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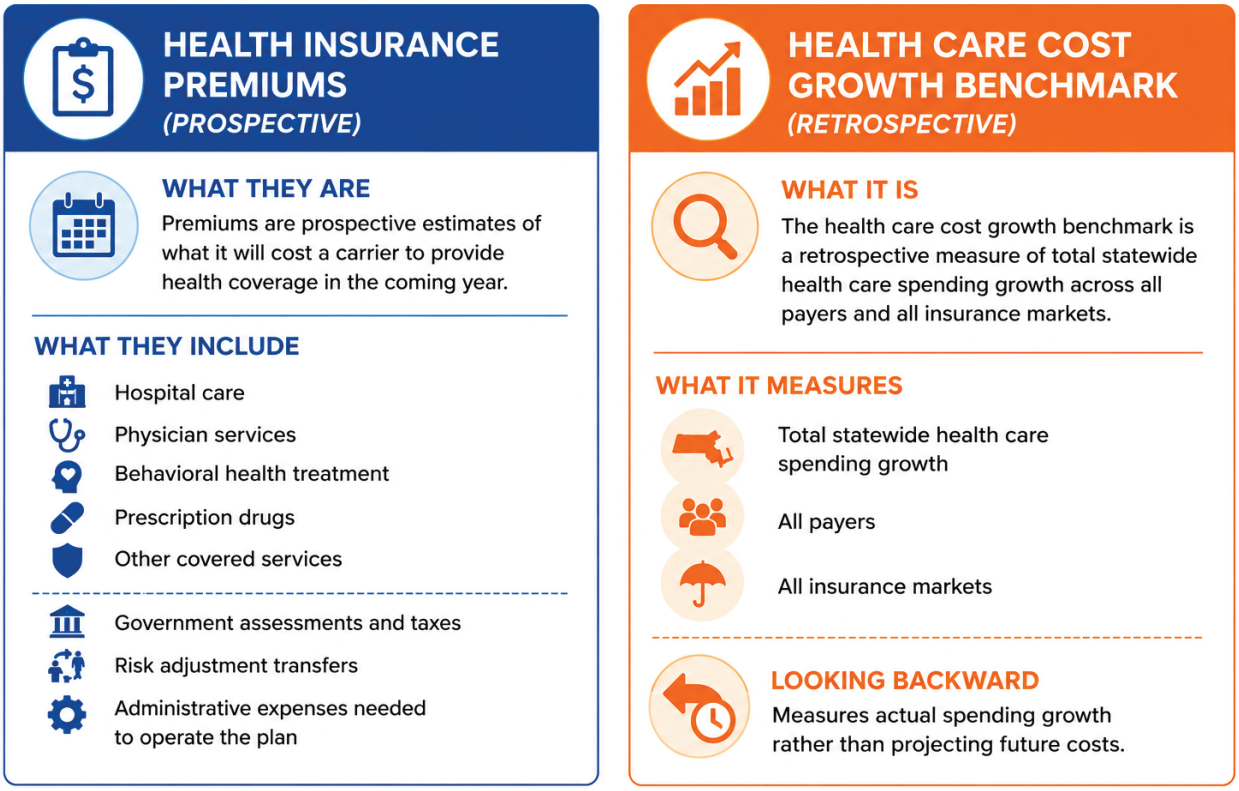
Understanding Health Insurance Premiums in Massachusetts: What Drives the Cost of Coverage?

Each spring, Massachusetts health plans file proposed premium rates with the Division of Insurance for review and approval. These filings are often accompanied by questions about why premiums are increasing and whether those increases are consistent with the Commonwealth's health care affordability goals. The answers to these questions require an understanding of how premiums are developed.

Health insurance premiums are not set arbitrarily, nor are they a direct reflection of the state's health care cost growth benchmark, which is a retrospective measurement. Rather, premiums are developed prospectively based on the anticipated cost of providing coverage during the upcoming year. Actuaries analyze historical claims experience and project future spending on hospital and physician services, prescription drugs, behavioral health care, government assessments, risk adjustment transfers, and other costs required to provide coverage.



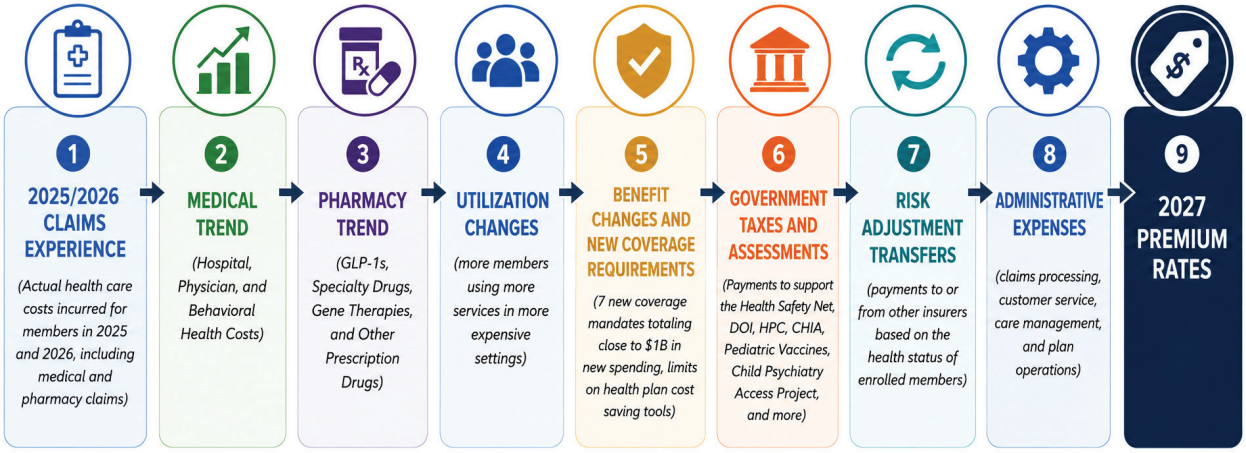
In Massachusetts, health plans are subject to some of the most rigorous oversight requirements in the country. Premium rates must be approved by the Division of Insurance, and they are examined not just for actuarial soundness but also for consumer affordability. At least 88% of premium dollars must be spent on member care, and contributions to surplus are limited to 1.9%. Massachusetts also sets limits on increases in member cost-sharing and out-of-pocket expenses.

As policymakers, employers, and consumers continue to grapple with rising health care costs, it is important to recognize that premiums are largely a reflection of costs generated elsewhere in the health care system. Over 40 state reports issued by the Center for Health Information and Analysis (CHIA), the Health Policy Commission (HPC), the Attorney General's Office, and others have consistently identified provider prices, prescription drug spending, and increased utilization as primary drivers of health care spending growth in Massachusetts.

This issue brief explains how premiums are developed, the factors that contribute to premium increases, and why premium growth and overall health care spending growth are often discussed together but measure different things.

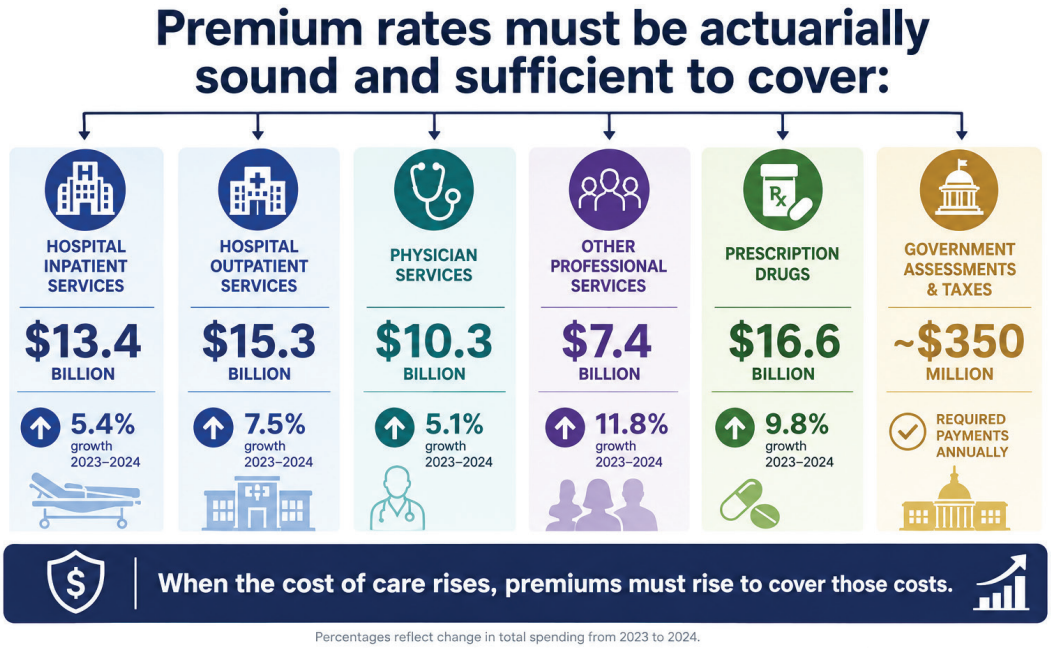
How Health Insurance Premiums Are Developed

Health insurance premiums are developed prospectively, meaning rates are based on what actuaries project health care costs will be during the upcoming year. Premium development begins with a health plan's recent claims experience and then incorporates a series of adjustments to estimate future costs.



Health plans do not begin with a target rate increase. Instead, rates are developed to cover the anticipated cost of providing health care services and administering coverage during the upcoming year. Before rates can take effect, they must be reviewed and approved by the Massachusetts Division of Insurance.

What's Driving Premiums Higher?



Percentages reflect change in total spending from 2023 to 2024.

The very same factors driving overall spending growth are driving premium increases.

Hospital and Physician Costs

Hospital and physician services represent the largest share of health care spending in Massachusetts and remain a major driver of premium increases. According to CHIA, hospital outpatient spending grew 7.5% in 2024 to $15.3 billion and accounted for 21.8% of total statewide health care spending growth. Hospital inpatient spending grew 5.4% to $13.4 billion, while physician spending increased 5.1% to $10.3 billion. Because health plans pay for these services on behalf of their members, increases in provider reimbursement ultimately become part of the cost of health coverage purchased by employers and consumers.

Prescription Drug Spending

Prescription drugs remain one of the fastest-growing categories of health care spending and were the single largest contributor to statewide spending growth in 2024. CHIA reported that prescription drug spending increased 9.8% to $16.6 billion and accounted for 23.4% of total health care spending growth statewide. High-cost specialty medications, cell and gene therapies, and GLP-1 medications for diabetes and weight management are creating significant new spending pressures across the health care system. Commercial pharmacy spending increased 14.9% in 2024, with GLP-1 medications and specialty drugs identified as major cost drivers.

Increased Utilization

Health care costs rise not only when prices increase, but also when more services are used. Massachusetts continues to experience increased utilization across many categories of care. CHIA found that increased use of outpatient services, behavioral health care, specialty care, and prescription drugs contributed significantly to spending growth in 2024. In many cases, more members are using more services, more frequently, and in more-expensive settings, increasing the overall cost of coverage.

New Spending Requirements

Premiums must also reflect costs imposed through legislation, regulation, and government assessments. These include mandated benefits, new coverage requirements, and assessments used to fund a variety of state health care programs and initiatives. In Massachusetts, health plans fund numerous assessments and programs, including the Health Safety Net, CHIA, HPC, vaccine purchasing programs, the Child Psychiatry Access Program, and Division of Insurance operations. In 2024 alone, these assessments and taxes totaled approximately $380 million. As new requirements are added to the health care system, health plans are required to account for those costs when developing premium rates.

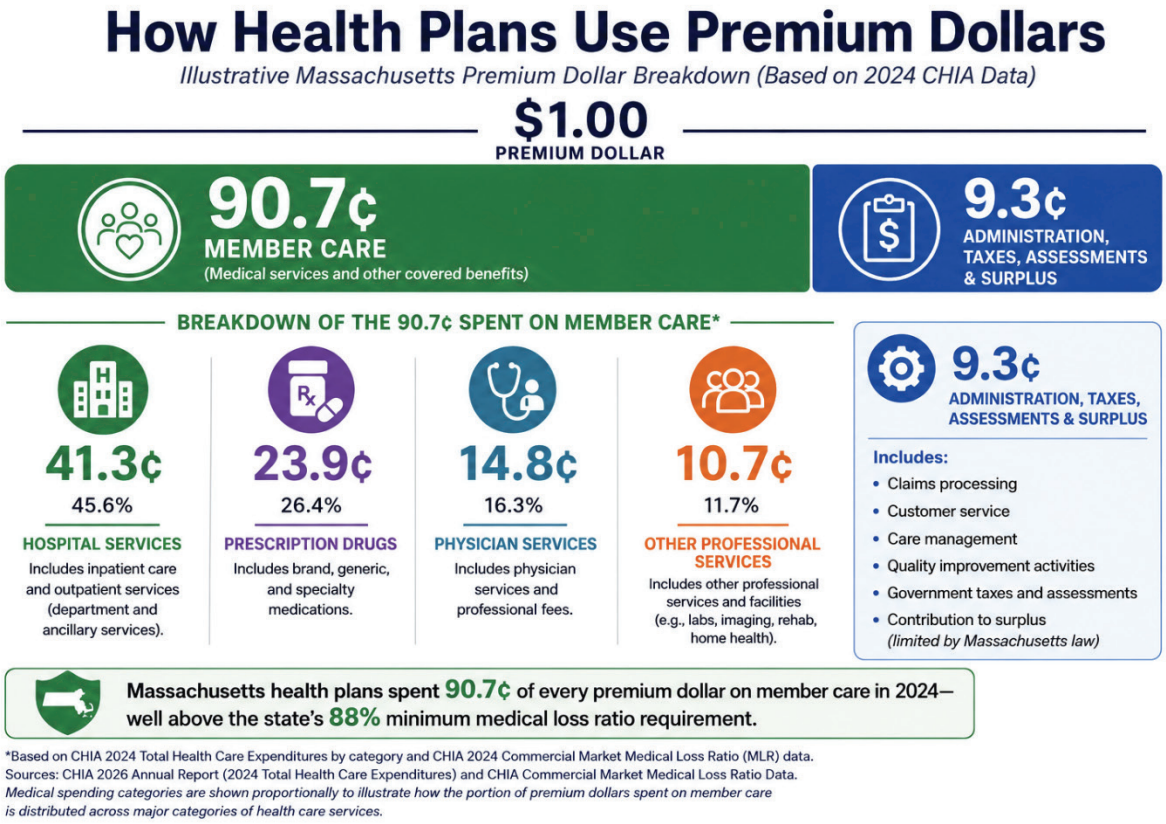
Population Changes and Risk Mix

Premiums also reflect the expected health care needs of the population enrolled in coverage. As the composition of the insured population changes, so does the average cost of providing care. Recent regulatory changes affecting eligibility, combined with continued growth in self-funded coverage among small employers, are contributing to shifts in the merged market risk pool. On average, these changes remove healthier individuals from the fully insured market, increasing the average health care costs of those who remain enrolled. This dynamic is expected to become increasingly important as federal coverage changes under the One Big Beautiful Bill Act and recent market disruptions alter enrollment patterns and the composition of the insured population.

Where Does the Premium Dollar Go?

A common misconception is that premium dollars primarily fund health plan operations. In reality, Massachusetts law requires health plans to spend at least 88% of premium dollars on member care and quality improvement activities. In practice, medical claims, government taxes and assessments, and other required expenditures consume an even greater share of premium revenue.

According to CHIA, fully insured health plans in Massachusetts spent 90.7% of premium revenue on medical care in 2024, leaving just 9.3% to fund plan administration, government taxes and assessments, care management and quality improvement programs, customer service, claims processing, and other operating expenses. Even that 90.7% of premium revenue was insufficient to cover those costs, resulting in average underwriting losses across the fully insured market.



Massachusetts' medical loss ratio requirements also include important consumer protections. Health plans that fail to meet the state's minimum spending requirements must return funds directly to policyholders. Over the past two years alone, Massachusetts health plans have returned more than $127 million in medical loss ratio rebates to consumers and small businesses.

Conclusion

Massachusetts health plans remain committed to improving affordability for employers, consumers, and taxpayers. But meaningful progress requires a clear understanding of what premiums represent. Premiums are not the underlying cost of health care; they are a reflection of it.

The rates reviewed each year by the Division of Insurance are built from projected spending on hospital and physician services, prescription drugs, behavioral health care, government assessments, and other costs required to provide coverage. When those costs increase, premium increases inevitably follow.

Massachusetts has established some of the nation's strongest consumer protections and oversight requirements for health insurance premiums, including rigorous rate review, minimum medical loss ratio standards, and limits on surplus. Yet the data continues to show that the primary drivers of spending growth originate elsewhere in the health care system, including rising provider prices, increasing prescription drug costs, and higher utilization of services.

If the Commonwealth is serious about improving affordability, efforts must focus not only on the premiums that consumers and employers pay but also on the underlying costs that drive those premiums. Addressing those drivers is essential to ensuring that high-quality, affordable health coverage remains within reach for Massachusetts families, businesses, and taxpayers.