

Health insurance rate increase requests

Outline of the review process



This document is meant to help explain the typical process the North Dakota Insurance Department uses to review rate increase requests from health insurance companies. With these rate increase requests, the Insurance Department strives to balance the need for insurance to be affordable with the ability of the company to continue to pay claims. Because any increase can be a financial burden to the consumers of North Dakota, I take these decisions very seriously.

A company requesting a rate increase must provide information satisfactory to the Insurance Department (including the Insurance Department's on-staff actuary) to justify the level of the requested increase. If we have questions about the material provided, or additional information is needed, we will ask the company to provide it. As we receive information from the company, we review factors that affect the overall increase in the cost to provide health care services, including:

- Price inflation, including increases in provider reimbursement (payments to medical facilities and doctors)
- Increased use of services, which may be due to aging, product promotion, improved services, etc.
- Cost shifting (the costs associated with serving people who don't have insurance)
- Leveraging effect of fixed deductibles and co-payments. While healthcare costs may increase from one policy year to the next, deductibles and co-payments usually remain the same. As a result, the amount paid by the insurance company increases.
- Technology improvements
- Government mandates, benefits and other legislative changes

In addition to reviewing the information discussed in the above bullet points, we also review historical (actual) experience to date, including previous rate increase request amounts, frequency and results.

After carefully reviewing all the information, I can approve the requested amount, offer a lower increase or deny the request. The entire process of reviewing, analyzing and making a decision on rate increase requests typically takes the Department two months.

The company then has legal rights available to it if it does not agree with my decision, starting with an administrative hearing before an administrative law judge. If the company is unsatisfied with that result, it can then appeal the matter to the appropriate district court and ultimately the North Dakota Supreme Court.

In addition to a general rate increase that is approved by the Department, consumers may also receive an age-related increase, which is commonly referred to as an "age band." Rates related to age are commonly used by insurance companies to account for the fact that as we age, we typically use more medical services, supplies and pharmaceuticals. These age-related rates may be combined into rate bands of one or more years. As an example, with a five-year age band, when policyholders hit five-year marks, they will experience an additional increase over and above the rate approved by my office. The advantage to consumers of using this type of pricing is that no additional adjustment is made to the approved rate within the band. The disadvantage, of course, is that when the next age band is reached, the increase is larger.

In conclusion, while medical providers and insurance companies need to cover their costs and want to be able to charge prices that will allow them to do that, policyholders are not always able to increase their incomes to cover the increased cost of health insurance. As an advocate for policyholders, I will approve only those increases that are justified.

Adam Hamm
North Dakota Insurance Commissioner