HOUSE
RESEARCH
ORGANIZATION bill analysis 5/3/2013 HB 2782
Smithee

SUBJECT: Authorizing TDI to disapprove health insurance rate changes

COMMITTEE: Insurance — favorable, without amendment

VOTE: 9 ayes — Smithee, Eiland, G. Bonnen, Creighton, Morrison, Muñoz, Sheets, Taylor, C. Turner

0 nays

WITNESSES: For — Simone Nichols-Segers, National Multiple Sclerosis Society; Stacey Pogue, Center for Public Policy Priorities; Clayton Travis, Texans Care for Children; (*Registered, but did not testify:* Miryam Bujanda, Methodist Healthcare Ministries of South Texas, Inc; Doris Dwyer; Laura Guerra-Cardus, Children's Defense Fund - Texas; Blake Hutson, Consumers Union; Patricia Kolodzey, Texas Medical Association; Susan Milam, National Association of Social Workers/Texas Chapter; Bee Moorhead, Texas Impact; Gyl Switzer, Mental Health America of Texas)

Against — None

On — Katrina Daniel, Texas Department of Insurance; David Gonzales, Texas Association of Health Plans; Jay Thompson, Texas Association of Life and Health Insurers

DIGEST: HB 2782 would require the commissioner of insurance develop a process to review a health benefit plan's rate change and to disapprove a rate change that was excessive, inadequate, or unfairly discriminatory.

A rate would be:

- excessive if it was likely to produce a long-term profit that was unreasonably high in relation to the health benefit plan coverage;
- inadequate if it was insufficient to sustain projected losses and if the continued use of the rate either endangered the solvency of the issuer or substantially lessened market competition; and
- discriminatory if it was not based on sound actuarial principles; was not reasonably related to expected losses; was based on unreasonable administrative expenses; or was based on the race, creed, color, ethnicity, or national origin of an individual or group.

HB 2782 would establish criteria used by the commissioner to determine whether a rate change was actuarially sound. It would also allow the commissioner to disapprove a rate if its required filing was incomplete.

The bill would require the commissioner to create a method for a health benefit plan issuer to dispute a rate change disapproval. If a rate was disapproved, the health benefit plan issuer would be allowed to continue using the disapproved rate pending its appeal. During this process, the insurer would be required to deposit in escrow any premiums it collected that exceeded its previous rate. The commissioner would be required to adopt rules governing premium reimbursements should a rate disapproval be upheld.

HB 2782 would require the commissioner to seek all available federal funding to cover the cost to the department of reviewing rates and resolving rate disputes.

The bill would take effect September 1, 2013, and would apply to rates in health benefit plans issued or renewed on or after January 1, 2014.

SUPPORTERS SAY:

HB 2782 would protect consumers and employers from excessive health insurance rate increases. The Texas Department of Insurance (TDI) currently has the authority to review certain health benefit plan rate increases for reasonableness but cannot disapprove a rate it finds to be unreasonable. At the same time, TDI has the authority to deny excessive rate increases for numerous other types of insurance. Extending this authority to health insurance, one of the largest expenses for individuals and employers, would ensure that insurance companies' rates were actuarially sound.

Studies show that the 37 states with the authority to deny excessive rate increases are better positioned to negotiate reductions in filed rates. Nationwide, rate review activity has reduced average rate increases 2.8 percentage points, while in Texas the average rate increase was reduced by only 0.1 percentage point. In Colorado, the insurance regulator attributes $32 million of annual consumer savings to the authority to deny excessive rate hikes.

HB 2782 would save TDI money by directing it to apply for available federal funds to conduct health insurance rate review instead of using money from its operating budget. Lowered health insurance rates would also save consumers money and increase business investment.

OPPONENTS SAY:

HB 2782 would create uncertainty in the health insurance market and hurt health benefit plan issuers by allowing the commissioner to disapprove rates already in use. The bill's proposed escrow accounts have not been used in TDI's rate review process for any other type of insurance and would place an unnecessary administrative burden on insurance companies.