



## Frequently Asked Questions on Rate Filing, Rate Reviews and Approval of Health Insurance Rates in Colorado

As the cost of health care continues to rise, many insurance companies are raising premium rates. The Division of Insurance reviews health insurance rates for individual, small group, and large group coverage before these rates can take effect in Colorado. Most health rate increases are prior approval, which means the rates have to be approved before an insurance company can use them.

Below are frequently asked questions about how health insurance rates are set as well as some new initiatives to strengthen the rate review process and make it more transparent.

### How do Colorado's health insurance rates compare to other states?

Premium rates are going up across the country. In 2009, Colorado ranked 26th among states in the annual amount paid by a family for health insurance premiums involving employers of all sizes, according to the federal government's Medical Expenditure Panel Survey (MEPS). That means families in 25 states paid higher average premiums than in Colorado.

The average annual premium for a Colorado family getting coverage through an employer was \$13,360 in 2009, compared to \$9,522 five years earlier. The average annual premium for a single employee was \$4,570 in 2008, compared to \$3,645 five years earlier.



Unlike some states where consumers have few options, Colorado has a competitive health insurance market. There are currently 392 companies that sell one or more of the different types of health insurance coverage, so Colorado consumers have many choices of companies and plans. The top ten carriers account for about 72.3 percent of the market.

Colorado also has a number of protections for consumers who buy individual insurance plans. Individual health benefit plans, as defined in Colorado law, also are "guaranteed renewable," meaning these types of policies cannot be cancelled due to the health condition or claims of the person insured. However, premium rates for the whole market continue to rise as the cost of medical services goes up.

### What is Colorado doing to make health insurance more affordable?

Because health care costs drive insurance rates, health care costs affect any effort to improve affordability and accessibility of insurance. The changes to the rate review process are part of a larger effort by Colorado to address the rising cost of health care.

House Bill 08-1389 (which became law in 2008) includes many other steps to lay the foundation for meaningful health reform in Colorado, including giving consumers the tools to make better health care decisions and requiring transparency and accountability of health care dollars. Major changes to health care are occurring at the federal level. National health reform is intended to have a significant impact on how health insurance is structured in Colorado and other states.

As part of Federal Patient Protection and Affordable Care Act (ACA), the Federal Health Care Reform effort has also provided a \$1 million grant to Colorado to enhance the premium rate review process and consumer

education and outreach. [Link to News Release](#). This will allow the Division to make the rate review process more transparent and accessible for consumers.

### How does the Division of Insurance decide whether to approve a requested rate increase?

When a carrier requests a rate increase, the Division looks at many factors, including the cost of medical care and prescription drugs, the company's past history of rate changes, the financial strength of the company, actual and projected claims, premiums, administrative costs, and profit. The Division approves the request if the carrier can show that the new rate is reasonable in relation to the benefits provided. If the carrier's data does not fully support the increase, the Division can ask for more information, approve a smaller increase, or reject an increase.

In 2008, House Bill 1389 strengthened the Division's rate review process to help better protect consumers. The law, effective July 2008, does the following:

- Makes health insurance rate increases prior approval (dental rates have to exceed a 5% rate increase to require prior approval).
- Provides a penalty to a person or organization, who knowingly withholds information concerning rates or premiums or gives false or misleading information to the Commissioner or any statistical agent, advisory organization, or carrier.
- Allows the Division to consider an insurance company's overall finances, including profits, investment income, and surplus, when reviewing a proposed rate.

### Why do rates continue to increase in double digits?

Rates are driven by medical spending, which is growing because of many factors including increased use of health care services, new technologies, prescription drugs, an aging population, and unhealthy lifestyles. Rate changes can vary depending on a company's financial situation and whether its existing premiums cover its projected claims and administrative costs.

### Are Colorado health insurance companies profitable?

Most of Colorado's large insurers are for-profit organizations. During a five-year period ending in 2008, the average net income for the ten largest health insurers in Colorado was 4.6 percent. The "income" is the remainder after the company has paid its expenses and covered losses. It can be used as profit, for financial reserves, to expand services, or to build surplus.

### I read that companies must submit their rates for review by the Division of Insurance, but what does that mean?

All health rate filings must be submitted electronically to the Division of Insurance.

The rate filing will include a Colorado HR1 form and actuarial memorandum.

The Colorado HR1 form includes information on:

- The product involved;
- Number of consumers impacted by rate changes;
- Average increase or decrease;
- Minimum/Maximum increase or decrease;
- Number of years of experience used; and
- Source of experience (Colorado, nationwide)

The actuarial memorandum must include the following:

- Summary of the reasons for making the rate filing;
- The period for which rates will be effective;
- Description of the underwriting used;
- Effect of any changes in state or federal law;
- Recent history of rate changes for the product;
- Support for the relationship between claims paid and premiums collected;
- Provision for the amount of profit;



- Complete explanation of how the proposed rates were determined;
- Trend assumptions;
- Company experience (premiums collected and claims paid) for at least the last 3 years;
- Discussion of the credibility of the company's experience;
- Side-by-side comparison of all proposed rate changes; and
- Projections of premiums and losses.

The rest of the filing, which can average about 60 pages, must provide the data to support the rate change, detail the company's experience (such as premiums collected vs. claims they paid in previous years) and expenses.

#### **Do companies have to submit a rate filing every year?**

They must file rates if there is going to be a change in premium rates, whether rates are going up or down. The only products that require an annual rate filing are Medicare supplement insurance and small group health benefit rates. Additionally, companies must file at least on an annual basis, justification for the continued use of rating factors that change on a predetermined basis, such as trend.

#### **Why do insurance companies have to submit a filing if the rates are going down?**

The Division of Insurance must review whether a company is financially secure. We do not want rates that are so low there will not be adequate financial resources to cover policyholder claims (inadequate rates). This could result in policyholders' claims not being paid or the possible bankruptcy of the insurance company.

Additionally, sometimes proposed decreases should be lower – the rate reviewer looks at the proposed decrease to determine if rates are still excessive with the proposed rate decrease.

#### **Do companies submit one rate increase for a variety of insurance products?**

Companies must submit a rate filing for each "product" they offer. Types of **products** might be "long term care," "hospital/surgical," "limited benefit," or "major medical," for example.

#### **What is a limited benefit plan?**

A limited benefit health insurance is a health policy, contract or certificate offered or marketed as supplemental health insurance. It usually pays specified amounts according to a schedule of benefits to pay the costs of care, services, deductibles, copayments or coinsurance amounts not covered by a more comprehensive health plan. "Limited benefit health insurance" does not include short-term, limited duration health insurance policies. If a person has a "specified disease" limited benefit policy such as a cancer policy and breaks a leg, the care and treatment of that injury would not be covered by the "specified disease" policy.

#### **Can the Division of Insurance approve some products and deny others from same company?**

Yes, because a separate rate filing is required for each product, from each company.

#### **What are the Division's analysts looking for when they review a rate filing?**

The analysts review to see if the rate that will be charged is excessive, inadequate, or unfairly discriminatory. They also look for math errors, justification of rates, and other factors used to support the proposed rate.

#### **What are important factors that the Division of Insurance looks at in reviewing rates?**

The Division of Insurance has the authority to review rates to ensure the rates are not excessive, inadequate or unfairly discriminatory.

**Excessive Rates** – are rates that produce a long run profit that is unreasonably high for the insurance coverage being provided or where the expenses are unreasonably high for the coverage being provided. Insurance



100,000	
10,000	
10,000	
75,000	
\$205,000	

policies that are costly and provide little benefit to consumers or provide high profits to insurance companies could be considered to have excessive rates.

**Inadequate Rates** – are rates that are clearly so low that it cannot pay projected claims and/or expenses, or low rates intended on creating a monopoly. It is important that we have financially solvent companies that can pay the benefits they promised in an insurance policy.

**Unfairly Discriminatory Rate** – is charging different rates for the same benefits provided to individuals who have the same expectations of loss or when, after allowing for practical limitations, the rates do not appear

to be equitable. Unfairly discriminatory rates result in some consumers paying excessive rates and other consumers paying inadequate rates.

### **What does it mean when the Division of Insurance cannot state how much the rate increase will impact individual consumers?**

Companies will provide the overall average rate impact of the changes it is making. Depending on the different rate factor changes, some consumers may only be impacted by reductions the company is making in certain factors while other consumers may be impacted by the rating factors that are being increased. Rate filings list the average rate impact and the minimum and maximum rate increase amounts. The Division of Insurance may receive general information about the distribution of the increases/decreases based on a range, but not by consumer name.

### **How long does it take to review a rate filing? Is there a time limit?**

The review time depends on many factors, including the size of the filing, the number of consumers potentially affected, the company's history in Colorado, the amount of increase requested, the justification included in the filing and the company's experience with this insurance product. A rate analyst may spend several hours on the review with the option of referring to an actuary or senior manager if there are additional questions.

After a rate has been submitted to the Division of Insurance, the Division of Insurance can disapprove the rate within 30 days if the rate filing is incomplete. If there is a substantial issue, a letter is sent within 45 days – giving the company the opportunity to resolve the issue(s). The Division of Insurance has 60 days to approve or disapprove a rate.



### **How many people at the Division of Insurance review health rate filings?**

The Division of Insurance employs four rate analysts for health insurance. There is a supervisor of the Rates and Forms section who may be called upon for a secondary review, two actuaries, as well as a chief actuary who may review all or part of a filing. The Colorado Commissioner of Insurance may also review rate filings after other reviews have been completed, if additional questions remain.

The Division's Rates and Forms Section also receives, in addition to the rate filings, over 2,000 calls a year; 3,000 other types of filings, such as Medicare form filings, long term care partnership policy forms, valid multistate associations reviews, bone fide association reviews, preneed filings, credit filings, viatical/life settlement form filings, discontinuance of products and other filings. The section is also involved in statutory reports, such as the annual health insurance cost report and other special studies. For example, the Medicare supplement plan changes effective June 1, 2010 required the Division to ensure companies are making the appropriate rate and form filings that are in compliance with Colorado laws and regulations.

The Division's Actuarial Section, in addition to reviewing rate filings, is also involved with financial examinations and ensuring domestic companies are financially solvent as well as participating in a number of reports and studies undertaken by the Division. Both of these sections assist other sections within the Division of Insurance, as needed.

*(Note: In addition to staff who specialize in life and health filings, there are also four rate analysts and two actuaries who focus on property and casualty filings for the Division of Insurance.)*

**Update for 2011 and 2012:** The Colorado Division of Insurance has received a Federal Grant to improve the oversight of proposed health insurance premium increases, take action against insurers seeking unreasonable rate hikes, and ensure consumers receive fair value for their premium dollars.

Colorado will use this grant to hire additional rate financial analysts and actuaries to review rate filings (for one year); hire additional staff in Consumer Complaints and outreach (for one year); and to create web



enhancements to make rate filings more accessible and understandable to consumers. The grant is for one year, with the possibility of an additional year and funding being added.

(Click this link for more information on the Federal Grant.)

#### **How many health insurance product rate filings are reviewed annually by the Division of Insurance?**

There are approximately 1,000 to 1,200 health rate filings submitted for review each year.

#### **Why did my health insurance rates go up when I didn't have any claims (didn't see a doctor, go to the hospital or get any prescriptions)?**

Insurance is a pooling of risks, so individuals pay a share of the pooled experience in exchange for getting the coverage they purchased. Otherwise, if an individual had to pay the full rate for their claims paid by the insurance company it would not be insurance. Consumers purchase insurance to protect themselves for unforeseen financial misfortunes. Consumers may not have any, or only minor health-related claims for months or years and then experience a serious accident or illness that they don't have the financial ability to cover on their own.

#### **Where can I submit a new question that wasn't answered here?**

You may send additional insurance questions for the Colorado Division of Insurance to: [insurance@dora.state.co.us](mailto:insurance@dora.state.co.us)

If you would like the Division of Insurance to review an insurance complaint or question about your individual situation, please contact us for assistance:

(303) 894-7490 - Consumer Information  
(800) 930-3745 - Toll Free from Outside Denver

Email: [Consumer Information](mailto:Consumer Information)



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