



NEWS RELEASE

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FIRST ANALYSIS OF INSURER RATE INCREASES ABOVE 10% IN NEW HEALTH PLANS FINDS MOST DRIVEN BY MEDICAL COSTS; AFFORDABLE CARE ACT NOT A MAJOR FACTOR IN 2013

*Study Finds Nonprofit Insurers Sought Smaller Increases Than Publicly Traded; Regulators
Approved Majority of Resolved Increase Requests*

New York, NY, December 19, 2013—Rising medical costs were the primary driver of recent rate increases by health insurers, accounting for three-quarters or more of the larger premium hikes requested between July 2012 and June 2013, a new Commonwealth Fund study finds. The analysis is the first ever to take a national look at the explanations insurers file with federal and state authorities to justify rate increases of 10 percent or more, as required by the Affordable Care Act. Currently, insurers are only required to submit rate increase explanations for non-grandfathered plans—those plans that became available after the enactment of the health reform law.

Researchers Michael J. McCue of Virginia Commonwealth University and Mark A. Hall of Wake Forest University, reviewed 311 filings from insurance plans covering 150 or more people in the individual and small-group markets for their study, *What's Behind Health Insurance Rate Increases? An Examination of What Insurers Reported to the Federal Government in 2012–2013*. The review found that only about half the filings—155—attributed any portion of rate increases to provisions of the Affordable Care Act that had gone into effect by 2013. Overall, those effects accounted for a small part of insurers' increases. Specifically, insurers reporting that these early insurance reforms in the law had an effect on their decisions to raise premiums said that new preventive and contraceptive services for women were responsible, on average, for 0.8 percent of the increases, while taxes and fees related to the law were responsible for 1.5 percent.

“Thanks to the transparency that these filings provide, we can look at premium costs with a level of depth and specificity that was previously impossible,” said McCue. “What we found is that these larger rate increases were driven by rising medical costs.”

The researchers found that among insurers with large rate increases, nonprofit companies sought lower increases than publicly traded companies, by an average of \$121 in the individual market and \$180 in the small-group market. Nonprofit plans' premiums increased at lower rates because they had smaller increases in administrative costs and profits, according to the study.

Filings for premium cost increases also revealed that:

- The average annual premium increases among carriers with increases of 10 percent or more were \$648 in the individual market and \$729 in the small-group market. Insurers on average attributed the entire amount of rate increases in the individual market to higher medical expenses. In the small-group market, insurers reported that medical costs accounted for 72 percent of requested rate increases.
- Rising prices were a larger driver of medical expense increases than enrollees' greater use of services. Insurers attributed more than half of the average medical expense increase to higher per unit costs for services in both the individual market (57%) and small-group market (58%). About a quarter (26%) of expected medical cost increases in the individual market and 31 percent in the small-group market were attributed to increased use of services.
- Increases in administrative costs and profits accounted for 28 percent of premium increases, on average, among insurers with high rate increases in the small-group market.
- Insurers in the individual market with large rate increases reduced overhead costs and profits in response to medical cost increases by an average of \$25 annually per member.

According to the study, between 4 percent and 5 percent of consumers in the individual and small-group markets were affected by rate increases of 10 percent or more nationally between July 2012 and June 2013. Of the 311 filings reviewed, 115 had been resolved. State regulators were somewhat more likely to approve increases than federal regulators, who reviewed filings for states that did not review filings themselves, approving 83 percent of all resolved filings. Connecticut, Idaho, Maine, Maryland, Ohio, Indiana, Washington, and West Virginia will see larger shares of their small-group and individual markets affected by large rate increases.

“The Affordable Care Act is designed to increase health insurance coverage while controlling health care costs and improving health care quality,” said Commonwealth Fund President David Blumenthal, M.D. “But if we are to maintain affordable insurance premiums over time, it is clear we must control the costs of insured services, which explained most of premium increases in 2013.”

Starting in 2014, major changes to the small-group and individual health insurance marketplaces will take place. These include essential health benefits, the minimum package of benefits that plans must cover, such as prescription drugs and maternity and newborn care; community rating,

or charging everyone the same price regardless of gender or health condition; and provisions requiring insurers to provide coverage to anyone who applies.

Moreover, insurers will be required to report all premium increases in non-grandfathered plans—those offered after the ACA was signed into law—in addition to submitting for approval rate increases of over 10 percent. It will be crucial, say the researchers, to closely monitor those filings to assess the impact the new rules have on health insurance premiums.

The Commonwealth Fund is a private foundation supporting independent research on health policy reform and a high performance health system.