



## Department of Consumer and Business Services

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### Study on ways to use rate review to lower medical costs

In recent years, amid annual double-digit increases in health insurance rates, Oregon policymakers and insurance regulators increased public access to rate request documents and armed regulators with additional tools to curb rate increases in the state-regulated small employer and individual markets.

At the same time, the department realizes that significant rate relief will only result from controlling the medical costs that drive annual rate increases. In Oregon, 85 cents to 91 cents of every premium dollar goes to pay medical claims.

Thus, the department is using \$150,000 of a federal health reform grant to explore ways to use Oregon's rate review process to reduce health care costs. While the department reviews policies held by only 12 percent of Oregonians, any new controls could have a larger impact.

**Why is this study needed?** The department's review of an insurance company's proposed rate traditionally has focused on three areas: Medical trend, or the annual increase in claims costs; administrative expenses; and net income (profit). Actuaries review insurers' data in each of these categories to determine whether proposed increases are justified. They analyze, for example, whether a company's estimates of medical cost trends are supported by claims data. However, regulators historically have not questioned the factors affecting medical costs themselves. One reason: Growth in medical claims costs is based largely on negotiated contracts between insurers and providers. Now, the department is asking how it can influence that process.

**Who will do the study:** The department selected L&E Actuaries & Consultants of Dallas, Texas, to offer recommendations by fall 2011 on ways to lower medical costs through the rate review process. The firm will seek input from a variety of stakeholders, including local and national consumer groups, the Oregon Health Authority, other states' regulators, and insurance companies. Recommendations may result in legislative proposals, rulemaking and/or public forums to discuss possible changes to rate review.

**What will be studied?** The department asked L&E to propose any ideas that make sense in Oregon's health insurance markets. For example:

- Should the department require insurers to spend a more on primary care, which many people believe improves health care and lowers costs?
- Should the department reject proposed rate increases if certain provider costs go up by more than a certain percentage each year?
- Should the department reject proposed rate increases if insurers' contracts with providers pay for serious medical errors (so-called "never events") that should never have occurred in the first place?

**Public comment on rate requests:** Consumers can [sign up](#) on this website to be notified when an insurer files a rate request. Consumers then have 30 days to comment on a request. The department will also notify consumers when a rate is approved, and provide a link to an explanation of the decision.