



LINDA LINGLE  
GOVERNOR  
JAMES R. AIONA, JR.  
LT. GOVERNOR

STATE OF HAWAII  
OFFICE OF THE DIRECTOR  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS  
335 MERCHANT STREET, ROOM 310  
P.O. Box 541  
HONOLULU, HAWAII 96809  
Phone Number: (808) 586-2850  
Fax Number: (808) 586-2856  
www.hawaii.gov/dcca

LAWRENCE M. REIFURTH  
DIRECTOR  
RONALD BOYER  
DEPUTY DIRECTOR

TO THE SENATE COMMITTEES ON  
COMMERCE AND CONSUMER PROTECTION  
AND HEALTH

TWENTY-FIFTH LEGISLATURE  
Regular Session of 2009

Friday, January 23, 2009  
10:00 a.m.

**TESTIMONY FOR THE INFORMATIONAL BRIEFING ON HEALTH INSURANCE  
RATE REGULATION**

TO THE HONORABLE ROSALYN H. BAKER AND DAVID Y. IGE, CHAIRS, AND  
MEMBERS OF THE COMMITTEES:

My name is J. P. Schmidt, State Insurance Commissioner ("Commissioner"),  
testifying on behalf of the Department of Commerce and Consumer Affairs  
("Department").

Rate regulation of health insurers started in 2003 and ran to 2006 when the  
original statute was allowed to sunset. In 2007, rate regulation of health insurers was  
re-enacted, with some changes supported by the health plans.

The Department had raised concerns about the changes requested by the health  
plans at that time. We were particularly concerned with changes that made it more  
difficult for us to contest a rate if it went all the way to a hearing and the reduction in  
time schedules for analyzing rates.

The Department strongly believes that rate regulation of health insurers is a good  
idea. All but a handful of States have some form of regulation of health insurance

although the form varies somewhat. Regulation of property and casualty insurance of course is standard practice across the nation.

Our analysts have estimated that the cost savings from health rate regulation from 2003-2008 is about \$35 million. To us, it is therefore clear that the program is effective in protecting our citizens. The State has two inside rate analysts and an outside actuary. The work of the rate analysts reduces the time spent on the filings by the actuary and of course it is important to have our staff review the work of the actuary. The rating methodology must be evaluated for reasonableness and accuracy. The filings are often many inches of paper thick, and contain extensive data from the current and prior years that must be checked for accuracy and internal consistency and reconciled against the publicly filed financial statements. Measures of profit must be estimated. In addition there are numerous assumptions that we have to evaluate and make sure the factual data supports the assumptions. The insurers are attempting to predict the future, what will be the cost of claims and expenses over the next year or time span of coverages. This is a complex process that includes some subjectivity, where doubts can be resolved in favor of the consumers or the insurance company. The Insurance Division needs to address both the consumers' concerns and the insurance companies' financial stability.

The law allows us to disapprove rates that are excessive, inadequate or unfairly discriminatory. This means that we can stop price gouging, destructive price wars, and ratings based on discriminatory criteria. In addition, when you have a market where it is mandatory for employers to buy health insurance (Prepaid Health Care Act) and where there is limited competition, health rate regulation makes good economic sense. Rate regulation also gives us a proactive way of making insurer insolvencies less likely.

Rate regulation is a merit review. We do the review so that the consumers don't have to. The reason this is beneficial is that insurance rates are hard to evaluate, particularly if you don't have the relevant data and are not an actuary. If buyers can't evaluate the price of a product, the market is not transparent and thus does not work most efficiently.

One thing that rate regulation does not do is lower the costs of the healthcare system. The costs of drugs, medical equipment, and procedures have been rising faster than the general rate of inflation for a long time. These are the costs that health insurers must pay for their policyholders. A rise in these costs necessarily entails a rise in the premiums rates. To ignore this fact would impair the financial stability of the insurer and could also disable the healthcare delivery system.

Adequacy of the rate is also very important because of the severe consequences if an insurer can not pay claims as they come due and goes insolvent. In the 1990's several insurers ran into trouble, such as Pacific Group Medical Association, Queens Preferred Plan, Kapiolani Health Hawaii and University Health Alliance, and Straub Health Plan Services. If an insurer must be liquidated it is similar to a bankruptcy and those who relied on the insurance may only get a small portion of their claims paid. Thus, adequate rates to protect financial stability are also important.

The process of rate review is complex but important to both the citizens of Hawaii and the insurance companies. It is important to strike a proper balance between these interests to maintain the benefits of health insurance for all our citizens.

We thank these Committees for the opportunity to present testimony on this important program.