Connecticut Health Policy Project

Policymaker Issue Brief

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Health Insurance Rate Shock: What Connecticut Can Do

All signs point to significantly higher individual and small group health insurance rates for Connecticut next year.[i] Proposed individual rates for next year submitted to Maryland's insurance exchange by the state's largest insurer are up 25%.[ii] A recent analysis by the national Society of Actuaries estimates that underlying claims costs that drive premiums will increase 28.8% in Connecticut next year.[iii]

There are several causes of rising insurance costs. It is important to note that historically Connecticut premiums have risen every year since 1998, by as much as 20.5%.[iv] People with high medical bills are expected to enter the general individual market from the Charter Oak Plan and high-risk pools. The Affordable Care Act (ACA) includes reasonable standards on covered benefits, consumer cost sharing, and the share of medical costs paid by plans. It is likely that high premiums and cost sharing[v] will attract fewer people with low medical bills.

The ACA includes provisions that have already helped control health costs, and others that will lower long term cost drivers such as chronic disease, fragmentation of care, and counter productive payment mechanisms. It's important to note that no one knows yet what premiums will be in Connecticut next year. Rates may not rise as much as in other states, but there are sensible options available now to state policymakers to promote affordability. [vi]

The best option, proposed by OPM Secretary Barnes and unanimously approved by the CT Health Insurance Exchange Board,[vii] would **limit insurers' Medical Loss Ratio (MLR),** the proportion of premiums health plans can spend on administration and profits. The ACA limits those costs to 20% of premiums for individual and small group policies. We know this ACA provision saved 137,452 Connecticut consumers almost $13 million last year in insurance costs through rebates[viii] and likely reduced rate increases for all of us. The Exchange Board voted last month to recommend that the Governor and legislature further reduce Connecticut's MLR to 15% in state law. Twenty-nine states have separate MLR standards, several stronger than the ACA floor, either through a lower MLR or with a more limited definition of which expenses are considered administrative.[ix] In 2011, only four of the nineteen insurers offering coverage in Connecticut had MLRs that would have been affected by the new state law.[x] Reducing the amount of administration and profit that insurers can charge consumers will serve to control costs and keep premiums affordable.

A second important option is **active purchasing** in the CT Health Insurance Exchange.[xi] There is ample evidence that competition and negotiating premiums with insurers reduces costs. Ninety percent of large US employers negotiate premiums on behalf of workers. It is estimated that one in ten state residents will buy coverage through the exchange, more than in any state employer group. Active purchasing has kept premium costs under control in other states. Massachusetts's exchange negotiates

premiums with insurers and has kept the rise in premiums to half what is it outside the exchange. In contrast, Utah's exchange does not negotiate and premiums inside the exchange are higher than outside. Through competitive pressures, active purchasing in the exchange will serve to reduce rates across the entire market.

Other short and long term affordability options recently offered by the National Association of Insurance Commissioners[xii] include **state reinsurance programs, capping insurer rate increases, limiting insurer's potential losses, and state supplements to federal subsidies and tax credits**. The ACA includes three provisions to limit insurance premium increases – risk adjustment, reinsurance, and risk corridors -- however states are free to implement stronger affordability protections. State reinsurance programs would build on federal programs to spread the costs of people with high medical bills in any health plan across the entire market, stabilizing premiums. States may also establish maximum average rate increases, forcing insurers to reduce costs. With the individual mandate, insurers will benefit from a very large increase in business. Capping rate increases would allow time for insurers to build claims experience and price coverage appropriately. A state program to absorb some part of potential insurer losses would protect against random fluctuations in experience and lower premiums. The state could also develop a supplemental subsidy program to make federal premium and cost sharing protections stronger, improving affordability, attracting more uninsured state residents and small businesses into coverage, lowering costs for everyone.

In the long term, the best and most permanent way to reduce health insurance costs is to reduce health costs. **Options to lower costs and support quality care** are too numerous to list here but include payment system reform to align incentives, engage consumers and patients, restructure care delivery to be patient-centered and efficient, implement quality and wellness reforms that control costs, drastically reduce overtreatment and promote cost effective care, create a learning system based on data and best practices, and eliminate waste and excess administrative costs. If we don't address the underlying drivers of health costs, efforts to improve health insurance affordability will be temporary and ineffective.

Bottom Line: Connecticut policymakers need to do everything possible, use every tool available, to make health insurance affordable.

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[i] An Analysis of Health Insurance Premiums Under the Patient Protection and Affordable Care Act, Congressional Budget Office, Nov. 30, 2009; As First Year of Health Insurance Mandate Nears, Prices Could Shock Connecticut Buyers, D Harr, Hartford Courant, March 2, 2013, http://www.courant.com/business/hc-haar-health-exchange-prices-20130226,0,2843443.column

[ii] With Health Law Looming, One Health Insurer Wants a 25 Percent Premium Hike, http://www.washingtonpost.com/blogs/wonkblog/wp/2013/04/24/with-health-law-looming-one-large-insurer-wants-a-25-percent-premium-hike/; Maryland Offers Glimpse at Obamacare Insurance Math, Kaiser Health News, April 24, 2013, http://www.kaiserhealthnews.org/Stories/2013/April/24/maryland-aca-premiums-carefirst-blue-cross.aspx

[iii] Cost of the Future Newly Insured under the Affordable Care Act, Society of Actuaries, March 2013, http://www.soa.org/NewlyInsured

[iv] Medical Expenditure Panel Survey, AHRQ

[v] What can Charter Oak teach the CT Health Insurance Exchange?, CT Health Policy Project, March 2013, http://cthealthpolicy.org/pdfs/201303_charter_oak_vs_hix.pdf

[vi] Increased competition from new insurers could keep rates down. Reinsurance, risk corridors and MLR standards will serve to mitigate increases. Some people will qualify for federal subsidies. People in large group, employer-sponsored coverage should expect little change from current trends.

[vii] Barnes, exchange board want to limit health insurers' profits, administrative services, A Levin-Becker, CT Mirror, April 18, 2013, http://www.ctmirror.org/story/19757/barnes-exchange-board-want-limit-health-insurers-profits-administrative-costs

[viii] The 80/20 Rule: Providing Value and Rebates to Millions of Consumers, Healthcare.gov, June 21, 2012, http://www.healthcare.gov/news/reports/mlr-rebates06212012a.html

[ix] Medical Loss Ratio Requirements Under the Patient Protection and Affordable Care Act, Congressional Research Service, September 18, 2012, http://www.fas.org/sgp/crs/misc/R42735.pdf

[x] Consumer Report Card on Health Insurance Carriers in Connecticut, CT Insurance Department, October 2012, http://www.ct.gov/cid/lib/cid/2012_CT_Consumer_Report_Card_on_Health_Insurance.pdf

[xi] CT Health Insurance Exchange Must Negotiate on Behalf of Consumers, CT Health Policy Project, November 2012, http://cthealthpolicy.org/pdfs/201211_active_purchasing.pdf

[xii] Draft Rate Increase Mitigation Strategies, National Association of Insurance Commissioners, April 1, 2013, http://www.naic.org/meetings1304/committees_b_ha_tf_2013_spring_nm_materials.pdf