Department of Regulatory Agencies

Division of Insurance

Factors Affecting Health Insurance Premiums Starting in 2014

Factors Insurance Companies Review When Developing a Product's Base Rate

Companies review factors that reflect changes in costs related to the delivery of health care services or the behavior of the overall population. These factors help insurers establish an average base rate. The "base rate" applies to an individual product for an entire market segment (individual, large group, small group.) ***This rate is established before an insurer calculates an individual's or an employer's final premium.*** The following factors may be reviewed to establish a product's base rate.

1. ***Experience of an entire group of policyholders***
   Definition: Number of claims made by all policyholders that have similar plans over a year
   a. Carriers adjust base rates if there is a difference between actual claims and the previous year's estimate of claims. If a carrier makes a bad estimate, it will increase the base rate to cover additional costs.

2. ***Medical Trend***
   Definition: Increase in the costs and number of health care services provided to policyholders
   a. Costs - estimated change in the price per health care service delivered, including:
      i. Contracts with doctors
      ii. Hospital charges
      iii. Laboratory services
      iv. Pharmacy – production and dispensing
      v. Diagnostic imaging (x-rays, cat scans, MRI, etc…)
   b. Utilization – frequency with which individuals use the health care system. It can be affected by several factors.
      i. Aging population
      ii. Overall decrease of the population's health (i.e. obesity)
      iii. Changes in provider treatment patterns such as an increase in cat scans, lab tests or outpatient surgeries

3. ***Insurance Trend***
   Definition - Increase in costs associated with current policies and their benefit structures
   a. Deductible Leveraging – This process adjusts the base rate to cover the decreased value of a deductible or co-pay. When a deductible or co-pay stays constant over several years, the deductible loses value because medical inflation continues. For instance, a $1000 deductible won't cover as much health care the second year. Carriers make up for this decreased value by raising the base rate.

4. ***Aggressive Pricing***
   Definition: Carriers may initially price a product lower to get more policyholders. If a carrier attracts a strong policyholder base, the initial pricing is likely to continue. If the carrier does not attract a strong policyholder base, costs may rise to accommodate for lost revenue. A carrier also may initially price a product higher to ensure the carrier's cost estimates are correct.

5. ***Business Operations***
   Definition: Costs incurred through general business operations including payroll and benefits, information technology systems and reinsurance contracts. The reinsurance covers the highest claims a company may incur, but does not want to pay.

6. ***Cost-shifting***
   Definition: Adjustment in base rate due to uncompensated care of the uninsured or the inadequate payments received from public programs such as Medicare and Medicaid. For example, if an uninsured patient cannot pay a provider, that provider will increase charges for privately insured patients in order to recoup the costs.

7. ***Federal Health Care Reform Requirements***
   Definition: Variety of new requirements mandated in federal law since 2010, with new requirements starting in 2014, including:
   a. No denials for anyone with pre-existing conditions
   b. No rescissions except for fraud
   c. No lifetime limits
   d. Restricted annual limits
   e. Dependent coverage up to age 26
   f. Full coverage of certain preventive services

8. ***State mandates***
   Definition: Requirements mandated in state law. There have been no new state mandates since 2011.

Factors Insurers Use to Establish a Premium – Once the base rate is established, insurers can review certain additional factors ***to adjust an individual's or employer's final premium.*** These factors are established by law and vary according to each of Colorado's three insurance markets – large group, small group and individual. For instance, a small employer with three employees over age 50 is affected by the age factor more than an employer with one 30 year old and two employees over age 50.

Large Group Employer (50+ employees): Previous claims of the group are the biggest factors in premiums, whether it's a new policy or a renewal.

Small Group Employer (1-50 employees)**:** Insurers can adjust premiums based on age, geography, tobacco use, family size, and a plan's benefit structure.

Individual Coverage: Insurers can adjust premiums based on age, tobacco, geography, a plan's benefit design. Carriers can no longer increase premiums due to an individual's health status. Some companies add a predetermined impact for the length of time a consumer has a policy.