



AMERICAN ACADEMY *of* ACTUARIES

July 27, 2010

Hon. Robert DeLeo, Speaker
Massachusetts House of Representatives
State House Room 356
Boston, MA 02113

Hon. Therese Murray, President
Massachusetts Senate
State House Room 330
Boston, MA 02113

Dear Speaker DeLeo and President Murray:

On behalf of the American Academy of Actuaries'¹ Premium Review Work Group, I would like to offer the following comments on legislation currently being considered by the Massachusetts legislature. Senate bill 2447 includes a provision that would deem “excessive” any health insurance premium increase that exceeds 150 percent of the percentage increase in the consumer price index for medical care services (medical CPI). The corresponding House bill (4915) does not include this provision. As the legislature works to resolve the differences between these two bills, we would like to make you aware of some of the limitations of the medical CPI as a measure of the reasonableness of a premium increase.

The medical component of CPI measures price inflation at the retail level—it measures the prices paid for a *fixed* market basket of medical goods and services. It does not, however, measure any potential *changes* in the level of services or the full extent of changes in service intensity. In other words, medical CPI does not fully account for many significant factors that affect how average claim costs change from year to year,² such as:

- Utilization changes,
- New technologies,
- Changes in provider practices or the intensity of health care services being provided,
- New mandated benefits not completely covered in the past,
- Changes in enrollment mix,
- Adverse selection,

¹ The American Academy of Actuaries is a 16,000-member professional association whose mission is to serve the public on behalf of the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

² American Academy of Actuaries, [*Critical Issues in Health Reform: Premium Setting in the Individual Market*](#) (March 2010).

- The leveraging effect of the deductible, and
- Changes in provider mix and negotiated provider payment arrangements.

The relative importance of these factors can change over time.

More importantly, medical CPI is a retrospective measure and does not account for expected future spending, which is the basis for actuarial rate-setting.

As work proceeds on this legislation, we encourage the Massachusetts legislature to consider not only what medical CPI measures but also those separate factors that contribute significantly to the growth in health care spending and, by extension, health insurance premium increases.

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Given the new rate review provisions now effective under the *Patient Protection and Affordable Care Act* (PPACA), our work group is in the process of discussing the merits of various approaches to determining the reasonableness of a premium rate increase. We would welcome the opportunity to discuss this issue with you. If you have any questions or would like to discuss these items further, please contact Heather Jerbi, the Academy's senior health policy analyst (202.785.7869; Jerbi@actuary.org).

Sincerely,

Michael Abroe, MAAA, FSA
Chairperson, Premium Review Work Group
American Academy of Actuaries