



December 21, 2010

Dear Commissioner:

State insurance commissioners have been on the front lines working to protect individuals and businesses from unreasonable health insurance rate increases. Your experience has shown that rate increases are moderated where insurers are required to publicly justify their decisions to raise premiums, and the Affordable Care Act builds on that experience. I am pleased to announce the proposed rule that would implement Section 2794 of the Public Health Service Act, added by the Affordable Care Act, which directs the Department of Health and Human Services (HHS), in conjunction with the states, to establish a process for the annual review of unreasonable increases in rates for health insurance coverage. This proposed rule would provide you with another tool to prevent unjustified and excessive health insurance premium growth.

This proposed regulation recognizes and builds upon the traditional role the states have played in regulating insurance rates and complements existing State-based rate review processes. All proposed rate increases at or above 10 percent would be subject to review, and insurers in the individual and small group markets would be required to provide a justification to both the states and HHS to comply with Section 2794's requirement that such information be publicly disclosed prior to the implementation of the increase. States with effective rate review programs would review such proposed increases to determine whether they are in accordance with state law. In the small number of states that do not have the legal authority or resources to review rates, HHS would review proposed rate increases of 10 percent or more to determine whether they are reasonable, based on actuarial and other analyses that are currently used by many states to assess rate increases.

I want to thank you for your contributions to the development of this proposed rule. Among other things, the proposed disclosure form required of issuers filing rates subject to review reflects the input given to HHS by the National Association of Insurance Commissioners (NAIC). I want to emphasize that this is a proposed rule, and as always, I look forward to receiving further comments and suggestions from you during the rulemaking process.

This new proposed rate review regulation would also work in conjunction with the medical loss ratio regulation released on November 22, 2010, to make the health insurance marketplace more transparent and increase the value consumers receive for their health care premium dollars. This proposed rate review regulation would allow

consumers to see what increases are being proposed and why. The medical loss ratio regulation ensures that premiums are being primarily spent on health care and quality-related costs, not administrative costs and executive salaries. These two provisions of the Affordable Care Act work together to help assure consumers that any premium increases are reasonable and that their premium dollars are being primarily spent on their medical care or activities that improve the quality of their care.

I look forward to your comments on this proposed regulation, and to working with you to implement this powerful new tool to keep health insurance within reach for American families and businesses.

Sincerely,

Kathleen Sebelius