

March 22, 2016

The Honorable Ed Hernandez
Senate Health Committee
State Capitol, Room 4203
Sacramento, California 95814

RE: Senate Bill 908 (Hernandez) – Health care coverage: premium rate change – SUPPORT

Dear Chairman Hernandez,

CALPIRG proudly supports your bill, SB 908, which would allow Californians to walk away from health insurance products when rate hike filings are declared “unreasonable” by state regulators.

Back in 2010 the legislature passed SB1163 (Leno), which required health insurance carriers to publicly justify any proposed rate increase on individual or small group plans. Health insurance carriers must submit rate filings to state officials for review and the public is able to access the filings online and comment on them. The regulators, the California Department of Insurance (CDI) or the Department of Managed Health Care (DMHC), can meet with carriers to clarify or challenge assumptions driving projected cost increases or request missing information. They can request that the carriers modify or reduce rate increases if they find that they are unjustified but the insurance company can decide whether to comply with the request. If they do not, the regulator can make an official determination that the rate filing is “unreasonable.”

Over the past five years CALPIRG has participated in the rate review program at CDI, contracting with an actuary to conduct our own review of rate hikes that were particularly high and affected a large number of customers, and submitting public comments to CDI actuarial staff for their consideration in their own conversations with the carriers.

CALPIRG just completed an analysis, “California Health Insurance Rate Review: the First Five Years,” which examined the rate filings posted on the California Department of Insurance and California Department of Managed Health Care websites to determine the impact of the program on consumers. The analysis focused on rate filings that were scheduled to go into effect between January 1, 2011, when the law first went into effect, and January 1, 2016.

We found that the requiring insurance companies to publicly explain their rate hikes has resulted in significant savings for consumers. Carriers have voluntarily reduced or withdrawn 69 rate filings after beginning the rate review process, 12 percent of the total number of filings posted. Regulators estimate that Californians have saved \$417 million dollars as a result of rate increases that were filed with the regulator and subsequently reduced.

However, we also found that five percent of rate filings were declared “unreasonable” by state regulators. Since 2011, when the DMHC and CDI began reviewing rate increases, at least 26 rate hikes have gone into effect despite being ruled unreasonable, affecting at least an estimated 1,178,191 Californians. In 2015 alone, consumers could have saved as much as \$46 million on their premiums if insurers had agreed to lower their rates to a level that regulators deemed “reasonable.”

The experience of the program to date suggests that some insurance carriers are not receptive to regulators’ requests for rate reductions when they find that the increases are not justified. When that occurs, consumers can become locked in to unreasonable policies without their informed consent.

SB 908 will help hold insurers accountable to fair rates by requiring that companies whose policies have been declared unreasonable notify their policyholders and contractholders in writing. These policyholders will then be granted a 60-day period (during which they will be covered at the prior rate) to search for coverage under a different plan or provider. This period allows consumers to obtain new coverage outside of a specified open enrollment window.

This transparency and accountability will help Californians obtain the health insurance they need at fair prices, and encourage best practices among insurers.

Thank you for introducing this legislation.

Sincerely,



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