

**NOTICE OF NON-COMPLIANCE**  
**Kaiser Permanente Insurance Company**  
**Small Group Market**

**1. Introduction**

**A. The number of Colorado Option Plans, across each metal level and by county, that are non-compliant with the premium rate reductions:**

*Small Group Market:* Kaiser Permanente Insurance Company (“KPIC”) will not meet the premium reduction targets set forth in C.R.S. Section 10-16-1305(2)(b) for the 2025 benefit year. There are three KPIC Colorado Option PPO plans in the small group market, one in each metal level (Gold, Silver, and Bronze), and the same three plans are available to employees based outside the service area of Kaiser Foundation Health Plan of Colorado, of small employer groups in located in the service area.

**B. Summary of the reasons the carrier failed to meet the premium rate reduction requirements on Colorado Option Plans:**

KPIC cannot meet the premium reduction targets set forth in C.R.S. Section 10-16-1305(2)(b) for the 2026 benefit year **and** ensure compliance with state and federal law requirements for actuarial sound health plans. The premium reduction directives create an inherent conflict with KPIC’s obligation to ensure that rates are not excessive, inadequate, or unfairly discriminatory.

First, KPIC utilizes a rental network for its Colorado Option plans and does not hold the contracts with providers in the rental network. It is the rental network which has contracted with these providers. Based on this structure, KPIC does not have any direct influence on the rates of the rental network providers.

Second, KPIC’s small enrollment translates to fluctuations in experience and data are therefore not credible. Claims experience is highly volatile, and with such a small number of claims, the providers with which there are claims in one calendar year is highly random.  
(Actuarial Analysis at Page 1).

Third, the premium reduction targets cannot, and do not, take into account all factors that drive the total cost of providing health care. An objective analysis of KPIC’s rates must take into account all factors that drive costs. A myriad of factors drives the cost of health care, including:

- Rising Prescription Drug Costs: The impact of prescription drug costs is significant and represents a considerable portion of the costs driving premiums.
- Risk Adjustment Costs: It is difficult for carriers that are payers of risk adjustment to meet the premium reduction targets. Risk adjustment is based on the statewide average premium, and all plans are allocated the same risk adjustment multiplier, regardless of the premium of that specific plan. Accordingly, risk adjustment will only decrease if the

premiums of all plans in the market decrease, not just the Colorado Option plans.  
(*Actuarial Analysis at Page 2.*)

- Small Group Morbidity: The small group market as a whole has also experienced worsening morbidity over the past few years as the small group ACA market has declined in size. We are expecting continued deterioration of the small group ACA market through 2025 and into 2026 as there is continued migration of healthier business out of the market. (*Actuarial Analysis at Page 1*)

**C. Outline of proposed steps that would allow the carrier to come into compliance with the requirements:**

KPIC has expended considerable effort toward exploring strategies to lower costs and meet the premium reduction targets, but we do not see a viable pathway to full compliance with the targets in the 2026 benefit year. While we are not able to achieve the Division's affordability targets, we reiterate our commitment to providing high-quality, affordable healthcare.

KPIC continues to strategize regarding cost-saving approaches. In 2023, for example, Kaiser launched a partnership with Cigna to reduce out-of-area costs and to ensure members have access to a high-quality, affordable care outside of Kaiser Permanente states of California, Colorado, Georgia, Hawaii, Maryland, Oregon, Virginia, Washington, and District of Columbia. A high percentage of the membership in the KPIC plans live outside the state of Colorado, which has a significant impact on premiums.