



## **Rate Review: A way to Limit Increases to Health Insurance Premiums**

### **Rate Review Basics**

- Rate review requires insurers to openly explain how they determine the amount they charge for health insurance premiums. Insurers also must justify proposed increases in these rates by providing documentation showing why an increase is necessary and appropriate.
- A strong rate review requires a thorough evaluation of proposed premium increases for individuals and families buying policies in the individual market, and for small businesses and self-employed people buying insurance in the small group market.
- The Affordable Care Act (ACA) requires the Secretary of Health and Human Services (HHS), in conjunction with states, to annually evaluate unreasonable increases in premium rates.<sup>1</sup>
- Federal regulations in the ACA will require all insurers in the individual and small group markets to disclose and justify proposed rate increases. Information insurers file with the states and HHS will be posted publicly on the HHS website.
- States that have an "effective rate review" process, as defined in federal regulations, will retain authority to determine rates charged by insurers in their markets. Where states do not have an effective rate review process, HHS will conduct the review.

### **Rate Review Protects Consumers**

- Requiring insurers to have premium rate increases approved by the Insurance Commissioner protects consumers from exorbitant and unjustified premium increases.
- Public disclosure of proposed rate increases forces insurers to be accountable for the premiums they charge consumers and gives consumers the opportunity to review premium prices in light of insurers' overall financial strength.
- Public participation, either through a public comment period or during a public hearing or formal appeals process, ensures consumers get a chance to weigh-in on proposed premium rate increases.

## Rate Review Helps Control Rapid, Unpredictable Increases in Premiums

- Skyrocketing Insurance Costs
  - Nationally, individuals who buy their own health insurance and are not part of a group were asked to pay on average 20 percent more for their insurance when they renewed their plans.<sup>2</sup>
  - In the past, premium rates for insurance plans sold to small employers have increased 12 to 15 percent annually.<sup>3</sup>
  - The Kaiser Family Foundation reports increases in the cost of premiums in the individual market caused some individuals to buy less costly insurance plans with less comprehensive coverage, often leading to caps in care.<sup>4</sup>
- Rate Review Levels the Playing Field
  - States with authority to approve premium rate increases *before* insurers may sell the health plans have successfully limited premium rate increases.
    - In Ohio, 35 percent of premium increase requests have been disapproved over the last five years.
    - Colorado has disapproved 10 to 15 percent of proposed rate increases, while negotiating lower premium increases for other health plans.
    - Maine uses a formal hearing process and an internal review to evaluate the appropriateness of premium increase proposals. This review process has resulted in both reductions in rate increases and disapproval of rate increase requests, some of which were for as much as 40 percent.
  - States that use their statutory authority to the full extent permitted under the law have the greatest capacity to guarantee that insurers do not implement unnecessary premium rate increases.<sup>5</sup>
- Rate Review Establishes a Baseline for Premium Increases in Unregulated Markets
  - Oversight authority on premium rate increases in the individual and small group markets will create a standard for reasonable and justified rate increases throughout the state.
- Public Disclosure Provides Negotiation Leverage
  - Public disclosure of rate-setting methodologies, precise insurer justification for rate increases, and general information about an insurer's financial position will provide leverage to employers and other entities negotiating coverage plans.

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<sup>1</sup> The proposed regulation grants authority for rate review in the individual and small group markets and defines an unreasonable increase as excessive, unjustified or unfairly discriminatory.

<sup>2</sup> Kaiser Family Foundation. (June 2010). Survey of People Who Purchase Their Own Insurance. Retrieved from: <http://kff.org/kaiserpolls/upload/8077-R.pdf>.

<sup>3</sup> American Association of Health Plans. (2003). Rising Costs in the Small-Group Market: Issues and Options. Retrieved from: [http://www.ahipresearch.org/pdfs/RisingCostsInSmallGroupMarket\\_050603.pdf](http://www.ahipresearch.org/pdfs/RisingCostsInSmallGroupMarket_050603.pdf).

<sup>4</sup> Kaiser Family Foundation. (June 2010). Survey of People Who Purchase Their Own Insurance. Retrieved from: <http://kff.org/kaiserpolls/upload/8077-R.pdf>.

<sup>5</sup> Corlette, S. & Lundy, J. (Dec. 2010). Rate Review: Spotlight on State Efforts to Make Health Insurance More Affordable. Kaiser Family Foundation. Retrieved from: <http://www.kff.org/healthreform/upload/8122.pdf>.