

Frequently Asked Questions and Key Facts
About Health Insurance Rate Review
(Individual and Small Group Policies Only)

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1. What are Arizona's legal requirements for individual and small group health insurance rates?

Individual Policies: In order to establish individual rates for the first time, or increase an established rate, an insurer must certify that it expects a certain "anticipated loss ratio" or "ALR." In broad terms, the ALR is the percentage of premium that the insurer expects to spend on paying claims. For comprehensive ("major medical") individual health insurance, ALR is usually 55%. As long as an insurer meets or exceeds the ALR, there is no ceiling on the rates.

See §20-1342.02 and A.A.C. R20-6-607 for Arizona's statute and rule for individual health insurance rates.

Small Group Policies: In order to establish small group rates for the first time, or raise an established rate, an insurer must set the rates within a certain rating band of premium it has set for other small groups with similar coverage, similar family size and composition, and similar geographic area. There is a formula that applies to limit the percentage that an insurer may raise premium rates, but as long as the premium is within the rating band, there is no ceiling on the rates. Insurance companies must file an actuarial certification with ADOI annually, stating that their small group rates comply with Arizona law.

See §20-2311 for Arizona's statute for small group health insurance rates.

2. What is individual health insurance?

Individual health insurance covers one person and often family members under one policy issued to that person. People usually buy individual health insurance policies because they do not have group insurance at work. An individual may have to qualify for coverage, based on his or her current health status.

3. What is group health insurance?

Group insurance covers a group of people, and often family members who have something in common, for example, they work for the same company or they belong to the same union. Everyone in the group is covered by one policy which is issued to one entity, for example, a company or a union. People eligible for group insurance do not generally need to qualify for coverage.

4. What is small group health insurance?

Small group insurance (also called "small employer") is group insurance issued to an employer with between 2 and 50 employees.

5. Why do my rates keep going up? I never go to the doctor or file a claim.

Health insurance involves a pooling of risk, so individuals pay a share of the pooled experience of a group of people, in exchange for getting the coverage they purchased. In this way, an individual does not have to pay the full rate for his/her medical expenses.

Insurance companies increase rates as their costs increase. See answer to Question 9. For these reasons, an individual's rates may increase even though he/she may not have had to file claims.

Your rates may also be affected by whether you have an "open" or "closed" policy form. An "open" policy is one that an insurance company is marketing to the public, while a "closed" policy is one that the insurer no longer actively markets. The pool for an open policy tends to expand and to include younger, healthier people. In contrast, the pool for a closed policy tends to shrink over time and include a higher percentage of people with health problems, who use more health care services. More health care services means higher costs for the insurer, which in turn means the insurer probably will raise rates.

6. Do insurance companies have to get approval from ADOI before raising health insurance rates?

For an individual policy, an insurance company has to file new rates and any rate revisions with ADOI. Generally, ADOI does not approve or disapprove the rate filings, but the company cannot charge the rates until ADOI makes sure the filing is complete and the insurer has certified compliance with Arizona's requirements for setting individual rates. See answer to Question 1.

For a small group policy (2-50), a company does not have to submit rate revisions to ADOI. However, every year the company has to certify that its rates comply with Arizona law, and has to submit certain rates it uses to calculate the final premium for small group policies. See answer to Question 1.

For a large group (51+) or HMO policy, there are no Arizona requirements that apply to setting rates, and an insurer does not have to submit anything about its rates to ADOI for these policies.

7. How often may an insurance company raise rates in Arizona?

Arizona law does not have any limits on how often an insurance company may implement a rate increase on health insurance policies in Arizona. Most policies contain a provision that rates may be raised from time to time, and the insurance company will notify the policy holder of any increases in advance. For small group coverage, the law requires the insurer to give the group at least 60 days notice of a rate increase.

8. Can ADOI tell from an individual rate filing how much my own premium is going to increase?

Generally, no. Insurance companies are required to provide the average changes to rates for a certain policy. You may see a premium change that is more or less than the average change. The impact on your own premium may depend on personal factors, such as your age.

9. Why have rates increased so dramatically in the last decade?

Increases in health insurance rates are driven by a number of factors, including higher medical costs, increased use of health care services, new technologies, an aging population, and increased costs for prescription medicines.

10. How much can companies raise health insurance rates under Arizona law? Are there any limits?

Arizona law does not set a dollar amount limit on how much companies can raise health insurance rates.

11. Does ADOI hold hearings to give the public a chance to comment on a company's proposed rate increase? Is there a chance for consumer input on requests for rate increases?

The current regulatory scheme in Arizona does not provide for public hearings or public comment about rate increases for health insurance policies. Arizona law does not require either health insurance companies or ADOI to allow consumers to comment on insurance rate changes.

12. What is the Arizona Department of Insurance doing to improve the rate review process and make it more transparent?

ADOI is using federal grant¹ funds to:

- Schedule programs for public participation and comment, in order to post timely, plain language information about individual and small group health insurance rates, and to gain feedback about consumer-friendly key indicators for individual and small group submittals
- Improve the effectiveness of the individual policy rate review, and the oversight of small group compliance submissions
- Develop the systems ability to comply with federal reporting requirements for collecting and analyzing health insurance rate data.
- Enable ADOI to fulfill reporting requirements for the Patient Protection and Affordable Care Act (PPACA)

13. How can consumers participate in ADOI's rate review transparency activities?

Consumers are encouraged to attend one of ADOI's upcoming meetings about its rate review grant activities. For further information about these meetings, see **Notice of Community Meetings**.

¹ 100% of this project is financed with federal money. The total grant award is \$1,000,000; however, spending is limited to \$550,441.00, which is the amount in the budget ADOI submitted with its grant application. None of the project is financed by non-governmental sources.

Consumers can also go to the ADOI website, where they will find an email address specifically for the rate review grant program, ratereview@azinsurance.gov. Consumers may then submit their comments and concerns with this email.

14. Does ADOI use actuaries to review rate filings?

Generally, no. However, ADOI has retained Mercer, an outside actuarial firm for one year, to assist with certain rate review activities. See answer to Question 12. Mercer's consultants are working with ADOI to:

- Improve the effectiveness of the rate review process for individual health insurance policies, and
- Evaluate and add structure to the information that small group insurers have to submit to ADOI regarding the way they set rates.

15. What information about an insurance company's rates (for either individual or small group) is available to the public, and how can I get copies of this information?

All health insurance rate records generated or received by ADOI are considered public, and open to public inspection during normal business hours, pursuant to Arizona's public records law. See Arizona Revised Statutes, §39-121. Members of the public may either order copies of insurance companies' rate filing documents, at a charge of \$0.60 per page, or they may come in to the ADOI office and review these documents onsite. The public may access electronic records by visiting the ADOI offices and logging on to the SERFF website. ADOI staff will assist members of the public in accessing these electronic filings. Please see our website, <http://www.id.state.az.us/recordrequest.html> for information on how to make a public records request.

16. How can I find a history of my insurance company's rate increases, for Individual policies? Can ADOI provide insurer-to-insurer rate comparisons?

Generally, ADOI does not summarize rate increase histories, or provide insurer-to-insurer rate comparisons. However, you can review individual health rate filings at ADOI. See answer to Question 15, for how to view or obtain these records. Please note that each filing generally contains a great deal of data, and ADOI does not have the resources to help consumers to analyze the information.

17. Where can I submit a new question that wasn't answered here?

For more information about the rate review grant program, or rate review in Arizona generally, an email may be sent to: ratereview@azinsurance.gov. You may also contact Steven Noble, Rate Review Administrative Assistant, at (602) 364-2455.

18. Can you summarize some key facts about rate review in Arizona?

- Under Arizona law, insurers only have to submit detailed rate filings for individual health insurance rates. Insurers have to submit limited information about how they set small group rates. Insurers do not have to submit any information about large group rates or HMO rates.
- For individual health insurance, an insurer must certify that its rates meet a certain “anticipated loss ratio” (ALR). See Arizona Administrative Code, R20-6-607, Reasonableness of Benefits in Relation to Premium Charged: [http://www.azsos.gov/public_services/Title 20/20-06.htm#ARTICLE 6](http://www.azsos.gov/public_services/Title_20/20-06.htm#ARTICLE_6). Generally speaking, the ALR is the percentage of premium that an insurance company expects to spend on paying claims. For most major medical individual health insurance, Arizona law sets the ALR at 55%.
- Arizona law does not set a dollar amount limit on how much companies can raise health insurance rates.
- ADOI is using federal grant funds to:
 - Improve the effectiveness of its rate review process, and
 - Improve the amount and quality of information easily available to Arizona consumers about individual and small group health insurance.