



**State of Rhode Island Office of the Health Insurance Commissioner
Health Insurance Advisory Council
Draft Recommendations Regarding a Strategy to Control Health Insurer
Medical Expense Trend and Improve Health Insurance Affordability
June 19, 2012**

Introduction

The Health Insurance Advisory Council (HIAC) to State of Rhode Island Office of the Health Insurance Commissioner (OHIC) finds that the rate of commercial health insurance premiums have continued to grow at a pace that is unaffordable to Rhode Island businesses and consumers. This growth has occurred despite the implementation of health insurance Affordability Standards previously recommended to OHIC by HIAC and adopted by OHIC. For this reason, HIAC recommends that OHIC take additional steps to address health insurance affordability. Specifically, the council recommends that OHIC annually establish a medical expense trend targets that commercial health insurance insurers would be required to meet at the time of their annual rate filings, beginning with the 2013 rate review process (which determines 2014 rates). Medical expense represents the largest component of filed premiums and, therefore, a reduction of the medical expense trend should produce more affordable health insurance coverage.

Recommendations

1. Medical expense trend should grow no faster than general inflation.

HIAC recommends that OHIC define an affordable medical expense trend rate as one that grows no faster than the growth in costs generally experienced for other goods and services. The council finds that the United States Bureau of Labor Statistics Consumer Price Index (CPI) for All Urban Consumers All Items Less Food and Energy is the most appropriate market basket cost index to utilize as an externally calculated benchmark for affordability. HIAC recommends using this version of the CPI that excludes food and energy costs because food and energy costs tend to be significantly more volatile than other costs and the council believes that a stable index will better serve Rhode Island than will one that exhibits substantial changes from year to year.

Because the United States Bureau of Labor Statistics calculates CPI on a retrospective basis, and OHIC regulates insurer premiums on a prospective basis, the council recommends that OHIC utilize a multi-source composite forecast of CPI for the purpose of setting a medical expense trend target.

2. The medical expense trend target should be phased in over three years.

HIAC recognizes that it will require significant effort on the part of insurers to manage medical expense growth so that annually it does not exceed CPI. Insurers will need to change their contracting arrangements with health care providers and successfully introduce new insurance

products, among other actions. For that reason, the council recommends that the medical expense trend target be implemented in the following fashion:

- Rate Year 2014: CPI plus two percent
- Rate Year 2015: CPI plus one percent
- Rate Year 2016: CPI

3. The failure of an insurer to file rates at or below the medical expense trend target should automatically trigger an administrative rate hearing.

HIAC recommends that the consequence of filing a medical expense trend above target should be an administrative rate hearing, with a full review of provider contracts and other documents deemed appropriate by the Commissioner. During the hearing the insurer will be required to justify the basis for a medical expense trend above the target. The council understands that by OHIC procedure the Commissioner can approve a rate above the target if the Commissioner believes that such a request is justified.

Previous premium rates should continue until OHIC issues a hearing ruling. The council believes that this trigger mechanism will motivate insurers to make initial filings that fall within the medical expense target.

4. OHIC should work with the employer community to educate employers about steps they can take to reduce insurance expenses.

HIAC recognizes that for insurers to succeed in meeting the medical expense trend target, they will need employers to purchase new health insurance products that encourage employees and their dependents to seek care from higher value providers. OHIC should work with the employer community, and with brokers who support employers, to educate them about the features and benefits of such products, as well as about other steps that employers can take to help slow premium cost growth.

Conclusion

HIAC is aware that these recommendations, if implemented by OHIC, will have profound impact upon the health insurance market in Rhode Island. That impact will extend to the providers that contract with insurers and to the employers and employees who are served by the insurers. The council believes that the recommended actions are necessary because of the severity of the financial hardship being experienced as a result of high and growing premiums. As one council member stated during the April 2012 council meeting: “Real disruption will be necessary to make health care more affordable.”