Protection Against Unreasonable Insurance Rate Hikes

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In the decade before the Affordable Care Act (ACA) became law, the cost of health insurance rose at an alarming rate. Even as wages stagnated and inflation remained low, health insurance premiums skyrocketed: in 2009, the average American could expect to pay more than twice as much for health coverage as she did 10 years earlier.¹

The ACA strikes back at this disturbing trend. To reduce unreasonable increases in the cost of insurance, the new health law ushers in commonsense rules that shine a light on insurers’ rate-setting practices and hold these companies to account if they propose premium increases that are excessive. In the short time since these safeguards took effect, they have saved policyholders millions of dollars.² Going forward, these protections, and others in the ACA like them, will help make health insurance more affordable for women and families.

How Does The ACA Prevent Unreasonable Premium Increases?

Effective September 1, 2011, any insurer that seeks a large raise in premiums for a health plan sold in the individual or small group market must disclose details about the proposed rate hike – including the justification for it – to the public, the state(s) where the plan is offered, and the federal Department of Health and Human Services (HHS). State or federal regulators then will review the proposal, testing the insurer’s assumptions against verifiable data and independent cost estimates, to determine whether the increase is unreasonable.

¬ No longer can insurers impose large rate increases without explanation. Now, if an insurance company seeks a premium increase that exceeds a predetermined threshold, it is required to justify its decision, using a straightforward and consumer-friendly disclosure form. Fully accessible online, this form will assist the public in understanding and evaluating an insurer’s rationale for its proposed raise and will allow consumers to make meaningful comparisons among health plans.

On the eve of the ACA’s passage, insurance companies were charging American families more than twice as much for health insurance as they had a decade earlier – even as households’ ability to pay for this essential coverage has declined.²
Transparency fosters accountability. Greater oversight from experts and fresh scrutiny from the public will deter insurers from proposing rate hikes that aren’t justified. In some states, regulators who conclude that a planned premium increase is unreasonable may require the insurer to withdraw or reduce the proposal. In states where regulators lack this authority, the ACA provides generous funding to strengthen the review process.

Why Is This Important?

From 1999 to 2009, health insurers more than doubled the premiums they charged to American families, even as households’ ability to pay for this essential coverage declined.

- In 2009, families faced premiums that were more than $7,500 higher than those of the previous decade, an increase of more than 130 percent.¹
- All the while, household income grew sluggishly, meaning that the relative cost of paying for insurance ballooned. By the end of the 2000s, the price of employer-based family coverage consumed nearly twice as much of a family’s income as it did at the start of the decade – amounting to nearly a quarter of the average family’s total earnings.²

Does Rate Review Work?

Yes. States with some form of premium rate review in place prior to the ACA have used it with repeated success, forcing insurers to reduce unreasonable rate requests to the benefit of thousands of consumers.

What’s more, states that have received ACA funding to improve their review processes already have secured substantial savings for American families. For example, ACA grant funds have made a difference in:

- California, where a now-enhanced review process has led to rate reductions that have saved Californians an estimated $40 million in 2011 alone;
- Nevada, which protected consumers by rejecting more than a dozen unreasonable rate increases in the first quarter of 2011, including insurer proposals to raise premiums by more than 25 percent; and
- North Carolina, which negotiated a reduction in a rate request from the state’s largest insurer, saving beneficiaries $14.5 million.²

States that have received grants under the ACA to improve their rate review processes have used this funding to saved millions of dollars for American families.²
What Plans Are Affected?

**Premium rate review applies to all new private health plans sold in the individual or small group market.**

- Coverage purchased through a large employer or offered by a “grandfathered” health plan are exempt.
  - Grandfathered plans are those that existed prior to passage of the ACA. They are exempt from some of the law’s new rules, so long as these plans do not make certain changes to the benefits they offer – like raising cost-sharing or reducing the employer’s contribution rate to premiums.
  - Most health plans are expected to lose grandfathered status by 2013.³

**For rate hikes proposed between September 1, 2011 and August 31, 2012, a premium increase of 10 percent or more will trigger rate review. Starting on September 1, 2012, the 10 percent threshold will be replaced by state-specific baselines tailored to reflect each state’s particular insurance and health care cost trends.**

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3 Grandfathered plans are required to disclose their grandfathered status to enrollees in any materials describing benefits. If unsure of their plan’s status, women should check with their insurance carrier.