

45 CFR § 147.102

## Frequently Asked Questions

### RATES AND PREMIUMS

#### Individual and Small Group Major Medical Health Insurance

*(These FAQs refer ONLY to major medical health insurance)*

#### What is “individual” insurance? What is “small group” insurance?

**Individual** health insurance is insurance that you buy from an insurance company for yourself and/or your family. You will pay a “premium” for the insurance, and will owe some part of the costs of your medical care.

**Small group** health insurance is insurance purchased by a small employer (with 50 or fewer employees). Employees can join the health insurance to cover themselves, and sometimes their family members. Generally, your employer deducts some portion of the premium for this insurance coverage from your paycheck.

#### What is a “policy?”

A “**policy**” is the contract between you and the health insurance company. The policy spells out the insurance company’s obligations to you, and your obligations as well.

#### What is the difference between “rates” and “premium?”

**Premium** is the dollar amount an insured person pays to the insurance company for the insurance coverage. A person, and/or employer, usually pays premium monthly, quarterly, or yearly.

**Rates** are the cost of a specific plan’s benefits, adjusted for the *age, zip code, smoking status, and family size* of each possible insurance applicant. Insurance companies must file charts of all of these possible rates with the Department of Insurance before using the rates to calculate premium.

**Premium** is determined for a specific insurance applicant by adding together the various components of the **Rates**, plus any fees (such as a fee for paying by credit card).

#### What factors can a company use to increase my premium?

Insurance companies can adjust your annual premium based *only* on your: 1) age, 2) tobacco use, 3) covered family members (number and ages), and 4) zip code.

## I have a disease; does that make my premium higher?

No. Insurance companies must accept all customers who want to buy a major medical health insurance plan. The company may NOT charge you extra for having a health condition. This is true when the company issues, and when it renews, your policy.

## How often can an insurance company change my premium?

Annually, at renewal of your policy.

## Is there a limit to how much my insurance company can increase my premium?

There is no legal cap on premium increases. However, the insurance company only can increase your premium by the amount that it has “filed” with the Department of Insurance. When filing an increase, the Insurer must “justify” the increase by explaining why it has to charge more next year (see next question). You are entitled to see and comment on these rate changes. Visit our rate review website page to learn more, at <https://insurance.az.gov/consumers/help-health-insurance/information-about-health-insurance-rate-increases>.

## How does my company decide how much to increase my premium?

Insurers consider many factors before filing the **rates** for a particular plan, including but not limited to: the amount of the medical claims received, the amount of medical claims anticipated in the future, the cost of medical care, expected income from premium payments, and administrative expenses. In particular, insurers set **rates** and calculate **premium** for future customers based on the *past* claims experience of current customers, and the *anticipated* claims experience of future customers.

An insurer estimates the number and sickness level of customers it will have next year. The company raises rates if covering the medical claims for those customers will cost more than this year cost. Insurers use actuaries to evaluate all this data and to help determine the rates for the next plan year.

## Does the Arizona Department of Insurance (ADOI) approve an increase in my premium?

No. Arizona law does not permit ADOI to approve or disapprove rate increases. However, insurers must file rate changes with ADOI before using those rates to calculate premium. ADOI is required to review all individual and small group major medical health insurance rates to ensure that the rates are “reasonable,” based on the legal standards that apply. (Legal Standards available at [http://www.ecfr.gov/cgi-bin/text-idx?SID=09179ad6214b7033a7036b3758543ddc&mc=true&tpl=/ecfrbrowse/Title45/45cfr154\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?SID=09179ad6214b7033a7036b3758543ddc&mc=true&tpl=/ecfrbrowse/Title45/45cfr154_main_02.tpl) )

Arizona has been designated an “Effective Rate Review” state in accordance with *federal standards* (learn more about Effective Rate Review at [https://www.cms.gov/CCIIO/Resources/Fact-Sheets-and-FAQs/rate\\_review\\_fact\\_sheet.html](https://www.cms.gov/CCIIO/Resources/Fact-Sheets-and-FAQs/rate_review_fact_sheet.html) ).

ADOI and its actuaries carefully analyze an insurer's justification (explanation) for a rate increase of 10% or more—called a “threshold rate increase.” With the help of actuaries, the ADOI decides if a threshold increase is “reasonable” or “unreasonable.”

## What happens if ADOI finds a rate increase “unreasonable?”

If ADOI determines that a threshold increase of 10% or more is “unreasonable,” ADOI advises the insurance company of the unreasonable determination. ADOI gives the insurer a chance to file a *smaller* rate increase. The insurance company may decline and choose to calculate premium for its customers based on the higher “unreasonable” rate increase. However, the insurance company then must publically disclose on its website that ADOI determined the increase to be “unreasonable,” and must provide a justification for using the “unreasonable” rate increase. Customers can view insurer explanations for significant rate increases at <https://ratereview.healthcare.gov/>.

## Why does my premium go up each year?

As noted above, your insurance company creates charts of rates (and calculates your premium) based on how much it cost the company last year to pay medical claims for all of its customers, and how much it estimates the cost will be next year. To raise rates and your premium, the insurance company must file an explanation with ADOI showing why it will cost more next year to pay its customers' medical claims. The cost of medical care has gone up each year. New tests, medical procedures, and drugs become available each year. Therefore, it usually costs an insurer more each year to pay the claims for its customers. As a result, the company charges each customer more so it can pay those claims.

Your premium will also increase as you age. Insurers will charge the same amount per child for each child age 14 and under, but beginning at age 15 the monthly premium cost will go up gradually every year until age 64. (Before January 1, 2018, this gradual increase began at age 21.)

## Why was my premium increase greater than the percentage listed on the Department's website?

Each year, the ADOI publishes insurers' overall rate changes on its website. This rate change is expressed as a percent increase or decrease relative to the prior rate. This is the average rate change for all Individual or Small Group plans offered by the insurer. However, the premium change for your particular plan may be greater or less than the overall average change. Your premium may also go up because you and your covered dependents are a year older, or if you have moved to a new county.

## Why did the premium charged for my child/children increase so much in 2018?

The way that insurers calculate premium for individuals under age 21 will change effective January 1, 2018 due to a change in federal regulation. First, the amount that an insurer may charge for individuals under age 21 increased. Second, insurers must now charge the same rate for each individual age 14 and under and begin gradually increasing rates for individuals at age 15. (Previously insurers charged the same rate for each individual aged 20 and under and began gradually increasing rates at age 21.)

As a result, the rate for individuals aged 14 and under may increase by 20%, and the rate for individuals aged 15 to 20 may increase 30% or more.

## How can I reduce my premium?

ADOI recommends that, each year, you look at all plans available for the next year and find the plan that will work best for you. You can buy a plan with a lower monthly premium, but **beware** because this means you will have to pay more from your pocket if you get sick. You can talk with a *navigator* for help looking at plans, or an *agent or broker* for recommendation of a plan that will work for you. You can find help in your area at <https://localhelp.healthcare.gov/#intro>.

In addition, the Affordable Care Act provides a tax credit for some health insurance customers. The credit is called the Advanced Premium Tax Credit, or “APTC.” To get an APTC, you **MUST** do two things: 1) buy your plan for next year on the federal health insurance “Marketplace” or “Exchange” at <https://www.healthcare.gov/>, and 2) buy your plan on the Exchange during the open enrollment period (for coverage in 2018, November 1, 2017 through December 15, 2017). You must purchase your plan on the Exchange by December 15 for coverage to be effective on January 1. You also can search on <https://www.healthcare.gov/> to find out if you qualify for an APTC.

## Can I comment on my insurance company’s rate increase?

ADOI encourages comments on rate increases. You may send your comment to [ratereview@azinsurance.gov](mailto:ratereview@azinsurance.gov).

## Can I see a history of an insurance company’s rate increases?

Yes. ADOI publishes information about rate increases on the website at <https://insurance.az.gov/consumers/help-health-insurance/information-about-health-insurance-rate-increases>.

## How can I learn more about health insurance rates and premiums?

Visit the Rate Review web page on the ADOI website at <https://insurance.az.gov/consumers/help-health-insurance/information-about-health-insurance-rate-increases>

On this Rate Review web page, you can:

- View charts of rate increases and decreases that companies filed with ADOI for 2016 and 2017,
- View other helpful rate information,
- Search rate filings and “justifications” (or explanation) that each company filed with ADOI when increasing rates,
- Sign up to receive notices about threshold rate increases (via “MailChimp” notification service), and
- Comment on rate increases (via an email link).