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Frequently Asked Questions about Health Insurance Rates and the Maryland Insurance Administration's Rate Review Process

A. HEALTH INSURANCE COSTS

Many people have seen the cost of their health insurance go up. Here are a few questions that consumers often ask the Maryland Insurance Administration about the premiums they pay. The term "rate" means the amount the insurance company uses to determine your premium. The "premium" is what you pay when the rate has been adjusted based on your age, deductible and copay levels, and other factors.

Question: What factors can cause health insurance rates to increase?

Answer: Rates are driven in large part by medical spending. Medical costs can go up for many reasons, including increases in physician or laboratory charges, more use of health care services, new technologies, prescription drugs, an aging population, and unhealthy lifestyles. A company also may change its rates because of its financial situation. Premiums must be high enough to cover its projected claims and administrative costs.

Question: Why did my health insurance rates go up when I didn't have any claims (didn't see a doctor, go to the hospital or get any prescriptions)?

Answer: The reason to buy insurance is to protect yourself from the full financial burden of future events. Insurance is a pooling of risks, so individuals pay a share of the pooled experience in exchange for getting the coverage they purchased. If each individual in the pool had to pay the full rate for their own claims, that would not be insurance. If you have an individual or small employer policy, your premium is based on the claims of everyone with your type of policy. Your premium will not go up if you have claims, but it will not go down if you do not have claims. If you have coverage under a large employer health plan, your premium will be based in part on the claims of everyone in the group.

Question: What causes my premium to increase at a different rate than others with the same insurance policy?

Answer: If you buy your own health insurance or have coverage through your employer, your premium may change because you have:

- Reached a higher age bracket (called an “age band”);
- Added a new family member to the policy; or
- Changed benefits.

In addition, if you have coverage through your employer, your premium may change because:

- Of changes in the average age or family size of the group as a whole; or
- Your employer is paying more or less of the total premium.

Question: How often can my premiums go up?

Answer: An individual health plan generally may not raise premiums more often than once every 12 months. This 12-month limit on premium increases does not apply to small employer group contracts. Health plans are permitted to raise premiums more frequently than once every 12 months if the increase is due solely to the enrollment of new family members.

B. HOW COMPANIES DETERMINE RATES

Question: How do health insurance companies develop rates?

Answer: Health insurance companies develop rates using estimates of future claim costs, administrative expenses, and profit.

- Claim costs: The amount a health insurance company expects to pay for health care (physicians, hospitals, prescription drugs, etc.) on behalf of *all policyholders* with similar policies. This amount does not include any deductible or copayment paid by the policyholders.
- Administrative expenses: The cost of administering a health plan. These costs can include:
 - Salaries of health plan employees;
 - Costs to maintain computer systems to pay claims;
 - Costs to manage the provider network (signing up doctors, setting payment rates, etc.);
 - Commissions for agents and brokers (called “producers”);
 - Rent;
 - Premium taxes (a percentage of premium that health plans pay to the State of Maryland); and

- Other costs to administer the policy (for example, fraud detection activities).
- Profit: Money that the insurance company has left after paying for claims and administrative expenses. Some of this money (known as “surplus”) is saved to pay for claims and administrative expenses in years when the plans do not collect enough premiums to cover those costs.

Question: How do health insurance companies estimate claim costs?

Answer: Health insurance companies estimate total claim costs for *all policyholders* with similar policies based on the following:

- Which types of services will be used (for example, x-ray or MRI);
- How many services policyholders will use;
- Where policyholders will go for services (for example, a doctor’s office or an emergency room);
- The average amount paid to medical providers for each service across all Maryland policyholders with similar policies; and
- The portion of the cost of services that the health plan will pay (total cost minus any deductibles, copayments, or coinsurance amounts for which the member is responsible).

Each item in the list above typically is estimated using past history of the policies, adjusted to reflect expected increases in total claim costs (“trend”) and any changes in covered services.

C. THE MARYLAND INSURANCE ADMINISTRATION’S RATE REVIEW PROCESS

Question: Does anyone review an insurance company’s rate increases before they go into effect?

Answer: Yes. State law requires health insurance companies, HMOs, and nonprofit health service plans (such as CareFirst BlueCross BlueShield) to file rates and have them approved by the Maryland Insurance Administration before using them.

Question: Are any health plan rates *not* subject to review by the Maryland Insurance Administration?

Answer: Yes. The Maryland Insurance Administration does not have the authority to review rates for:

- Health benefit plans that are offered through the federal government, including the federal employee health plans and TRICARE;
- Medicare, Medicaid, or other federal health plans;
- Employee plans that are self-funded by an employer (for example, the State of Maryland, Verizon, Montgomery County Public Schools, General Motors); and
- Some plans issued in other states.

Question: Who reviews rate increase requests at the Maryland Insurance Administration, and how are they qualified?

Answer: The Maryland Insurance Administration has actuaries on staff who review rate increase requests. Actuaries are insurance professionals trained in analyzing risks and developing premium rates.

Question: How does the Maryland Insurance Administration decide whether to approve a requested rate increase?

Answer: Health insurance companies must show that the requested premium rates follow Maryland law. Also, the requested premium rates must meet or exceed the state's minimum loss ratio requirement. The loss ratio is the percentage of premium that is used to pay claims. The Maryland Insurance Administration does not approve the requested rates if they are:

- Excessive: Rates that are unreasonably high in relation to the benefits provided and the underlying risks.
- Inadequate: Rates that are unreasonably low in relation to the benefits provided and the underlying risks. If the rates are inadequate, the health plan may not be able to pay future claims.
- Unfairly Discriminatory: Rates that are not actuarially sound and are not applied in a consistent manner so the resulting rate is not reasonable in relation to the benefits and underlying risk.

Question: What information does the Maryland Insurance Administration examine when reviewing a rate increase request?

Answer: When they review a rate filing, Maryland Insurance Administration actuaries examine the data, methods, and assumptions used by the health insurance company to support that requested rate. The company must explain and justify any significant changes from prior filings. In addition, the Maryland Insurance Administration examines:

- The proposed rates and benefits to make sure they follow Maryland law;
- Changes in the number of members covered under the policies;
- Changes in medical and pharmacy costs;
- Past and future administrative expenses;
- Changes in cost sharing;
- Changes in benefits;
- Historical profits, future profit goals, and any changes from previous rate filings;
- History of loss ratios (a loss ratio is the percentage of premium that is used to pay claims);
- History of rate changes;
- The company's financial strength;
- The accuracy of the calculations supporting the rate increase;

- The future estimated loss ratio using the requested premium rates to make sure it meets the minimum requirement in Maryland; and
- Any other factors that contribute to the requested rate increase.

Question: Do health insurance companies always get approval for the rate increases they request?

Answer: No. A health insurance company must show that the increase is justified. If the company does not provide sufficient support for the requested rate increase, the Maryland Insurance Administration asks the company to send more information. If the company does not send the information, or the information does not show that the increase is justified, the requested increase will be denied.

Question: Can the Maryland Insurance Administration approve a requested rate increase for some policies and deny a requested rate increase for other policies for the same health insurance company?

Answer: Yes. The Maryland Insurance Administration reviews the rates for each health insurance product. If the rates for some products are not supported, the requested rates for those products are not approved.

Question: What if the health insurance company disagrees with the Maryland Insurance Administration's decision?

Answer: The company has the right to request a rate hearing.

Question: Must health insurance companies submit rate filings each year?

Answer: In most cases, health insurance companies only need to submit a rate filing if they are requesting a change in rates. However, companies must submit rate filings for Medicare supplement plans even if they are not requesting a change in rates. In addition, health insurance companies must submit a certification each year for small group policies, confirming that the rates charged during the past year complied with the law.

D. LEARN MORE

Question: How can I find out more about rate increases requested by health insurance companies?

Answer:

- The Maryland Insurance Administration posts information for individual and small group rate filings that are "subject to review," which is defined by the U.S. Department of Health and Human Services as a health insurance company's request to increase rates for a health benefit plan by 10% or more, on its website for consumers to view. Consumer-friendly summaries for these filings also are posted.
- Once the Maryland Insurance Administration completes its review and makes a decision on these rate filings, a summary of the results is posted as well.
- Consumers can find this information at www.mdinsurance.state.md.us.