

How Insurance Rates Are Determined

Consumers 1-800-686-1526 | **Medicare** 1-800-686-1578 | **Fraud & Enforcement** 1-800-686-1527

Ohioans have some of the lowest insurance premiums in the United States, but from year to year, they may change based on a number of factors that insurance companies take into account when developing a rating plan for a specific insurance product. This tip sheet is designed to give Ohioans an understanding as to the Ohio Department of Insurance's (the Department's) role with insurance rates, how rating plans are developed, and why your insurance premiums may increase.

What is an insurance rating plan?

Insurance is a product that relies on the spreading of risk among diverse individuals or groups in order to operate. All insurance companies use data and statistics to predict levels of risk for various individuals or groups. This risk calculation information is also used to develop rating plans. Generally, higher risk factors will result in higher premium rates and lower risk factors will drive premiums lower. Total premium is a blending of all factors for each policyholder. Actuarial science techniques are used to determine risk calculations and rating plans. When the Department analyzes risk calculations and rating plans, we determine whether or not the calculations and plans are "actuarially sound," i.e. reasonable in light of the anticipated risks and calculated based on the correct formulas or actuarial standards. These rating plans can be simple, such as a rate per \$1,000 of desired insurance coverage, or complex formulas that take into consideration multiple rates and factors.

What is the Ohio Department of Insurance's role in determining insurance rating plans?

The Department does not set insurance rates, nor do we tell an insurance company it must revise its rating plan unless the rating plan does not comply with Ohio insurance laws. Also, only certain insurance product rating plans are regulated by the Department. The Department regulates rating plans for homeowners, automobile, credit life, long-term care and some health insurance products. We also regulate the rating plans of insurance products sold to businesses and professionals. The Department does not regulate rating plans for all insurance products. Examples of insurance products whose rating plans we do not regulate are most forms of life insurance, annuity products and large employer group health insurance. Where rating plans are regulated by the Department of Insurance, we determine if the rating plans comply with Ohio insurance law and if those rates are actuarially sound.

How do insurance companies determine insurance premiums?

Insurance companies look at various characteristics to determine the premium that an individual is charged. Auto insurance premiums are based on factors such as where you live, your age, and your driving record. Homeowners insurance premiums are based on factors such as where you live and the value of your home and its contents. Health insurance premiums are based on factors such as your age, sex, where you live, and health status. Life insurance premiums are based upon your life expectancy, which can vary by your age, sex, tobacco usage and overall

health condition. Each insurance company determines premiums differently since the rating plans differ. Talk to your insurance company or agent about the specifics of how your policy premium was determined. For property & casualty insurance, such as homeowners or auto insurance, insurance scores derived from elements of your credit score are a characteristic in some insurer's rating plans. For additional information on consumer rights and insurer restrictions regarding the use of credit score information and how it may impact the insurance premium, please view a consumer publication on the Department of Insurance's website, <http://www.insurance.ohio.gov/Newsroom/Tips/Pages/CreditScore.aspx> or visit the Federal Trade Commission's website (www.ftc.gov)

Why did my insurance premium increase?

Sometimes your premium will increase because the insurance company has revised its rating plan. On other occasions, your premium will increase because characteristics about you have changed since your last renewal. Some of these changes in characteristics are within your control, such as purchasing a new vehicle or causing accidents, while others are not as much in your control, such as getting older or being struck by a natural disaster. When your premium has increased, you may wish to contact your insurance company or agent. The insurance company or agent will be able to explain why your premium has increased and also help you determine if you can do anything to lower your costs.

Your insurance company or agent should never tell you that your premium increased because the Ohio Department of Insurance approved the increase. Instead, your insurance company or agent can explain whether or not a new rating plan was approved by the Ohio Department of Insurance, and what element or elements caused your premium to change.

What if I feel my insurance premium increased incorrectly?

You can file a complaint with the Ohio Department of Insurance by calling 1-800-686-1526 or online at www.insurance.ohio.gov. A Department representative will take your information and contact the company to determine whether or not the premium is correct.

How can I reduce my insurance premiums?

There are number of things you can do to reduce your insurance premium, such as:

1. Shop around!
2. Consider raising deductible.
3. Drive safely.
4. Make improvements to your home.
5. Add smoke detectors, alarm system, etc.
6. Live a healthy lifestyle.
7. Bundle policies. (for instance, you may receive discounts if you purchase your homeowners and auto insurance from the same company)

You should discuss cost savings opportunities and your options with your insurance agent. For more information on how to save on insurance premiums, call the Ohio Department of Insurance at 1-800-686-1526 or visit www.insurance.ohio.gov