



# Illinois Insurance Facts

## Illinois Department of Insurance

### Frequently Asked Questions on the Rate Review Process in Illinois

January 2015

**Note:** This information was developed to provide consumers with general information and guidance about insurance coverage and laws. It is not intended to provide a formal, definitive description or interpretation of Department policy. For specific Department policy on any issue, regulated entities (insurance industry) and interested parties should contact the Department.

Rate Review is the process by which insurance experts at the Illinois Department of Insurance (the “Department”) review all health rate filings prior to their use. This includes changes in rates for existing products as well as rates for new plans.

#### What is a Rate?

A base rate is the starting point for your cost for coverage before an insurance company considers other factors.

#### What Does a Rate Cover?

- Claims for medical care (hospitals, doctors, pharmacy, labs, and other patient care)
- Insurer administrative costs (e.g. claims processing, care management programs, staff salaries, marketing costs and taxes)
- Insurer’s profits
- Reserves to cover higher than expected claims

#### Why Do Rates Continue to Increase and Why Does It Matter To Me?

Rates are driven by medical spending, which is growing because of many factors, including:

- Increase in usage of medical care and services
- Higher drug costs and more prescriptions
- Increase in new treatment and technology
- Aging population
- Unhealthy lifestyles
- Treating the uninsured

These higher health care claim costs are reflected in the rates insurance companies charge for health insurance coverage.

## How Does Rate Review in Illinois Work?

1. An insurance company submits a Rate Filing to the Illinois Department of Insurance.
2. Experts within the Department review the filing to ensure that it is complete, accurate and consistent.

If information is missing or incomplete, the Department requests the missing information from the carrier.

The rates are then further reviewed and posted on the Department's website.

3. If the proposed rate increase is 10% or more, Department experts perform a more in-depth review.
4. Insurance companies must submit a Rate Justification whenever they propose health insurance rate increases, including those increases for an individual or small group policy that are an average of 10% or more, to HHS and to the Department.

A "Rate Justification" is a set of forms and documents that give a carrier's reasons and supporting information for a proposed rate increase. It is posted on <https://ratereview.healthcare.gov>.

5. For rate increases for an individual or small group policy that are an average of 10% or more, the Department conducts further review to determine if the rate increase is "reasonable."

Note: The Department does not have the authority to approve or disapprove proposed rate increases. Therefore, it is possible that a rate increase may go into effect even if the Department determines that the rate increase is "unreasonable".

In this more detailed review, the Department considers many factors, including:

- Enrollment patterns
  - Medical usage trends
  - Administrative expenses
  - Profits
  - Reserves
  - Benefit changes
  - The company's history of rate changes
  - Medical Loss Ratio (the portion spent on medical care)
  - Consumer comments submitted to the Department
  - Other factors driving the rate increase
  - Recent and projected future costs of medical care and prescription drugs
6. The Department provides its final determination on the reasonableness of an increase of 10% or more to the insurance company and to HHS. A link is provided on the Department's website to this information on <https://ratereview.healthcare.gov>

7. When the Department has issued its final determination, summary information on the rate filing is posted to the chart of proposed rate changes on our website at <http://insurance.illinois.gov/hirc/rate-filings.asp>. Note: a rate change that is posted is always an average rate, and your individual premium may be different.

### **Which Health Insurance Rates Are Subject To Review By the Department?**

A company selling health insurance in Illinois must submit all health rate filings to the Department prior to using them. This includes changes in rates for existing products as well as rates for new products.

The following types of plans are not defined as health plans and are not subject to this review:

- Coverage for accident or disability income insurance, or any combination of the two
- Liability insurance, including general liability insurance and automobile liability insurance
- A supplement to liability insurance
- Workers' compensation
- Automobile medical payment insurance
- Other similar insurance coverage where benefits for medical care are secondary to other insurance benefits

### **What is a Premium?**

A premium is the specific amount you pay for health insurance.

### **How Do Rates Determine My Health Insurance Premium?**

As of January 1, 2014, the ACA prohibited insurance companies from adjusting premiums on the basis of health status, health history, and gender.

- The actual premium you pay may be higher or lower than the base rate, depending on several factors: **Your age (3:1 maximum)**. This means that the oldest participants in a plan may be charged no more than 3 times the premium charged to the youngest adults on the same plan (when all other characteristics are the same).
- **Family structure** – how many people there are in the family
- **Tobacco use (1.5:1 maximum)**. This means that tobacco users in a plan may not be charged more than 1.5 times the premium that is charged to non-tobacco users on the same plan (when all other characteristics are the same).
- **Geographical location** - Your premium will vary depending on where you live. For example, consumers living in urban areas are typically charged more than consumers living in rural areas.

Applies to: Non-grandfathered fully-insured individual and small group plans.

Once your policy is issued and your premium rate established, you become part of a pool with other individuals who have the same type of policy. Any rate increase is not

determined by your individual claims, but by the claims experience of the entire pool.

### **What Does It Mean To Be Part of a Pool?**

You and your family are part of a “pool of risks”. You pay a share of the pooled costs in exchange for getting the coverage you purchased.

The point of insurance is to share the cost of medical care among a larger group of people so that those with higher medical bills can still afford insurance.

### **What is Medical Loss Ratio?**

Medical Loss Ratio (MLR) refers to the portion of insurance premiums an insurance company spends on health care and activities that improve health care quality.

The new health reform law requires that a minimum of 80% (in the individual and small group market) and 85% (in the large group market) of each premium dollar is spent on health care services and health care quality improvement and not on company overhead and administrative costs.

Starting in 2012, an insurer not meeting the required MLR percentage must give rebates to people enrolled in the plan or the employer that purchased it.

### **How is Illinois Funding the Rate Review Process?**

As part of the ACA, the federal government has provided grant funds to Illinois and other states to enhance the rate review process and increase consumer education and outreach.

Grant requests and quarterly reports submitted by the Department to HHS are available on our website at: <http://insurance.illinois.gov/hirc/premium-rate.asp>

### **How Can Consumers Participate in the Rate Review Process?**

The Department accepts [questions, concerns and comments](#) related to rate filings. When submitting your comments, please identify both the company and the policy number. The Department cannot respond to submitted comments but will respond to questions consistent with our [Comment Policy](#).

### **For More Information**

Call the Department of Insurance Office of Consumer Health Insurance toll free at (877) 527-9431 or visit us on our website at <http://insurance.illinois.gov>