

July 2, 2014

Proposition X: Requires Approval of Health Insurance Rates

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Senate Health Committee
Hon. Ed Hernandez, Chair
and
Assembly Health Committee
Hon. Richard Pan, Chair





Summary and Background

Summary

- ☑ This proposition would make individual and small group health insurance rates subject to the approval of the Insurance Commissioner (Commissioner).

Background

- ☑ ***Individual and Small Group Health Insurance.*** This measure mainly affects individual and small group health insurance—which covers about 6 million Californians, or 16 percent of the population.
- ☑ ***Two State Departments Oversee Health Insurance in California.*** The Department of Managed Health Care (DMHC) and California Department of Insurance (CDI) oversee health insurance in California. Generally speaking, CDI and DMHC regulate different types of health insurance products. The costs of each department's activities are generally funded through fees on health insurance companies.
- ☑ ***Review, but Not Approval, of Health Insurance Rates.*** Both DMHC and CDI review proposed individual and small group health insurance rates and say whether the rate increases are reasonable or not. However, DMHC and CDI currently have no authority to reject or approve the rates before they take effect.
- ☑ ***Individual and Small Group Health Insurance Is Sold on Exchange.*** Federal health care reform created health benefit exchanges where health insurance companies sell products to individuals and small businesses. California's health benefit exchange is known as Covered California. The Covered California Board negotiates certain plan characteristics—such as rates—with health insurance companies seeking to sell products through Covered California.



Summary and Background

(Continued)



Proposition 103 Rate Regulation. Proposition 103 (approved by voters in 1988) requires rates for certain types of insurance—including automobile and homeowner’s insurance—not be excessive, inadequate, or unfairly discriminatory.

- The Commissioner must approve proposed rates before such rates take effect and may hold public hearings on proposed rates.
- A consumer or a consumer representative can challenge proposed rates and request hearings. Hearings must be granted when proposed rate changes exceed certain percentages.



Proposal

- Individual and Small Group Rates Must Be Approved by the Commissioner.*** The measure makes individual and small group health insurance rates subject to the rate approval process established under Proposition 103.
 - ***Potential Refunds From Health Insurance Companies.*** The measure states that rates proposed after November 6, 2012 must be approved by the Commissioner and rates in effect on November 6, 2012 are subject to potential refunds.
 - ***Definition of Rates.*** The measure defines rates in a way that includes other factors beyond premiums, such as covered benefits, copayments, and deductibles.

- Existing DMHC Regulatory Authority Would Remain in Place.*** As the measure would not repeal any of the current state requirements for DMHC to regulate certain types of health insurance, DMHC would continue to have the authority to *review* certain health insurance rates. However, the Commissioner would have the sole authority to *approve* the rates.

- Prohibition on Consideration of Credit History and Prior Insurance Coverage.*** The measure prohibits the use of an individual's credit history or the absence of prior insurance coverage for determining rates or eligibility for health, automobile, or homeowner's insurance. This provision is generally declaratory of current law and practice.



Fiscal Effects



Increased State Administrative Costs. The most significant fiscal effects of this measure on state and local governments relate to the measure's impact on state administrative costs. These costs would be funded from fee revenues collected from health insurance companies.

- **Increased State Administrative Costs for CDI.** This measure would result in additional costs for CDI, including costs to review and approve health insurance rates and conduct public hearings on rates.
- **Uncertain Effects on DMHC and Covered California.** The measure does not directly impose new duties on DMHC or Covered California, but it could affect their workload and administrative costs. However, the likelihood of significant fiscal effects on either DMHC or Covered California is unclear.