or her insurance company to determine why a claim is not being paid and keeping detailed documentation about any communication with the insurance company;
- requesting necessary documentation from the health care provider who provided the services of the claim in question;
- writing a formal complaint letter to the insurance company, explaining what care was denied and why the appeal is being submitted to the company's internal review process; and
- if the internal appeal is denied, filing a claim with the Division of Insurance, if the policy is one that falls within the division's jurisdiction.³

Additional information about the Division of Insurance and health insurance appeals can be found at: <http://healthinsurance.colorado.gov>.

²Employees' Retirement Income Security Act, P.L. 93-406.

³*Health Insurance*. USA.gov.