



Accountability in Action:

Rate Review Cuts Over \$69 Million in Waste from 2014 Health Insurance Premiums

Close scrutiny of proposed health insurance premiums for 2014 has cut over \$69 million in waste and unjustified costs from premiums for Oregon consumers and small businesses.

This brings the total waste cut by Oregon's rate review program to over \$155 million since 2010, providing more evidence that Oregon's effort to create accountability for health insurers is starting to pay off.

It also comes as Oregon begins looking at the next steps needed to cut waste from health care costs more effectively. With studies continuing to show that a third or more of all health care spending is spent in ways that do not improve health,¹ it is clear that more work remains to be done. In the year ahead, at the urging of Governor Kitzhaber, Oregon will be exploring a range of measures to strengthen the health insurance rate review process.²

Oregon's health insurance rate review program, administered by the Oregon Insurance Division (OID), serves as a critical backstop to protect Oregon individuals, families and small businesses from paying unreasonable premium rates. Insurers offering coverage in the individual and small business markets must justify proposed premium rates in writing, showing that they are not excessive and explaining how the insurer is working to reduce costs. These written justifications are made publicly available on the OID's website, www.oregonhealthrates.org, and the public has opportunities for input through public comments and hearings.

With federal health reform bringing important new consumer protections into effect in 2014, many more Oregonians will be able to access coverage, and health insurance benefits and out-of-pocket costs will change substantially for many people. Oregonians will be able to compare plans through Cover Oregon, the new health insurance marketplace.³ In addition, insurers will no longer be allowed to deny coverage to people with pre-existing conditions, and many Americans will be required to have health coverage or pay a penalty. These changes made it more important than ever to ensure that premium rates for the coming year are justified, and that consumers receive good value for their premium dollar.

Due to provisions of the federal Affordable Care Act (ACA) and Oregon's homegrown health reform efforts, all insurers participating in the individual and small group markets must now submit their proposed rates at the same time each year. Oregon's insurers simultaneously filed their proposed rates on April 30.

OSPIRG Foundation contributed to the process of reviewing these rate proposals by conducting independent in-depth research into the insurers' filings, focusing especially on proposals from five of Oregon's largest insurers: Providence,⁴ Kaiser,⁵ LifeWise,⁶ Moda⁷ and BridgeSpan.⁸ Our analysis highlighted some areas of concern for consumers in the insurers' justifications for their proposed rates—some unique to those insurers, others true almost across the board. We brought our concerns to the attention of the OID and encouraged the public to participate in the rate review process by submitting public comment.

In late June, the OID began to hand down its decisions about 2014 premium rates, and in many cases they appear to have agreed with the concerns raised by OSPIRG Foundation, cutting most proposals back, some by more than a third.

Highlights of 2014 rate decisions

| | RATE REDUCTION | WASTE CUT* |
|--|----------------|----------------|
|  PROVIDENCE | 20.5 % | \$17.9 MILLION |
|  KAISER PERMANENTE | 12 % | \$8.1 MILLION |
|  Regence | 3.4 % | \$4.9 MILLION |
| Bridgespan | 3.5 % | \$2.8 MILLION |
|  UnitedHealthcare | 4.5 % | \$3.1 MILLION |
|  moda | 3 % | \$1.2 MILLION |
|  LIFEWISE  HEALTH PLAN OF WASHINGTON | 1.5 % | \$866,000 |

The tables below detail all of the decisions made for each 2014 rate proposal, including the initial proposed rate, the rate approved by the OID, and an estimate of the dollar total cut out of premiums as a result of these decisions. These estimates are based on the enrollment projections provided by the insurers in their rate filings.⁹ The rates listed in the tables below are the monthly premium rates for the Oregon Standard Bronze plan, a uniform set of benefits and cost-sharing which all insurers are required to provide under a new Oregon law. Since many policyholders will choose to purchase more generous—and more expensive—Silver, Gold or Platinum coverage,¹⁰ the estimate of the total dollar value cut out of premiums represented below is likely to be conservative.

INDIVIDUAL AND FAMILY RATES¹¹

| Company | Proposed rate | Final rate | % Reduction | Projected membership | Total \$ cut |
|--------------------------|----------------------|-------------------|--------------------|-----------------------------|----------------------|
| ATRIO | \$ 305 | \$ 241 | 21.1% | 3,576 | \$ 2,746,368 |
| BridgeSpan | \$ 244 | \$ 236 | 3.5% | 29,669 | \$ 2,848,224 |
| Health Net ¹² | \$ 201 | \$ 197 | 2.1% | 5,701 | \$ 4,446,780 |
| Health Republic | \$ 251 | \$ 241 | 4.1% | 14,029 | \$ 1,683,480 |
| Kaiser | \$ 229 | \$ 201 | 12.0% | 24,289 | \$ 8,161,104 |
| LifeWise | \$ 195 | \$ 192 | 1.5% | 24,059 | \$ 866,124 |
| Moda | \$ 169 | \$ 166 | 1.8% | 36,000 | \$ 1,296,000 |
| Oregon's Health CO-OP | \$ 234 | \$ 228 | 2.5% | 19,702 | \$ 1,418,544 |
| PacificSource | \$ 201 | \$ 197 | 2.1% | 15,379 | \$ 738,192 |
| Providence | \$ 290 | \$ 231 | 20.5% | 25,390 | \$ 17,976,120 |
| Regence | \$ 237 | \$ 229 | 3.4% | 51,400 | \$ 4,934,400 |
| Time | \$ 292 | \$ 209 | 28.4% | 3,609 | \$ 3,594,564 |
| TOTAL | | | | | \$ 50,436,252 |

The Individual health insurance market will be undergoing a fundamental shift in 2014, as new consumer protections come into effect and insurers will no longer be able to deny coverage due to pre-existing conditions. The uncertainty generated by this shift helps explain the large cuts regulators applied to proposed Individual market premium rates, as the OID had to evaluate a broad range of

projections about possible costs in 2014. The small group market, by contrast, will be less affected, since small business plans already have protection against pre-existing condition exclusions. Unsurprisingly, the OID's cuts to small group rate proposals are smaller, though substantial in many cases.

SMALL GROUP RATES

| <u>Company</u> | <u>Proposed rate</u> | <u>Final rate</u> | <u>% reduction</u> | <u>Projected membership</u> | <u>Total \$ cut</u> |
|------------------------------------|----------------------|-------------------|--------------------|-----------------------------|----------------------|
| ATRIO | \$ 303 | \$ 296 | 2.2% | 904 | \$ 75,936 |
| Health Net ¹³ | \$ 260 | \$ 259 | 0.4% | 37,642 | \$ 451,704 |
| Health Republic | \$ 250 | \$ 202 | 19.2% | 550 | \$ 316,800 |
| Kaiser | \$ 222 | \$ 218 | 2.1% | 25,456 | \$ 1,221,888 |
| LifeWise | \$ 220 | \$ 218 | 1.1% | 7,920 | \$ 190,080 |
| Moda | \$ 229 | \$ 229 | 0.0% | 8,233 | \$ 0 |
| Oregon's Health CO-OP | \$ 284 | \$ 281 | 1.0% | 4,052 | \$ 145,872 |
| PacificSource | \$ 280 | \$ 280 | 0.0% | 36,895 | \$ 0 |
| Providence | \$ 315 | \$ 278 | 11.9% | 25,661 | \$ 11,393,484 |
| Regence | \$ 268 | \$ 263 | 2.1% | 35,515 | \$ 2,130,900 |
| Samaritan | \$ 450 | \$ 300 | 33.3% | 50 | \$ 90,000 |
| Trillium | \$ 331 | \$ 315 | 4.9% | 1,000 | \$ 192,000 |
| UnitedHealthCare Insurance Company | \$ 331 | \$ 317 | 4.5% | 19,000 | \$ 3,192,000 |
| UnitedHealthCare of Oregon | \$ 323 | \$ 309 | 4.5% | 100 | \$ 16,800 |
| TOTAL | | | | | \$ 19,417,464 |

Analyzing the Decisions

After making a final decision on any rate proposal, the OID posts an explanation on their website, www.oregonhealthrates.org. Examining these explanations provides some insight into how the Division identified and protected consumers from unjustified costs. Below is a brief overview of some of the key factors considered by the Division.

1. Two of Oregon's biggest insurers, Kaiser and Providence, made major errors in their initial filings.

Taking their Individual and Small Group filings together, the cuts applied to the rates proposed by these two insurers amount to over \$38 million, or more than half of the total for all Oregon insurers.

Both Kaiser and Providence admitted to making errors in their initial filings shortly after the filing deadline, after it became clear that both insurers' proposed rates were higher than many of their competitors'.¹⁴ Both insurers suggested sizable cuts to their proposed rates in follow-up correspondence with the OID. Kaiser proposed a 10% cut, while Providence proposed a 15-20% cut. The Division eventually chose to cut back both rates further than suggested by the insurers.

While it is good that these errors were caught in time to protect consumers, the fact that the initial rate filings had such major flaws underscores the need for scrutiny and should potentially lead to further clarification of the rate filing rules. We urge the OID and all Oregon insurers to take steps to guard against errors such as these reoccurring in future years.

2. Some insurers overstated or incorrectly calculated the costs of implementing health reform

In 2014, many more Oregonians will be able to purchase health insurance due to new consumer protections preventing insurers from denying coverage due to pre-existing conditions and federal financial assistance that will help cover the cost. The impact of covering many more Oregonians is not yet known. Some projections have suggested that expanding coverage will increase costs due to the costs of covering sick individuals who have previously been denied coverage, while others have suggested that overall costs will not be affected, or may go down, due to the fact that many uninsured individuals are young and healthy and have few medical expenses.

The OID agreed with OSPIRG Foundation's assessment that some Oregon insurers' projections of dramatically increased costs due to their expanded customer base were unsubstantiated, overstated or incorrectly calculated, and cut back those rate proposals accordingly.¹⁵

3. Some insurers overstated trends in medical costs

A number of national studies have demonstrated a slowdown in health care cost growth in recent years, yet several Oregon insurers projected accelerating cost growth in the year ahead, with some insurers projecting costs increases more than 2-3 times the national average over the past few years. In a few cases, the OID questioned these projections, and cut back those proposals accordingly.¹⁶

4. Many insurers failed to properly account for cost savings associated with health reform.

The OID cut every single rate request for Oregon's Individual market by at least 1.5% due to a failure to properly account for savings associated due to state and federal programs designed to stabilize individual health insurance rates in the first three years of federal healthcare reform. These cuts played a critical role in ensuring that Oregon consumers reap the benefits of these programs.

Next Steps

While cutting \$69 million in waste and unjustified costs from 2014 premiums is a significant step forward for consumers, work remains to be done to ensure that the rate review process is living up to its full potential to protect consumers from paying too much for health care. Some factors that did not play a major role in the rate decisions for 2014 should be seriously considered as Oregon considers next steps to improve the rate review process.

1. Many insurers failed to provide enough information to evaluate their claims about trends in medical costs.

Although some proposed rates were cut back on the basis of overstating medical cost trends, other insurers moved forward with rate increases despite projections of accelerating cost growth and/or costs well exceeding the national average. Such projections should receive heightened scrutiny in the future.

2. Many insurers failed to incorporate cost savings due to reductions in uncompensated hospital care that will result from the expansion of coverage to hundreds of thousands of currently uninsured Oregonians.

As uncompensated hospital care goes down in 2014 and beyond, the associated cost savings should be passed along to consumers. The fact that Oregon insurers do not appear to be taking steps in that direction is a major missed opportunity. A recent study¹⁷ from Oregon Health and Science University found that reductions in uncompensated care will reduce costs for Oregon's public employee and teacher benefit plans by \$18 million per year; such savings should also be passed along to Oregon families and small businesses purchasing their own coverage. This should be a focus of heightened scrutiny when reviewing next year's proposed premium rates.

3. Oregon insurers do not appear to be doing all they can to reduce costs and improve quality of care.

Many insurers failed to provide enough information to evaluate their efforts in this key area. Others provided some information about cost containment programs but no specific measures or benchmarks for cost and quality, making it impossible to evaluate the insurer's overall strategy.

Rate review provides an opportunity to build greater accountability for insurance companies—to ensure that rates do not go up for consumers unless carriers are putting in a meaningful effort to keep down costs and improve quality. Holding carriers to higher standards of accountability in this area represents the single greatest opportunity to build on Oregon's successful rate review program.

In the year ahead, at the urging of Governor Kitzhaber, Oregon will be exploring a range of measures to strengthen the health insurance rate review process.¹⁸ By instituting some common-sense measures to hold health insurers accountable, Oregon has a great opportunity in the next year to start making progress in cutting the waste out of our health care system. Cutting \$69 million from 2014 premiums demonstrates that increased transparency and accountability works to bring down costs. Now, it is time to take the next step.

NOTES

¹ Institute of Medicine, Best Care at Lower Cost: The Path to Continuously Learning Health Care in America (2012), available at <http://iom.edu/Reports/2012/Best-Care-at-Lower-Cost-The-Path-to-Continuously-Learning-Health-Care-in-America.aspx>

² See <http://ospirgfoundation.org/results/orf/governor-kitzhaber-pursue-strengthened-scrutiny-health-insurance-rates>

³ For more information on Cover Oregon, see www.coveroregon.com

⁴ See OSPIRG Foundation's in-depth analysis of the Providence filing here:

<http://ospirgfoundation.org/reports/orf/comment-providence-health-plans-proposed-individual-health-insurance-rates>

⁵ See OSPIRG Foundation's in-depth analysis of the Kaiser filing here:

<http://ospirgfoundation.org/reports/orf/comment-kaiser-foundation-health-plans-proposed-individual-health-insurance-rates>

⁶ See OSPIRG Foundation's in-depth analysis of the LifeWise filing here:

<http://ospirgfoundation.org/reports/orf/comments-lifewise-health-plans-proposal-individual-health-insurance-rates>

⁷ Moda was formerly known as ODS. See OSPIRG Foundation's in-depth analysis of the Moda filing here:

<http://ospirgfoundation.org/reports/orf/comment-moda-health-plans-proposed-individual-health-insurance-rates>

⁸ BridgeSpan is a new insurer affiliated with Regence BlueCross BlueShield through a parent company. See OSPIRG Foundation's in-depth analysis of the BridgeSpan filing here: <http://ospirgfoundation.org/reports/orf/comment-bridgespan-health-companys-proposed-individual-health-insurance-rates>

⁹ Since the insurers made these enrollment projections without specifics about how their rates would compare to the competition, which will have an effect on enrollment, the accuracy of these numbers is not guaranteed.

However, the numbers do provide a reasonable basis for an educated guess.

¹⁰ These "metal" levels represent the generosity of a health plan's coverage—the percent of the average policyholder's annual medical costs that will be covered by the insurer: Bronze, 60%; Silver, 70%; Gold, 80%; Platinum, 90%.

¹¹ Another insurer, FamilyCare, initially proposed a monthly rate of \$422, but later chose not to offer coverage in the Individual market after the Insurance Division cut their rate back to \$274, a 35.1% reduction. FamilyCare is not included because it is not possible to determine the cost impact on consumers of their decision not to participate in the Individual market.

¹² Health Net originally proposed a \$262 rate for its Individual Oregon Standard Bronze plan, but this was due to an error that was later corrected by the insurer before the decisions were made.

¹³ Health Net originally proposed a \$309 rate for its Small Group Oregon Standard Bronze plan, but this was due to an error that was later corrected by the insurer before the decisions were made.

¹⁴ The errors detailed by the insurers included errors in calculating market average risk (Kaiser), unnecessarily high administrative costs (Providence), and a failure to account for the savings associated with cost containment and quality improvement programs (Providence), among other more technical errors.

¹⁵ For example, both Trillium and ATRIO projected a cost impact of more than 40% due to covering the currently uninsured. In their decisions, the Insurance Division questioned the basis for these projections.

¹⁶ For example, Time projected a 10.5% medical cost trend in their filing. In their decision, the Insurance Division stated that 8.1% was a more justified projection.

¹⁷ Estimated Financial Effects of Expanding Oregon's Medicaid Program under the Affordable Care Act (2014-2020). See <http://library.state.or.us/repository/2013/201302060937563/index.pdf>

¹⁸ See here for more information: <http://ospirgfoundation.org/results/orf/governor-kitzhaber-pursue-strengthened-scrutiny-health-insurance-rates>

ABOUT OSPIRG FOUNDATION

With public debate around important issues often dominated by special interests pursuing their own agendas, OSPIRG Foundation offers an independent voice that works on behalf of the public interest. OSPIRG Foundation, a 501(c)3 organization, works to protect consumers and promote good government. We investigate problems, craft solutions, educate the public, and offer Oregonians meaningful opportunities for civic participation.

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