



U.S. Department of Health and Human Services
Rate Review Annual Report
December 2015

U.S. Department of Health and Human Services Rate Review Annual Report for Calendar Years 2014 and 2015

Executive Summary

The Affordable Care Act established the Rate Review and the Rate Review Grants Programs,¹ which became effective in 2011. These programs, coupled with several critical protections for consumers who purchase non-grandfathered health insurance coverage in the individual and small group markets, have brought new levels of scrutiny and transparency to health insurance rates in those markets. Increased review has resulted in some issuers lowering their rates (implemented compared to proposed), while increased transparency allows consumers to view rate information that was not previously available. In 2015, rate review reduced total premiums for renewed single risk pool plans by an estimated \$1.1 billion in the individual market and by \$418 million in the small group market.

Background

Before the enactment of the Affordable Care Act, annual premium increases in the individual market were highly variable and increases often averaged 10 percent or more at the state-level. From 2008 to 2010, the average annual rates of premium increases in the individual market ranged from 9.9 percent to 11.7 percent. In 2010, many increases were in the range of 9 percent to 15 percent, but a full quarter of issuers increased premiums by 15 percent or more. The average annual state-level increase was 10 percent or higher.²

After the enactment of the Affordable Care Act, average rate increases in the individual market moderated to 7.0 percent in 2011 and 7.1 percent in 2012. The average rate increase was 10.3 percent in 2013, but would have been 8.7 percent if the high increases in one outlier state were excluded. This report shows that rate increases have remained moderate since 2013. The average rate increase in the individual market was 2.4 percent in 2014 and 6.9 percent in 2015. In the small group market, the average annual rates of increase were 6.1 percent in 2011, 4.7 percent in 2012 and 7.1 percent in 2013.³ Small group rate increases have also remained moderate since 2013. In the small group market, the average rate increase was 3.6 percent in 2014 and 4.3 percent in 2015.

¹ Section 2794 of the Public Health Service Act (PHSA).

² HHS (2011), *Rate Review Works: Early Achievements of Health Insurance Rate Review Grants*. See https://www.cms.gov/CCIIO/Resources/Files/Downloads/rate_review_report_092011.pdf.

HHS (2012), *Trends in Premiums in the Small Group and Individual Insurance Markets, 2008-2011*. See <http://www.aspe.hhs.gov/health/reports/2014/Premiums/20121119%20PremTrendsRptFnl.pdf>.

Annual Rate Review Reports for prior years are available at:

<https://www.cms.gov/CCIIO/Resources/Forms-Reports-and-Other-Resources/rate-review09112012a.html>;
http://aspe.hhs.gov/health/reports/2013/acaannualreport/ratereview_rpt.pdf; and <http://aspe.hhs.gov/pdf-report/rate-review-annual-report-calendar-year-2013>.

³ HHS (2011), *Rate Review Works: Early Achievements of Health Insurance Rate Review Grants*. See https://www.cms.gov/CCIIO/Resources/Files/Downloads/rate_review_report_092011.pdf.

HHS (2012), *Trends in Premiums in the Small Group and Individual Insurance Markets, 2008-2011*. See <http://www.aspe.hhs.gov/health/reports/2014/Premiums/20121119%20PremTrendsRptFnl.pdf>.

Increased Review

Since September 1, 2011, all issuers requesting rate increases of 10 percent or more for non-grandfathered products in the individual and small group markets are required to submit a rate filing justification to the Secretary of the Department of Health and Human Services (HHS). States with effective rate review programs review these proposed rate increases to determine whether they are unreasonable in accordance with the federal definition⁴ and their review has to incorporate all of the factors listed in 45 CFR 154.301. For states without effective rate review programs,⁵ HHS conducts the review of issuers' proposed rate increases of 10 percent or more for non-grandfathered plans in the individual and small group markets.

Through the Rate Review Grants Program, HHS provided \$250 million in grants to 45 states and the District of Columbia in fiscal years 2010 through 2014 to establish and enhance rate review programs. States have used grant funds for many activities including: hiring and contracting with actuaries to review rates; creating rate filing instructions for issuers; improving state websites to display rate review information; and hiring additional staff to facilitate the rate review process.

Increased Transparency

States with an effective rate review program must post information for proposed increases of 10 percent or more to their state website or provide HHS's web address for such information, and must have a mechanism for receiving public comments on those proposed rate increases. After review, those states must post final increases or provide HHS's web address for such information.

In some states, the insurance regulator has the authority to deny or reduce unreasonable rates. In other states, the regulator cannot prevent an issuer from implementing a rate increase that was deemed unreasonable. However, the issuer must publicly disclose, in a prominent location on its website, that the rate increase was deemed unreasonable by the state, and provide a final justification for implementing the unreasonable rate increase.

2014 Market Reforms

Many additional health insurance market reforms went into effect in 2014. Two of those reforms directly impact the way that issuers are allowed to set rates. Issuers selling non-grandfathered coverage in the individual and small group (or merged) markets are required to adhere to new rating rules that limit permissible rating factors to geographic location, single vs. family coverage, age (within a 3 to 1 band), and tobacco use (within a 1.5 to 1 band).⁶ Additionally, issuers are required to set rates based on all enrollees in a single risk pool, on and

⁴ See 45 CFR 154.205(a): "The rate increase is an unreasonable rate increase if the increase is an excessive rate increase, an unjustified rate increase, or an unfairly discriminatory rate increase".

⁵ There are currently five states without Effective Rate Review Programs: Alabama, Missouri, Oklahoma, Texas, and Wyoming.

⁶ 45 CFR 147.102

off the Health Insurance Marketplace.⁷ Grandfathered and transitional plans are not subject to those limited rating factors and risk pool requirements.

Rate Review Annual Reports

This is the fourth Rate Review Annual Report issued by HHS.⁸ In prior years, the annual reports generally relied on retrospective data submitted through the Rate Review Grants program. Grantee states report information such as the average initial rate increase requested and final rate increase approved. Results from the 40 grantee states in the individual market and 37 grantee states in the small group market were extrapolated in order to provide national estimates of the premium reductions resulting from the decrease between initial and final rates. Since grantee states reported information retrospectively, prior annual reports contained results from the preceding calendar year (e.g. the 2014 annual report provided estimates using 2013 calendar year data).

Starting with coverage for calendar year 2014, an issuer is required to submit the Unified Rate Review Template (URRT) to HHS if it has any single risk pool plan in the individual or small group market with a rate increase of any size.⁹ The URRT, which contains information about rate increases and the issuer's projections for enrollment and utilization for the following calendar year, is submitted by issuers through the Unified Rate Review (URR) module in the Health Insurance Oversight System (HIOS). While the grants data that was used for prior year reports was retrospective, the URRT data is prospective.

This report relies on the self-reported URRT data submitted by issuers in 2013 and 2014 with estimates for single risk pool coverage effective in calendar years (CY) 2014 and 2015.

Report Methodology

Before analyzing the URRT data, we removed records with missing, zero, or duplicate values for projected enrollment, or records that were otherwise labeled by the issuer as terminated or deactivated plans. When estimating total projected premium or enrollment¹⁰, we include records for renewing plans and for new plans. We exclude new plans when calculating weighted average rate changes because issuers cannot measure a rate increase for plans offered for the first time.

To estimate the impact of the Rate Review and Rate Review Grants Programs, we compare the

⁷ 45 CFR 156.80

⁸ Prior year reports are available at:

<http://www.cms.gov/CCIIO/Resources/Forms-Reports-and-Other-Resources/rate-review09112012a.html>;

http://aspe.hhs.gov/health/reports/2013/acaannualreport/ratereview_rpt.pdf; and

<http://aspe.hhs.gov/pdf-report/rate-review-annual-report-calendar-year-2013>.

⁹ Issuers who are not requesting rate increases for their respective non-grandfathered individual or small group coverage must also submit the URRT to HHS if the issuer is offering coverage on the Federally Facilitated or State Partnership Marketplaces or if a state regulator requires issuers to use the URRT for all rate filings.

¹⁰ Enrollment counts in this report are projections provided by issuers in the URRT and do not represent actual enrollment.

issuer's rate increase originally requested in their first URRT submission for a given calendar year to the final revised URRT submission for the same calendar year.¹¹ For single risk pool products with a proposed rate increase that was reduced before it was finalized, we multiply the projected premium for the product by the difference between the requested rate and the final rate.¹² We then sum the product level savings results to arrive at a national estimate of total reduced premiums for each year.

2014 Individual & Small Group Markets

Single risk pool plans in the individual and small group market had to newly comply with 2014 market reforms such as essential health benefits, actuarial value, maximum out-of-pocket limits, and other required changes to benefit design. As a result, over 80 percent of rate filings for the 2014 calendar year were for new single risk pool products that issuers created in order to comply with those reforms. As mentioned previously, we cannot estimate rate increases or premium reduction for new products because the new products were not offered in the previous year. Thus, the analyses for 2014 are more limited than analyses for prior or future years.

Individual Market

429 issuers submitted 1,130 single risk pool product rate filings for the individual market in 2014. Due to the new insurance market rules discussed above that went into effect in 2014, only 307 of the 1,130 products were renewing (offered in 2013 and in 2014). Among those filings for renewing products, the average rate increase requested was 2.6 percent and the average implemented was 2.4 percent. We do not provide estimates of individual market premium reductions for CY 2014 because so few filings were for renewing products and such an estimate would only include 20 percent of total filings, which would not accurately reflect the entire individual market.

Small Group Market

366 issuers submitted 1,093 single risk pool product rate filings in the small group market in 2014. 129 of the 1,093 filings were for renewed products. Among those filings for renewed products, the average rate increase requested was 3.7 percent and the average implemented was 3.6 percent. We did not estimate small group market premium reductions for CY 2014 because such an estimate would only include 12 percent of total filings in the entire small group market.

2015 Individual & Small Group Markets

For 2015, most of the rate filings were for existing single risk pool products with rate changes. Products with rate changes include plans with increases and decreases. This provided a larger

¹¹ Some issuers refiled the URRT several times before submitting the final version of the URRT. In this case, we define the requested rate increase as the highest value of the proposed rate increase from all submissions prior to the final submission.

¹² For rate increases that were subject to review, some state regulators manually enter the final modified rate increase in HIOS and do not require issuers submit a revised URRT. If the regulator enters a lower rate increase than the rate increase in the issuer's most recent URRT, we treat the regulator-reported value as the final rate increase.

basis for analysis of estimates of premium reductions.

2015 Key Findings

- Rate review reduced total premiums for renewed single risk pool plans by an estimated \$1.1 billion in the individual market and by \$418 million in the small group market, for a total of \$1.5 billion.
- The weighted average rate increase implemented for single risk pool coverage was 6.9 percent in the individual market (8.7 percent initially requested) and 4.3 percent in the small group market (5.1 percent initially requested).
- After rate review in the individual market, the number of double digit rate requests dropped by nearly one-quarter.
- In the individual market, 30 percent of covered lives were projected to enroll in single risk pool plans with a rate increase that was reduced or denied. In the small group market, the projection percentage was 19.6. Altogether, an estimated 6.5 million consumers benefited from rate review.
- The number of issuers submitting a URRT in the individual or small group market grew from 795 in 2014 to 1,195 in 2015, and the number of products included on the URRTs nearly doubled.

Individual Market

577 issuers submitted 1,933 single risk pool product rate filings for the individual market in 2015. 683 of the 1,933 products were new (not offered in 2014). 443 of the 1,250 rate filings for renewed products requested a rate increase of 10 percent or more. Among all single risk pool filings with a rate change request of any size, the average rate increase requested was 8.7 percent and the average implemented was 6.9 percent. After the review process was complete, the percentage of filings with a rate increase of 10 percent or more dropped by approximately 24 percent. We estimate premiums were reduced by \$1.1 billion in the individual market for single risk pool coverage in CY 2015 based on the difference between the requested and implemented rate changes.

Table 1: Rate Change Requested Versus Rate Change Implemented in the Individual Market in 2015 for Single Risk Pool Coverage

| Individual Market, CY 2015 | <u>Requested</u> | <u>Implemented</u> |
|---|-------------------------|---------------------------|
| Number of Issuers | 577 | |
| Number of Product Rate Filings | 1,933 | |
| Number of Rate Filing for New Products | 683 | |
| Number of Filings with Rate Changes requested $\geq 10\%$ | 443 | 337 |

| Individual Market, CY 2015 | <u>Requested</u> | <u>Implemented</u> |
|--|-------------------------|---------------------------|
| Average rate change for renewing products: | | |
| All filings with a requested rate change | 8.7% | 6.9% |
| When requesting increase $\geq 10\%$ | 17.7% | 14.0% |
| Projected Covered Lives: | | |
| Number of covered lives affected by rate filings | 15.1 million | |
| Covered lives with rate change requested $\geq 10\%$ (%) | 33.4% | 28.6% |
| Covered lives with rate change request reduced or denied (%) | 30.0% | |
| Estimated Reduction in Premium | \$1.1 billion | |
| <i>Source: Unified Rate Review Templates, CY 2015</i> | | |

Small Group Market

618 issuers submitted 2,377 product rate filings in the small group market in 2015. 787 of the 2,377 products were new (not offered in 2014). 251 of the 1,590 rate filings for renewed products requested a rate increase of 10 percent or more. Among products with a rate change of any size, the average rate increase requested was 5.1 percent and the average implemented was 4.3 percent. We estimate premiums were reduced by \$418 million in the small group market for single risk pool coverage in CY 2015 based on the difference between the requested and implemented rate changes.

Table 2: Rate Change Requested Versus Rate Change Implemented in the Small Group Market in 2015 for Single Risk Pool Coverage

| Small Group Market, CY 2015 | <u>Requested</u> | <u>Implemented</u> |
|---|-------------------------|---------------------------|
| Number of Issuer | 618 | |
| Number of Product Rate Filings | 2,377 | |
| Number of Rate Filing for New Products | 787 | |
| Number of Filings with Rate Changes requested $\geq 10\%$ | 251 | 220 |
| Average rate change for renewing products: | | |
| All filings with a requested rate change | 5.1% | 4.3% |
| When requesting increase $\geq 10\%$ | 15.3% | 12.1% |
| Projected Covered Lives: | | |

| Small Group Market, CY 2015 | <u>Requested</u> | <u>Implemented</u> |
|--|-------------------------|---------------------------|
| Number of covered lives affected by rate filings | 10.1 million | |
| Covered lives with rate change requested $\geq 10\%$ (%) | 17.7% | 15.5% |
| Covered lives with rate change request reduced or denied (%) | 19.6% | |
| Estimated Reduction in Premium | \$418 million | |
| <i>Source: Unified Rate Review Templates, CY 2015</i> | | |

Conclusion

The rate review provisions of the Affordable Care Act enhance scrutiny and transparency in the health insurance market and hold issuers accountable for rate increases. Rate increases are now public information, and issuers of single risk pool products must provide data on requested increases of any size. We estimate that 6.5 million consumers benefited from \$1.5 billion in premium savings in 2015 (\$1.1 billion in the individual market and over \$400 million in the small group market) for single risk pool coverage as a result of the rate review program.

In addition, the data indicates an increase in competition in the individual market and more product choice for consumers from 2014 to 2015. The number of issuers submitting the URRT in the individual market grew from 429 in 2014 to 577 in 2015. In the small group market, the number of issuers submitting the URRT increased by nearly 70 percent.¹³ The number of product filings nearly doubled from 2014 to 2015. The increase in issuers and products was accompanied by an increase in projected covered lives. The number of consumers projected to purchase coverage in the individual market increased by 11 percent (13.5 million in 2014 to 15.1 million in 2015). In the small group market, there are almost 100,000 more projected enrollees in 2015 than in 2014 (10.1 million in 2015 and 10 million in 2014).

Moving forward, issuers will continue to submit data for requested rate increases of any size for single risk pool plans. The accrual of multiple years of data will improve our ability to assess rate impacts on the market as a whole, compare rate increases across states and issuers, and monitor changes over time. Using both historical and new filings, HHS will continue to monitor the long-term trend of requested and implemented rate increases in the individual and small group health insurance markets.

¹³ The increase in filings does not necessarily reflect an increase in the number of issuers offering coverage. In several states operating a State-based Marketplace, new issuers (or existing issuers offering only new products) were not required to submit the URRT.