

Final 2016 Rate Decisions for Individual Health Insurance Plans

Background

Insurance companies offering individual health insurance plans are required to file proposed rates with the Pennsylvania Insurance Department for review and approval before plans can be sold to consumers. Rates reflect estimates of future costs, including medical and prescription drug costs and administrative expenses, and are based on historical data and forecasts of trends in the upcoming year.

The Department reviews rates to ensure that the plans are priced appropriately – that is, they are neither excessive (too high) nor inadequate (too low) – and are not unfairly discriminatory. In its review, the Department considers the factors previously mentioned, such as the insurer’s medical and administrative costs and trend projections, as well as factors such as the insurer’s revenues, actual and projected profits, past rate changes, and the effect the change will have on Pennsylvania consumers.

Rates typically increase each year due to medical trend, which is a combination of the insurer’s expected increases in claims costs and utilization (how much care enrollees access). Rates can also increase for other reasons, such as anticipated increases in expenses, taxes and fees, benefit changes, provider contracts, or changes in federal programs that are meant to stabilize premiums in the individual insurance market.

In the individual market, insurers file proposed rates with the Department annually in the spring. The Department reviews the rates over the summer and consumers also have the opportunity to review the proposed rates on the Department’s website and send comments to the Department for consideration during the review. The Department approves final rates in the late summer/early fall, and the insurers implement the approved rates on January 1 of the following year.

Market Overview

The individual market changed significantly in 2014. Major parts of the Affordable Care Act came into effect that year, including the elimination of medical underwriting (meaning insurers could no longer charge people based on their health status) and guaranteed availability (meaning insurers selling health insurance to individuals had to sell to all individuals, not just healthy ones). These reforms, in combination with other elements of the Affordable Care Act, helped to bring the rate of uninsured in Pennsylvania down from 9.7% in 2013 to 8.5% in 2014.

Many new people entered the individual health insurance market in 2014. When insurers set their rates for 2014 and 2015, and when the Department reviewed those rates, reliable data on the cost to provide coverage under the new Affordable Care Act rules in the individual market was not yet available. In setting 2014 and 2015 rates, some insurers underestimated, by varying degrees, the cost of covering enrollees. As a result, some of these insurers paid more in claims cost and administrative expenses in 2014 than they received in premium payments. In setting 2016 rates, insurers now have the full year of 2014 experience with the Affordable Care Act rules on which to base their estimates.

However, it is worth noting that 2014 experience may overstate consumers' future medical costs. In 2014, many uninsured individuals gained health insurance coverage due to the Affordable Care Act reforms. These newly insured consumers may have had an increased ("pent-up") demand for health care services in 2014, as they sought services they had delayed while uninsured. If formerly uninsured individuals did in fact exhibit pent-up demand for medical services in 2014, that demand should diminish as time passes. The wear-off of this pent-up demand may lead to lower costs in future years than might be expected based on 2014 experience. In addition, consumers who newly enroll in 2016 and future years may be healthier than consumers who enrolled in 2014 and 2015, which could also lead to a healthier pool of enrollees and lower costs than might be expected based on 2014 experience. Insurers in the state have told the Department that they did not see evidence of declining pent-up demand in 2014 and early 2015, but we will continue to monitor these developments and trends. Next year, when insurers file their 2017 proposed rates and the Department reviews them, we will have data from 2014 and 2015 available to better determine whether enrollees, on average, are becoming healthier and using fewer health care services, and in turn whether rates should reflect those trends.

2016 Filing Review and Final Decisions

Of the 19 health insurance companies that will be offering coverage in the individual market in 2016, 12 requested rate changes of less than 10%, 6 requested increases of more than 25%, ranging from 25.5% to 58.4%, and 1 company was new to the market and so did not have a rate change to report.¹

The Department generally found the rate changes of less than 10% to be justified and approved them. Increases under 10% generally align with estimated increases in medical trend.

The Department was concerned about the impact on consumers of the increases over 25%. The Department recognized that companies proposed these high increases because, in many cases, they had underpriced products in 2014 and 2015, were paying higher claims costs than expected, and expected to continue to do so in 2016. However, after reviewing these companies' financial condition, history of past profits, and current surplus, the Department determined that these companies were in sufficiently strong financial condition that they could afford to phase in increases over additional years, if necessary, without jeopardizing their solvency. The Department was concerned about the impact of the proposed increases of over 25% on consumers and asked these companies to reduce the proposed increases. Ultimately, the Department approved increases for these companies ranging from 20% to 26.7%. Although these are still significant increases for consumers, they strike a more appropriate balance between sustainability for the insurers while also protecting consumers from sudden steep increases.

It's important to put the final rates in perspective. According to one study, in 2015 Pennsylvania had the 11th lowest average silver plan premiums in the country. Even with the 2016 rate increases, we anticipate that Pennsylvania premiums will remain nationally competitive. Looking past the percentage

¹ In addition to the 6 companies that requested increases of more than 25%, one more company, Time, initially requested an increase of more than 25% but ultimately decided to withdraw from the individual market and so will not be offering coverage in 2016. Including Time, a total of 20 health insurance companies submitted individual market rate filings for 2016.

increases, the resulting rates offer a range of options for consumers. For example, more than half of the insurance companies in the Pittsburgh and Philadelphia areas offer a silver plan on the federal Health Insurance Marketplace, healthcare.gov, for less than \$225 per month for a 21-year-old and less than \$285 per month for a 40-year-old. And those prices do not take into account the federal subsidies that substantially reduce costs for most enrollees - in 2015 over 80% of Pennsylvanians who bought individual health insurance on the Marketplace qualified for a federal subsidy that covered about two-thirds of their premium. These subsidies will help offset the rate increases in 2016 for eligible individuals.

The Pennsylvania Insurance Department encourages all consumers in the individual market to take another look at their options for 2016 coverage during open enrollment, which starts November 1, 2015. Consumers may find a lower cost plan that meets their needs. There are several ways to shop: consumers can compare plans online at www.healthcare.gov, contact an insurance agent or enrollment assister who can provide free in-person enrollment assistance – try localhelp.healthcare.gov to find nearby enrollment assistance – or contact an insurance company directly.

Final 2016 Rate Decisions for Small Group Health Insurance Plans

Background

Insurance companies offering small group health insurance plans in 2016 are required to file proposed rates with the Pennsylvania Insurance Department for review and approval before plans can be sold to consumers. Rates reflect estimates of future costs, including medical and prescription drug costs and administrative expenses, and are based on historical data and forecasts of trends in the upcoming year.

The Department reviews rates to ensure that the plans are priced appropriately – that is, they are neither excessive (too high) nor inadequate (too low) – and are not unfairly discriminatory. In its review, the Department considers the factors previously mentioned, such as the insurer’s medical and administrative costs and trend projections, as well as factors such as the insurer’s revenues, actual and projected profits, past rate changes, and the effect the change will have on Pennsylvania consumers.

Rates typically increase each year due to medical trend, which is a combination of the insurer’s expected increases in claims costs and utilization (how much care enrollees access). Rates can also increase for other reasons, such as due to anticipated increases in expenses, taxes and fees, benefit changes, provider contracts, or changes in federal programs that are meant to stabilize premiums in the small group insurance market.

In the small group market, insurers file proposed rates with the Department annually in the spring. The Department reviews the rates over the summer and consumers also have the opportunity to review the proposed rates on the Department’s website and send comments to the Department for consideration during the review. The Department approves final rates in the late summer/early fall, and the insurers implement the approved rates on January 1 of the following year. Insurers may also submit quarterly small group filings to the Department to request adjustments to the annual rates they filed. Quarterly changes only impact small businesses that buy new plans mid-year.

Market Overview

Changes to the small group market in 2014 as a result of the Affordable Care Act were not as significant as those in the individual market because the small group market already reflected some of the ACA’s requirements. For example, prior to 2014, insurance companies could not deny small employers coverage based on the health of the group and a typical small group plan covered more benefits than a typical individual plan. In addition, the federal government enacted a “transitional policy” that allows insurance companies the option to continue to renew pre-2014 insurance plans for individuals and small groups through October 2016. Although this transitional policy did not have a significant impact in the individual market in Pennsylvania, about 40% of Pennsylvania small employers chose to continue their pre-2014 insurance plans.

2016 Filing Review and Final Decisions

Of the 23 health insurance companies that will be offering coverage in the small group market in 2016, 18 companies requested rate increases of less than 10%, 2 companies requested increases of more than

10%, and 3 companies filed all new products for 2016 and so did not have rate changes to report because their 2016 products did not exist in 2015.²

The Department generally found the rate increases of less than 10% to be justified and approved them. Increases under 10% generally align with estimated increases in medical trend. The Department was concerned about the impact on consumers of the increases over 10%, and found them to be out of line with market trends. After discussion between the Department and the companies proposing these increases, the companies agreed to reduce these increases.

² In addition to the 18 companies that requested increases of less than 10%, one more company, Time, initially requested an increase of less than 10% but ultimately decided to withdraw from the small group market and so will not be offering coverage in 2016. Including Time, a total of 24 health insurance companies submitted small group market rate filings for 2016.