

## Proposed Principles for Defining a Medical Expense Trend Target

### Introduction

At the outset of the 2012 small and large employer group rate factor review process for commercial health insurers with significant market share in Rhode Island, the State of Rhode Island Office of the Health Insurance Commissioner (OHIC) issued its expectation that insurers would submit a medical expense trend factor that did not exceed four percent for either small group or large group business. OHIC's experience to date regarding this expectation may be helpful in informing current work to develop a medical expense trend target for use beginning with the 2013 rate factor review process.

### OHIC's Experience to Date and Proposed Principles

OHIC's experience to date with the four percent maximum medical expense trend factor expectation and proposed principles for defining a medical expense trend target flowing from that experience are described below.

#### OHIC's Experience to Date and Medical Expense Trend Target Definition Proposed Principles

Experience to Date	Proposed Principle
1. Adjustments outside of pricing and utilization (e.g., deductible leveraging <sup>1</sup> ) may be thought of being inside or outside of medical expense trend.	<b>1. Medical expense should be defined in a straightforward way.</b> It should include price, utilization, deductible leveraging, and similar adjustments but should not include changes in demographics.
2. Adjustments for unanticipated changes to medical expense trend in a prior year (known as "prior period adjustments") may be thought of as being inside or outside of medical expense trend.	<b>2. Prior period adjustments should be identified and reviewed separately.</b> Because medical expense trend is a prospective concept, adjustments for unanticipated changes in prior year spending should not be treated as a part of medical expense trend.
3. Some medical expense savings initiatives may make an impact on medical expense trend for a single year without addressing the fundamental drivers of medical expense trend growth over time.	<b>3. Measures should be undertaken both to reduce medical expense trend in the short-term and long-term.</b> Initiatives that reduce medical expense trend without fostering payment and delivery system reform may be accepted but should be viewed cautiously.

OHIC welcomes the Health Insurance Advisory Council's feedback in response to these proposed principles.

<sup>1</sup> Deductible leveraging means that, for the same total increase in health care costs, a higher deductible plan or policy experiences a greater proportional increase in plan or policy liability compared to a low deductible plan or policy.