

Newsroom

Fact Sheet: Fighting Unreasonable Health Insurance Premium Increases

Affordable Care Act Ensures that Large Premium Hikes Receive Close Scrutiny

Health insurance premiums have risen rapidly, straining the pocketbooks of American families and businesses for more than a decade. Since 1999, the cost of coverage for a family of four has climbed 131 percent.^[1] These increases have forced families and employers to spend more money, often for less coverage. Many times, insurance companies have been able to raise rates without explaining their actions to regulators or the public or justifying the reasons for their high premiums. In most cases, consumers receive little or no information about proposed premium increases, and aren't told why companies want to raise rates.

The Affordable Care Act brings an unprecedented level of scrutiny and transparency to health insurance rate increases. The Act ensures that, in any State, large proposed increases will be evaluated by experts to make sure they are based on reasonable cost assumptions and solid evidence. This analysis is expected to help moderate premium hikes and provide those who buy insurance with greater value for their premium dollar. Additionally, insurance companies must provide easy to understand information to their customers about their reasons for significant rate increases, as well as publicly justify and post on their website any unreasonable rate increases. These steps will allow consumers to know why they are paying the rates that they are.

On May 19, 2011, the Department of Health and Human Services (HHS), working in partnership with States, issued a final regulation to implement this important consumer protection from the Affordable Care Act.

Insurance Companies Take in Record Profits, Effective Rate Review is Needed

“The nation’s major health insurers are barreling into a third year of record profits... Yet the companies continue to press for higher premiums, even though their reserve coffers are flush with profits and shareholders have been rewarded with new dividends.”

-New York Times, “Health Insurers Making Record Profits as Many Postpone Care.” May 13, 2011. ^[2]

In recent months, health insurance companies reported some of the highest profits in years. Some insurers' stocks are trading at all-time, or near all-time, highs. And, many companies have accumulated large financial reserves that far exceed State regulatory requirements.

As many financial analysts have reported, one cause of these profits is that actual medical costs are growing less than what insurance companies projected when they set their 2011 rates last year. Recent data from the Bureau of Labor Statistics found that the first quarter health insurance employer cost index, a measure of health insurance prices, was 3.4 percent – the lowest it has been in the quarterly series in more than 10 years.

However, many of the rates consumers pay today don't reflect these lower costs. Instead, insurers are reaping the benefits of these lower costs while maintaining higher rates. According to Barclays Capital,^[3] in reviewing results from the first quarter of 2011 for the top 14 health insurers and managed care companies:

- 13 of 14 companies have exceeded their Earnings Per Share (EPS) estimates.
- The average earnings over estimates were 45.7 percent.
- 10 of 14 companies have shown stronger profits than expectations.[\[4\]](#)

The rate review regulation issued today will help bring down costs for consumers. Rate review will help make sure that increases are based on reasonable estimates and real-time data on medical cost trends and health care utilization. Experts across the country will review insurers' projections of health care costs to assess whether premium increases are based on sound, up-to-date information. Insurers that propose increases above the threshold set for review will have to post clear information that indicates what factors are causing proposed increases. And experts will closely examine recent trends to flag instances when insurance companies are unjustly raising costs for their customers.

Bringing Scrutiny and Transparency to the Market

Before the Affordable Care Act, many health insurance companies could raise rates with little or no scrutiny. While many States review proposed increases to determine if they are reasonable, other States lack the legal authority or resources to effectively review rates. Further, some States have the authority to deny or reduce proposed rate increases, but most do not. Today's rule ensures that significant rate increases in **all States** will be thoroughly analyzed and disclosed to the public.

Under the final regulation:

- Starting September 1, 2011, insurers seeking rate increases of 10 percent or more for non-grandfathered plans in the individual and small group markets are required to publicly disclose the proposed increases and the justification for them. Such increases will be reviewed by either State or Federal experts to determine whether they are unreasonable.
- An easy-to-access, consumer-friendly disclosure form explaining the proposed increases will also be made publicly available through HHS, State and/or insurer websites. See below for more information on information for consumers.
- Starting September 1, 2012, the 10-percent threshold will be replaced with a State-specific threshold, using data that reflect insurance and health care cost trends particular to that State. The final rule clarifies that HHS will work with States in developing these thresholds.
- States with effective rate review systems will conduct the reviews, but if a State lacks the resources or authority to conduct actuarial reviews, HHS would conduct them. HHS expects that the vast majority of States will conduct these reviews, and will make this determination by July 1. HHS will continue to make resources available to States to strengthen their rate review processes.

The final rule applies these important protections to consumers and employers buying coverage in the individual and small group markets. These are often the groups most vulnerable to large, and sometimes unjustified, rate increases. HHS is also requesting comment from the public on its intention to apply the rule to coverage sold through associations, which are sometimes exempt from State oversight.

Presenting Clear Information to Consumers

The final rule makes sure that information about rate increases is available to consumers in a simple and easy-to-understand format. Details on the outcome of all reviews for increases at or above 10 percent will be posted on the HHS website, www.HealthCare.gov. Consumers will be able to see a summary of the factors driving rate increases, along with a justification provided by insurance companies for those increases determined to be unreasonable. The insurance plan will also have to make its justification for a rate increase available on its own website.

To make sure this information is clear and usable for individuals and families, HHS will be publishing

consumer-friendly forms that insurers must use to propose rate increases and to inform consumers about those proposed rate increases. The forms provide basic background information that helps consumers understand their insurance company's decision, and presents information about the rate increase. Consumers will see a clear summary of the main factors driving their health insurance rate increases. You can learn more about the proposed forms and find links to the proposed forms at: www.HealthCare.gov/news/blog/ratereview03072011a.html.

Building on Successes in the States

The Affordable Care Act has already begun to help States strengthen or create rate review processes. To date, 43 States and the District of Columbia are using \$44 million in grants provided by HHS to help them improve their oversight of proposed health insurance rate increases. This is part of \$250 million that the Affordable Care Act makes available to States to take action against insurers seeking unreasonable rate hikes. This funding will help assure consumers that any premium increases requested by their insurance company, regardless of the size, is justified or found to be unreasonable.

Experience has shown that rate review helps to lower the cost of coverage for people and employers. Recent examples include:

- Rhode Island's Insurance Commissioner was able to use its rate review authority to reduce a proposed increase by a major insurer in that State by 6 percent – lowering a proposed increase of 7.9 percent to 1.9 percent .[5]
- Californians were saved from rate increases totaling as much as 87 percent when a California carrier withdrew its proposed increase after it drew scrutiny from the State Insurance Commissioner.[6]
- Nearly 30,000 North Dakotans saw a proposed increase of 23.7 percent cut to 14 percent after public outcry drew attention to it.[7]
- In Connecticut, one insurer requested an increase of 20 percent. The Insurance Department rejected this increase as excessive, and because of the law in Connecticut, it cannot go into effect.

Comprehensive Package of Consumer Protections

This new rate review regulation works in conjunction with earlier rules requiring insurers to spend at least 80 percent of premium dollars on direct medical care or work to improve the quality of care for patients or provide a rebate to their enrollees. This “medical loss ratio” regulation, released on November 22, 2010, makes the health insurance marketplace more transparent and increases the value consumers receive for their money. The medical loss ratio regulation ensures that premiums are being spent on health care and quality-related costs, not excessive administrative costs and executive salaries. Together, these two provisions of the Affordable Care Act, along with the financial assistance States are receiving to strengthen their oversight actions, help assure consumers that any increase in their premium is reasonable and that their premium dollars are being spent on their medical care.

Read the news release on the final rule at: <http://www.hhs.gov/news/press/2011pres/05/20110519a.html>

See the final rule at: www.ofr.gov/inspection.aspx.

Find links to the regulation and other information about rate review at: cciio.cms.gov/programs/marketreforms/rates/index.html.

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[1] <http://ehbs.kff.org/pdf/2010/8085.pdf>

[2] <http://www.nytimes.com/2011/05/14/business/14health.html>

[3] Barclays Capital Equity Research. *U.S. HEALTH CARE- MANAGED CARE: Earnings Season Final Statistical Report*. Joshua R. Raskin, Joseph Kuhns, Jack Meehan. 9 May 2011.

[4] Barclays Capital Equity Research. *U.S. HEALTH CARE- MANAGED CARE: Earnings Season Final Statistical Report*. Joshua R. Raskin, Joseph Kuhns, Jack Meehan. 9 May 2011.

[5] <http://wrnihealthcareblog.wordpress.com/2011/03/09/koller-slashes-bcbs-proposed-rate-increase/>

[6] <http://www.insurance.ca.gov/0400-news/0100-press-releases/2011/release040-11.cfm>

[7] <http://www.inforum.com/event/article/id/314397/>