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Changes in Health Care Financing & Organization (HCFO)

findings brief

key findings

- Adjusted premiums in the individual market in states with prior approval authority combined with loss ratio requirements were lower in 2010–2013 than premiums in states with no rate review authority or file-and-use regulations only.
- Adjusted premiums declined modestly in prior approval states while premiums increased in states with no rate review authority or with file-and-use regulations only.
- The findings suggest that states with prior approval authority and loss ratio requirements constrained increases in health insurance premiums.

Robert Wood Johnson Foundation

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The Association of State Rate Review Authority with Health Insurance Premiums

Overview

During the past decade, increases in health insurance premiums have exceeded the rate of inflation, particularly in the individual and small group markets, with significant variation among states. The federal rate review regulation in the Affordable Care Act (ACA) requires health insurance carriers to file and publicly justify proposed rate increases of 10 percent or more. States' regulatory authority over carriers' rates takes a variety of forms, including "file-and-use"[1] and "prior approval."[2] The ACA also requires carriers to adhere to the federal medical loss ratio requirement, which is the proportion of premium revenues spent on medical claims.

In a HCFO-funded study, Richard Scheffler, Brent Fulton, Ann Hollingshead, University of California, Berkeley; and Pinar Karaca-Mandic, University of Minnesota, conducted the first evaluation of state rate review authority in the individual market during the years immediately following the ACA's enactment (2010–2013), with an emphasis on whether state rate regulation, coupled with state anticipated loss ratio requirements, tempers increases in health insurance premiums.[3]

Sample and Methods

The researchers collected information on state rate review authority and anticipated loss ratio requirements in all 50 states and the District of Columbia for 2010–2013. They combined the data with carrier filings. For each state and year, they extracted carriers' individual-market premiums earned, claims incurred, enrollment (member-months of policies), and insurance carrier characteristics.

The researchers constructed three models that combined state rate review authority categories with anticipated loss ratio requirements. Model 1 used four categories: none or file-and-use; limited prior approval; prior approval without an anticipated loss ratio requirement; and prior approval with an anticipated loss ratio requirement. Models 2 and 3 further divided into two the categories of limited prior approval and prior approval with an anticipated loss ratio, based on the level of the anticipated loss ratio requirement. The researchers assigned the corresponding rate review authority to each carrier based on its type (non-HMO for-profit, non-HMO not-for-profit, and HMOs).

The researchers included only carriers that covered at least 1,000 member-years in a state's individual market. Under the ACA, only carriers with at least that many member-years are subject to the federal medical loss ratio regulation. The final analytic sample included 2,142 carrier-state-year observations for 2010–2013, representing 241 unique carriers.

The research team estimated multivariate regression models that related premiums per member-year to rate review characteristics and insurance carrier characteristics. They also tested for differences in adjusted premiums among different categories of rate review authority. In additional analyses, they compared changes between 2010 and 2013 in premiums in each rate review category to the corresponding change in states with no rate review authority or file-and-use requirements only.

Results

The researchers found that states had bolstered their health insurance rate review authority since the passage of the ACA. For non-HMO for-profit carriers, three states upgraded their rate review authority. In addition, several states increased their anticipated loss ratio requirements for rate review purposes. In 2013, eight states had prior approval with 80 percent or more loss ratio requirements as compared to two states in 2010.

The researchers also found that adjusted premiums in the individual market in states with prior approval authority combined with loss ratio requirements were lower in 2010–2013 ($3,489) than premiums in states that had no rate review authority or that had only file-and-use regulations, preventing the states from blocking rate increases ($3,617). Adjusted premiums declined modestly in prior approval states with an anticipated loss ratio requirement, from $3,526 in 2010 to $3,452 in 2013, while premiums increased from $3,422 to $3,683 in states with no rate review authority or file-and-use regulations only. Adjusted premiums experienced a similar decline in prior approval states without an anticipated loss ratio requirement.

Limitations

The researchers acknowledge several important methodological limitations in their study. First, they were not able to include state fixed effects in their models because of the limited changes in rate review authority within states over time. Second, they did not incorporate into their models how states reviewed rates for health insurance sold through associations, also called group-purchasing agreements, which have presented regulators with a notable challenge. Third, while the federal rate review regulations also applied to the small group market, the study focused exclusively on the individual market.

Discussion and Policy Implications

With the introduction of the federal- and state-based Marketplaces in 2014, more people now have coverage in the individual market than before the expansion. "The study provides early evidence that stronger forms of rate review authority, especially when combined with higher state loss ratio requirements for rate review purposes, are associated with lower premiums," said Pinar Karaca-Mandic, Ph.D., lead author and associate professor at the University of Minnesota School of Public Health. The findings suggest that prior approval authority may have constrained increases in health insurance premiums in the individual market.

The 2010–2013 study period marked the beginning of the ACA-mandated rate review process for rate increases at or above 10 percent, which took effect on September 1, 2011. The study period also corresponds to the establishment of the federal medical loss ratio regulation, which requires insurance carriers selling policies in the individual market to meet a minimum ratio of 80 percent starting in 2011. Many states created or increased their anticipated loss ratio requirements to ensure better alignment with the federal 80 percent retrospective loss ratio requirement.

"While many states increased their health insurance rate review authority during the study period, funding from the Center for Consumer Information and Insurance Oversight's rate review grants will end in 2015-16, which will reduce the resources available to states for reviewing rate filings," said Brent Fulton, Ph.D., M.B.A., assistant adjunct professor of health economics and policy at the University of California, Berkeley. States will have to identify alternate funding to maintain their rate review programs; otherwise, the U.S. Department of Health and Human Services may intercede on the states' behalf to determine the reasonableness of proposed rate increases of 10 percent or more if it determines that the state does not have an effective rate review program.

Conclusion

States exercise varying degrees of rate review authority over health insurance carriers' rates, resulting in differential premium increases. "The study provides early evidence that stronger forms of rate review authority are associated with lower premium growth, suggesting that prior approval authority may constrain health insurance premium increases in the individual market," said Richard Scheffler, Ph.D., principal investigator and distinguished professor of health economics and public policy at the University of California, Berkeley. The researchers emphasize the importance of further evaluation of state rate review authority and activity to determine whether their findings remain in effect over a longer time period and are generalizable throughout the expanded individual insurance market.

For More Information

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Endnotes

1. Under "file-and-use" authority, carriers are required to file rates with the state but could impose rates without state approval.
2. Under "prior approval" authority, carriers may not use a rate until it is approved by the state's health insurance regulator or, if the state takes no action for a certain period (typically 30 or 60 days), the rate is "deemed approved."
3. For complete findings, see Karaca-Mandic, P., Fulton, B.D., Hollingshead, A., and Scheffler, R.M., "States with Stronger Health Insurance Rate Review Authority Experienced Lower Premiums in the Individual Market in 2010-13," *Health Affairs*, Vol. 34, No. 8, 2015, pp. 1358-1367.