

Healthcare Overhaul Won't Stop Premium Increases

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Apr. 13--REPORTING FROM WASHINGTON -- Public outrage over double-digit rate hikes for health insurance may have helped push President Obama's healthcare overhaul across the finish line, but the new law does not give regulators the power to block similar increases in the future.

And now, with some major companies already moving to boost premiums and others poised to follow suit, millions of Americans may feel an unexpected jolt in the pocketbook.

Although Democrats promised greater consumer protection, the overhaul does not give the federal government broad regulatory power to prevent increases.

Many state governments -- which traditionally had responsibility for regulating insurance companies -- also do not have such authority. And several that do are now being sued by insurance companies.

"It is a very big loophole in health reform," Sen. Dianne Feinstein (D-Calif.) said. Feinstein and Rep. Jan Schakowsky (D-Ill.) are pushing legislation to expand federal and state authority to prevent insurance companies from boosting rates excessively.

At least in the short term, regulators will be able to do little more than require insurers to publicly explain why they want to raise rates. Consumer advocates think that will not be an effective deterrent against premium increases such as the 39% hike that Anthem Blue Cross sent some California customers last year.

"The irony here is that it was the Anthem rate increase that breathed new life into the healthcare bill," said Jerry Flanagan, medical policy director of Consumer Watchdog, a longtime supporter of tougher premium regulation. "But there is nothing in this bill to guarantee that it doesn't happen again."

The lack of muscle is stoking concerns that more rate jumps -- and an angry backlash from ratepayers -- could undermine support for implementing the healthcare overhaul.

Insurance industry officials say that talk of more regulation is misguided and have urged federal officials to focus instead on containing rising medical costs, which help drive up premiums.

"Politicians are much more comfortable looking at healthcare premiums," said Karen Ignagni, president of America's Health Insurance Plans, the industry's Washington-based lobbying arm.

Ignagni, as well as some independent healthcare experts, said policymakers should look at ways to control what hospitals and other providers charge, although few elected officials have shown much appetite for doing so.

Obama endorsed Feinstein's insurance proposal this year, including it in the healthcare blueprint he unveiled in February as Democrats were struggling to revive their proposals. But congressional rules

prevented Democratic leaders from including the rate control provision in the final healthcare package.

Many consumer advocates think this enhanced regulation -- known in the industry as "prior approval" authority -- is the only real way to protect ratepayers from insurers, particularly for-profit companies under pressure to generate returns that satisfy Wall Street investors.

Prior approval requires insurers to submit proposed rate increases to regulators, who can then comb through companies' financial and actuarial data to see if the proposals are justified.

Insurers cannot raise premiums without explicit permission from the regulator.

Some states have given prior approval authority to their insurance commissions and have used it to force down premiums.

In New York, the state insurance department reduced nearly a quarter of the proposed premium increases between 1990 and 1995, according to a recent department analysis.

More recently, state regulators in Kansas successfully pushed Blue Cross Blue Shield of Kansas to reduce a proposed premium increase for some of its elderly customers, according to state Insurance Commissioner Sandy Praeger.

California, which does not have the power to block health plan increases, has been using similar authority to control property and auto insurance premiums for more than 20 years, said Dwight M. Jaffee, a real estate and finance professor at UC Berkeley's Haas School of Business. "It has been very successful," said Jaffee, who studied the state's experience.

Health insurance, however, is more complicated than property and auto coverage. And even the most active state regulators typically cannot investigate every proposed change in every segment of the insurance market.

In Maine, where an aggressive Bureau of Insurance reviewed 186 rate filings in 2009, regulators focus on the so-called individual market, where people buy coverage if it is not available through their jobs.

Maine is battling Anthem Blue Cross and Blue Shield, which regulators last year blocked from raising premiums an average of 18.5% on its individual customers.

Many states do far less, often requiring insurers only to file their proposed rate increases with the state insurance commissioner before passing them along to consumers. New York switched to that approach in 1996, a move that state regulators say resulted in "excessive rate increases."

A handful of states, such as Missouri, do not even require insurers to publicly disclose rate hikes.

The new federal healthcare law would step up oversight of health insurers in states with such limited regulation.

The bill directs the secretary of Health and Human Services to work with state regulators to develop a process for reviewing proposed premium increases to determine if they are unreasonable.

Insurers that propose such hikes would be required to post justifications on their websites.

For the first time, all insurance companies would have to dedicate at least 75% of their premiums to paying medical claims; this would reduce the proportion of companies' revenue that could go to administrative expenses, such as executive salaries and stockholder dividends. Some analysts think that requirement could restrain premium growth.

"These provisions are powerful forces that will help end sky-high premium hikes," said Nick Papas, a spokesman for Health and Human Services Secretary Kathleen Sebelius.

On Monday, the department announced it would accelerate the development of new regulations.

But more intensive oversight would not begin until 2014, when states set up new regulated insurance markets, or exchanges, where consumers who do not get insurance at work would shop for coverage.

The healthcare bill allows regulators to ban insurers from the exchanges if their rates are deemed unjustified.

Even some regulators wary of greater Washington control over state affairs say that more federal protections may be needed before then.

"Some consistency there is probably warranted," said Praeger, a Republican and former head of the National Assn. of Insurance Commissioners. Praeger criticized Obama's original proposal to give the federal government authority to block rate increases.

But she said last week that the insurance commissioners association was now talking with the administration about how the federal government could set a stronger minimum national standard for regulating medical insurance companies.

That could encourage more states to require insurers to get state approval before raising premiums.

On Capitol Hill, Feinstein said she was looking at ways to move her premium regulation bill forward, perhaps by attaching it to other legislation with bipartisan support.

Stepping up regulation doesn't promise to be easy. Insurance companies in Maine and Massachusetts have sued state regulators who tried to block rate increases.

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