Large group medical presents a wide array of economic incentives to understand. Each case needs to be considered on its own. Selection ranges from a non-issue in a large group with one plan, to a major issue - much like selection in individual insurance - in a large group where employees can choose between different plans from several competitors.

Personal choice selection dynamics are similar to individual selection dynamics when employees must determine if extra benefits are worth higher employee contributions[6] Logically, selection costs vary by the range of choices available to employees. Adverse selection costs can be very high if employees can opt out and keep the employer's contribution, or partially opt out by selecting a plan with very low benefits and very low employee contributions. If, however, employees must participate in a comprehensive plan, and can only buy up benefits by a limited amount, selection costs can be managed.

Some personal choice adverse selection costs can be predicted through use of a Choice Model (discussed later in this paper). A Choice Model applies when one carrier is offering many benefit options to the employees of a large firm. In contrast, high-cost, high-benefit plans offered in a multi-carrier personal choice situation attract the old and sick, and make large group rating unpredictable. Selection costs are very hard to estimate when competing carriers offer different plans, and employee contributions are set based on the amount by which the cost of a high benefit plan exceeds the cost of the cheapest plan. In these instances it is usually best to attract the young and healthy by offering a low benefit plan that requires small, or no, employee contribution. Simulations done by Susan Marquis and Joan Buchanan (1999) have demonstrated the need for caution when offering multi-carrier personal choice plans. They show that, over time, large rate increases can lead to the demise of a high-cost, high-benefit plan. Rich plans can survive if the employer subsidizes purchase of the plan (and many large employers do subsidize the rich plan), or if there are overwhelming positive non-financial aspects of the plan. But, one should always be aware that high-cost, high-benefit personal choice offerings can suffer adverse selection that may lead to the ultimate collapse of the plan (Cutler and Reber, 1998).

Other protections are also needed on large groups. Carriers must be able to re-rate a group if the firm acquires a company in another location, or with a significantly different demographic makeup. Carriers also need to be able to revise a personal choice offering if the employer alters its employee contribution rules in a way that advantages a competing carrier.

Group adverse selection can be a factor in a large case when a group with a disproportionate number of sick people chooses a rich plan. But, large groups with a single plan are usually rated based on their own claims experience. Consequently, single plan large groups with a large number of sick people receive an adjusted rate that considers health status (and other applicable rating factors). Interpreting the claims experience of a prior carrier is always tricky. For example, it must be determined if the prior carrier's claim payment lag has shifted, or if benefits changed during the experience period. Extreme care needs to be taken when underwriting the claims experience of a self-funded group requesting a fully insured quote. The carrier must discover if the group is aware of emerging large claims that the group is trying to avoid. Only when credible claims data is thoroughly reviewed, including a review of the health status of active employees (and COBRA eligible former employees that will be covered in the upcoming renewal period), should a rate be quoted, and then the rate should be loaded for the extra risk of a case coming off self-funded status.

[6] *Large group selection can be more significant than individual selection in one important aspect: age rating. Individual carriers typically age rate so older people get higher rates. But, large employers almost always offer one set of rates to employees of all ages. Consequently, large employers are more likely to see younger employees waive coverage or choose the lowest cost plan.*