

AB 731 (Kalra) Rate Review: Building on What Works

Health insurance premiums for employer coverage have increased by 249% between 2002 and 2017, six times the rate of general inflationⁱ. For coverage sold to individuals and small employers, California insurance regulators use “rate review” to assess if health plans’ proposed rate and increases for new plans or renewals are based on credible data and realistic projections of health care costsⁱⁱ. Rate review works in the individual and small group markets, and AB 731 builds on this work by expanding it to large groups (employers and trust funds with more than 100 consumers covered). AB 731 also improves rate review for individual, small business and large employer coverage by ensuring reporting by geographic region for all health plans as well as information on prices charged by doctors and hospitals as a percentage of Medicare.

Existing Rate Review Practices in California

In 2010, the Affordable Care Act (ACA) required rate review for the individual and small group insurance markets. That same year, California enacted SB 1163 (Leno), effective in 2011, which calls for health plans and insurers to file justification and documentation with the state regulator, either the Department of Managed Health Care or the Department of Insurance, before a rate change is implemented. Since 2011, over 4.5 million California consumers and small businesses have saved at least \$417 millionⁱⁱⁱ due to rate review of health insurance premiums and cost sharing, when insurers have retracted or rolled back rate increases as a result of the review revealing that a rate was unreasonable. Thanks to SB 908 (Hernandez) in 2016, if insurers offer unreasonable rates, they must notify purchasers in a timely manner so the individual consumer or small employer can shop for other coverage with reasonable rates.

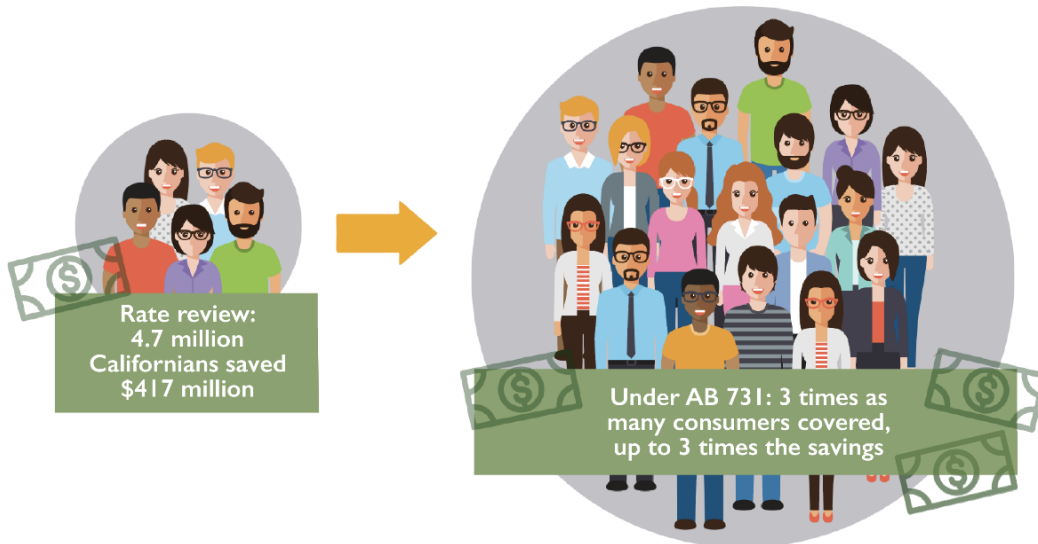
In 2015, California passed SB 546 (Leno) that required aggregate rate reporting for the large group market as well as an annual public meeting on rates in the large employer market.

Expanding Rate Review to the Large Group Market

While our existing laws helped protect consumers and save money for individual consumers and small businesses, almost 10 million consumers who work for larger employers or who have coverage through union trust funds do not have the same protection. Health care costs in the large group market have been rising steadily, with no review from regulators to ensure increases are reasonable or justified. This leaves employers facing rising health care costs, often shifting more of the cost to working families through a higher share of premium, increased deductibles or copays or both. AB 731 will expand the rate review practice that the state already has in place for the individual and small group markets to the large group market—potentially tripling the savings to our health care system. Both the Department of Managed Health Care (DMHC) and the California Department of

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Insurance (CDI) would undertake this enhanced rate review of the large group market. Additionally, AB 731 would ensure that if the regulator finds a rate to be unreasonable or unjustified, the purchaser must be notified in time to choose other coverage.



The large group market has both community-rated and experience-rated products. Community rating is a method that sets premiums according to the insurer's expected costs of providing medical benefits in a community. Experience rating is a method under which the insurer analyzes a group's prior health care costs by type and calculates the premium according to the claims experience^{iv}. Under AB 731, products that are community rated would be reviewed using the same procedure as individual and small group products. For products that are experience rated, in whole or in part, there would be a review of the methodology, assumptions and factors used by plans to determine premiums. Large employers may also appeal for traditional rate review for their coverage if they regard their rates as unreasonable.

Reporting Data by Geographic Region

Health care costs vary widely by geographic region. For instance, in San Francisco the average monthly premium is \$490, while in Los Angeles the average monthly premium is \$395^v. Some aspects of rate review are done statewide even though premiums vary by region. AB 731 would require rate review filings to detail both rates and medical use trends by geographic areas to provide greater insight into the difference in prices across the state.



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Comparing Health Care Costs to Medicare Rates

Currently, Federal rules require health plans and insurers to compare private market costs, such as doctors, hospitals, laboratory and imaging, to Medicare rates. AB 731 would add this requirement into state law so that our regulators can enforce it. Having this information will allow policy makers and purchasers to have a better understanding of the variability in health care prices, and how well insurers are negotiating on behalf of purchasers and patients.

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California must use its power as a regulator to address the problem of ever-increasing health care costs. AB 731 simply expands DMHC and CDI's authority to conduct rate review in the large group insurance market, which has the potential to save consumers hundreds of millions of dollars. In addition, AB 731 will ensure that regulators, purchasers, policy makers and advocates have adequate data to fully understand the cost-drivers of our health system, and develop evidence-based policy solutions to reign in skyrocketing health care costs.

AB 731 (Kalra) is co-sponsored by Health Access California, SEIU California State Council, California Labor Federation, UNITE HERE, and California Teamsters Public Affairs Council. For more information, contact: Yasmin Peled, Health Access California at ypeled@health-access.org or Ryan Guillen, Assemblymember Kalra's Office at Ryan.Guillen@asm.ca.gov

ⁱ California Health Care Foundation, [Employer Health Benefits: Workers Shoulder More Costs](#), June 2018

ⁱⁱ Kaiser Family Foundation, [Health Insurance Market Reforms: Rate Review](#), December 2012

ⁱⁱⁱ CALPIRG, [California Health Insurance Rate Review: the First Five Years](#), April 2016

^{iv} National Health Policy Forum, [Health Insurance Terms](#), December 2008

^v Covered California, [Covered California's Health Insurance Companies and Plan Rates for 2019](#), August 2018