January 2012

Comments on Regence BlueCross BlueShield's Proposal to Increase Small Business Health Insurance Rates Effective April 2012

Filing # RGAC-127852825

Health Insurance Rate Watch
A Project of OSPIRG Foundation

Authors:
Mike Russo
Laura Etherton
David J. Rosenfeld

Actuarial Analysis:
Allan Schwartz

Project Advisory Committee:
Jerry Cohen, AARP-Oregon
Laurie Sobel, Consumers Union
Jason McNichol, Oregon Health Action Campaign
Jim Houser, Small Business Owner, Hawthorne Auto Clinic

The authors bear responsibility for any remaining factual errors. The views expressed in this report are those of the authors, and do not necessarily reflect the views of our funders, advisory committee, or those who provided analysis and review.

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.

For more about OSPIRG Foundation or for more copies of this report, please visit: http://www.ospirg.org.

2012 OSPIRG Foundation

Some Rights Reserved: OSPIRG Foundation issues this report under a Creative Commons “some rights reserved” license. You are free to copy, distribute, or display the work for non-commercial purposes, with attribution. For more information about this Creative Commons license, visit: http://creativecommons.org/licenses/by-nc-nd/3.0.

Executive Summary

We are concerned that Regence BlueCross BlueShield (Regence) has not adequately justified its proposal for a rate increase impacting 47,806 Oregonians with coverage through a small business employer.

Main features of the rate filing:

The filing lists the rate increase as 4.5% on average for 47,806 Oregonians. But supplemental information from Regence indicates that the average increases will be roughly twice as high for businesses that renew after the second quarter of the year. It appears the average annualized rate increase Regence customers will experience under this filing is 8.0%.[1]

Regence is proposing to raise rates an average of 4.5% on the small businesses who renew their policies between April and June 2012. This is good news, as it is less than the previously-approved 6.9% average increase that was about to take effect for these businesses.

For the 34,790 businesses expected to renew later in the year, however, the average increase appears to be significantly higher. Rates will increase on average 9.7% for businesses that renew between July and September, 9.3% for those that renew between October and December, and 8.9% beginning in January 2013.

The insurer is also proposing to change how it varies premiums for businesses depending on geographic location and average employee age.

Key findings:

• The medical and prescription drug trend numbers are not fully explained and may be unreasonably high.
Adjusting down the increase for those that renew in the second quarter of 2012 is a step in the right direction to correct for over-estimated medical costs. But, we are concerned that the proposed increase in medical and prescription drug costs are not fully explained and may remain unreasonably high.

Regence says they expect medical and prescription drug costs to rise at a rate that is significantly higher than their actual claims experience supports. In the filing, Regence says it anticipates a 10.8% increase in medical costs and 12.2% in prescription costs. This is significantly greater than the insurer’s actual historical medical trend of only 3.6%, and is also greater than the medical trends used by other insurers in the small business market. The insurer did not show the full details of the calculations and methodology they say support the proposed trend.

---

[1] We calculated this value by weighting the average rate increase per quarter by the number members renewing in each quarter.

• **The maximum possible rate increase is not clear from the filing, leaving many businesses in the dark about the potential impact the filing will have on their costs.**

While the filing initially lists 6.6% as the maximum rate increase**,** it later clarifies this is only the maximum increase on base rates, before adjustments for age, geography and other factors are factored in, and it appears that this is only the maximum for businesses renewing in the second quarter of 2012. Supplemental information provided by Regence shows that some businesses will see rate increases in excess of 15%, but does not list a maximum actual increase that businesses may experience.

• **Regence has not explained why it is proposing to have businesses with older employees, and those in certain locations in Oregon, pay even more**.

Regence has not explained its rationale for changing how it charges businesses depending on age and location, so it is unclear whether the changes meet the statutory standard of not being unfairly discriminatory.

The insurer proposes lowering rates less than average for businesses with younger employees, while raising rates more than average for business with an older workforce. Simultaneously Regence proposes relatively lower rates for businesses in the Portland metro area, the Salem area, and in Southern Oregon – while raising rates along the coast, in Eastern Oregon, Central Oregon, and in the mid-Willamette Valley. Regence does not explain the strategy behind these changes, whether these changes are intended to help the insurer hold less expensive enrollees and shed more expensive enrollees, or what claims experience supports these rating changes.

• **We are troubled by the continuing decline in enrollment in these small business plans, and the impact this will have on the remaining ratepayers.**

In the previous filing, Regence anticipated no change in enrollment if the rate increase were approved, but in the months since then, enrollment has dropped from 54,000 to just below 48,000 – a loss of over 10% of their members. Because businesses with healthier employees are generally the most likely to drop coverage, we are concerned Regence's small business risk pool may be growing less healthy, and less stable, as a result. As in the previous filing, Regence does not predict any change in enrollment if the current increase is approved, but does not support this prediction with evidence.

• **We agree with Regence that the key to stabilizing enrollment is to improve affordability, and encourage the insurer to do more in order to succeed in this area**.

The filing lists only a few new or changed initiatives aimed at increasing quality and lowering costs. Given Regence's declining small business enrollment and the potential for a decreasingly healthy risk pool, both the insurer and its members would benefit from more aggressive moves to adopt delivery and payment reforms to lower costs and improve health. We urge the insurer to redouble its efforts to cut waste and reduce the underlying cost of care.

Key Features and Insurer Information

Key features of the proposal to increase premium rates

State tracking # for this filing	RGAC-127852825
Name of health insurance company	REGENCE BLUECROSS BLUESHIELD OF OREGON
Type of insurance	Small Grp Hlth Plans (small employers)
Grandfathered under federal health reform?	Non-Grandfathered

Average rate increase	8.00%
Minimum rate increase	Unclear
Maximum rate increase	Unclear

Number of Oregonians affected	47,806
Anticipated enrollment if approved	47,806

Proposed rate	
% premium to be spent on medical costs	83.80%
% premium to be spent on administrative costs	16.40%
% premium to be spent on profits	-0.20%

Basis for proposed increase	
Increase in medical costs	10.80%
Increase in Rx costs	12.20%
Experience period	5/10 - 4/11

Insurer's history of rate increases	
2010	15.50%
2009	11.60%
2008	13.20%
2007	12.40%

Effective date of rate increase	4/1/2012
Date rate filing posted	12/8/2011
Date comments due	1/7/2012
Link to rate filing:	http://bit.ly/u6jp3c

Insurer information company-wide

For profit or non-profit:	Non-profit
State domiciled in:	OR
Parent company:	Regence Group

Insurer's financial position	
Year	2010
Surplus	$544,163,691
Investment earnings	$56,377,696

Surplus History Company-Wide

Year	**Amount in Surplus**
2005	$466,860,469
2006	$533,543,425
2007	$552,188,131
2008	$486,124,238
2009	$565,197,607
2010	$544,163,691

Discussion of the Rate Filing

In each of the sections below, we discuss key questions about the rate filing and its impact on Oregonians.

Affordability

Are the rates and out-of-pocket costs affordable for a range of Oregonians?

To examine the real-world impact this rate increase could have if approved, we calculated the premium rate several hypothetical businesses would experience, based in the information in the filing. After performing these calculations, we compared the resulting premiums to the median income in Oregon for individuals, two-person households, and families, evaluating whether premium would exceed 8% of the median monthly income.

As can be seen from the table below, there is a significant variation in the premiums Regence enrollees can expect to pay depending on the specific product they choose. The lowest-benefit plans have employee-only premiums that are either lower than or roughly comparable to 8% of a typical Oregonian's income, though the highest-benefit products quickly grow less affordable. For those purchasing family or employee plus spouse coverage, premiums are substantially higher than 8%, and for individuals and families with significant health needs, the relatively high cost sharing of many of these products would pose a high financial burden.[2]

	Eastside Bikes Average Age: 27, # employees: 4 Employee Rate			Al's Garage Average Age: 36, # employees: 8 Employee & Spouse Rate			ABC Accounting Average Age: 50, # employees: 40 Family Rate		
Geographic area:	Area 6 - Union, Wallowa, Wasco, Wheeler	Area 1 - Clackamas, Multnomah, Washington, Yamhill	Area 2 - Benton, Lane, Linn	Area 6 - Union, Wallowa, Wasco, Wheeler	Area 1 - Clackamas, Multnomah, Washington, Yamhill	Area 2 - Benton, Lane, Linn	Area 6 - Union, Wallowa, Wasco, Wheeler	Area 1 - Clackamas, Multnomah, Washington, Yamhill	Area 2 - Benton, Lane, Linn
Premium rate - average benefit plan	**$260.11**	**$223.51**	**$236.99**	**$603.53**	**$518.59**	**$549.88**	**$2,060.94**	**$1,770.88**	**$1,877.75**
Premium rate - highest benefit plan	**$298.40**	**$256.41**	**$271.88**	**$697.37**	**$594.92**	**$630.83**	**$2,364.31**	**$2,031.56**	**$2,154.15**
lowest benefit plan	**$165.33**	**$142.06**	**$150.63**	**$383.60**	**$329.61**	**$349.50**	**$1,309.92**	**$1,125.56**	**$1,193.48**
8% monthly median income	**$161.41**	**$161.41**	**$161.41**	**$245.22**	**$245.22**	**$245.22**	**$425.25**	**$425.25**	**$425.25**

[2] Assumptions: 80% participation for all, median experience factor (1.000). Rates calculated as of April 1 2012. Average employer contributions taken from Kaiser State Health Facts for Oregon, at http://www.statehealthfacts.org/profileind.jsp?cat=5&sub=67&rgn=39. We assume Eastside Bikes is in first year of coverage, Al's Garage has three years of coverage duration, and ABC Accounting has six years. For family and employee + spouse plans, we assume spouse the same age as employee, and families contain children ages 10 and 13.

The products we examined in this analysis were all Innova Unlimited Visit plans. The "average benefit" product had these features:

- $40 and $55 copays.
- $500 deductible.
- 80%/60%/60% coinsurance for three different tiers of providers (respectively, preferred, participating, and out-of-network), with a $6,000 coinsurance maximum.
- Maximum potential out of pocket costs for this plan would be $6,500.

The "highest benefit" product we examined instead had:

- $20 and $35 copays.
- $250 deductible.
- 90%/70%/70% coinsurance, with a $2,000 coinsurance maximum.
- Maximum potential out of pocket costs for this plan would be $2,250.

Finally, the "low benefit" plan included:

- $30 and $45 copays.
- $7,500 deductible.
- 70%/50%/50% coinsurance, with a $6,000 coinsurance maximum.
- Maximum potential out of pocket costs for this plan would be $13,500.

Many Oregonians would have a difficult time affording these products, especially if they have higher health needs that would leave them paying much of their deductible and more in coinsurance. Oregon has been hard hit by the recession, with exceptionally high unemployment. Oregon median income has been fairly stagnant since 2005. In this economic climate, health insurance rates rising much faster than the rate of inflation has significant impacts on employers' ability to offer coverage, and employee's ability to take up that coverage.

	Annual CPI increase (Portland-Salem OR-WA)	**Unemployment Rate - OR**	**Median Household Income - OR**	**Median Income - individual***	**Median Income - two person household***	**Median Income - family of 3+***
2005	2.56%	6.20%	44,159	22,963	34,886	60,498
2006	2.60%	5.30%	47,091	24,487	37,202	64,515
2007	3.71%	5.10%	50,236	26,123	39,686	68,823
2008	3.28%	6.50%	51,727	26,898	40,864	70,866
2009	0.12%	11.10%	48,325	25,129	38,177	66,205
2010	1.25%	10.80%	46,560	24,211	36,782	63,787

*Note: Estimates of income for individuals, 2-person households, and 3+ person households derive from U.S. Census data, Table H-11AR, which provides median income data by size of household. Taking a five-year average, individual income is estimated at 52% of total median household income; income for a two-person household is estimated at 79% of the overall number; and for families of 3+, income is estimated at 137% of overall median household income. This data is available at http://www.census.gov/hhes/www/income/data/historical/household/index.html.

Medical cost trends

Are the projected medical trends, both cost and usage, supported by the data?

This filing amounts to a rate reduction relative to previous rates, as Regence now projects that their medical costs will go up by less than they had previously estimated. However, they are requesting only a small reduction (medical trend will be reduced from 11.1% to 10.8%, with the prescription drug trend moving from 13.1% to 12.2%), even as their actual claims experience is only 3.6%, substantially less than the 6.1% trend Regence reported in the spring. The filing does not include sufficient information to explain why they are not seeking a larger reduction in their proposed medical trend.

In its previous rate filing for these plans, Regence requested a medical trend of 12% and a prescription drug trend of 14%. Our comments on that filing suggested that these growth trends were unjustifiably high, and DCBS agreed, lowering them to 11.1% and 13.1%, respectively. As noted, due to lower-than-expected claims experience, Regence is proposing to use values of 10.8% and 12.2%, leading to a composite trend of 11%.

By applying DCBS's trend evaluation methods described in an earlier rate decision[3] to the information provided by Regence, it appears that the company's proposed annualized trend of 11% may still be excessive. DCBS has previously indicated that it evaluates an insurer's projected medical trend by comparing it with (1) the average medical trend reported by other insurers, and (2) the insurer's own two year historical experience. DCBS has described this evaluation practice as actuarially acceptable.

As to the first criterion – comparing the trend to that used by all insurers statewide – Regence's proposed 10.8% medical trend is higher than the past year's average small group trend in Oregon, which was 9.5%. Regence's prescription drug trend of 12.2% is likewise higher than the average small group drug trend of 10.3%.[4] The combined trend of 11% is thus noticeably higher than the market average of 9.6%.

On the second prong of the test, Regence's proposed medical trend of 11% is three times the rate of increase of their previous two years of claims experience data,[5] which shows per-member per-month claims increasing only at an annualized rate of 3.6%. Instead of simply using their claims trend as-is, Regence reports that it normalizes these claims trends to account for changes in benefits purchased, enrollee demographics, and other factors. Regence then projects this normalized trend forward to arrive at their proposed medical trend. The filing provides few details of the normalization or projection calculations, making it impossible to determine whether it is based on reasonable assumptions.

---

[3] DCBS evaluation methods as described in the February 16 DCBS rate decision on a United Health Plan small business rate increase.

[4] Industry-wide annualized trend information is derived from data provided by DCBS to OSPIRG in January 2012.

[5] Claims experience data is the amount the insurer has historically spent on medical claims in the market segment (see p. 67 of Regence's filing for month by month claims experience).

In response to a DCBS request for additional information, Regence did provide normalized per-member-per-month claims data, which most recently showed an annualized increase of 9.1% for medical costs and 18.0% for prescription drug costs, but Regence did not provide the full methodology and calculations documenting how the normalization was performed. Further, normalized trend increases over the previous year were lower than the 9.1% and 18.0% indicated by the most recent month's worth of data. Thus, while these values are closer to the 11% medical trend Regence proposes, the information provided is inadequate to show that the requested trend is reasonable.

With that said, some of the information provided by Regence does increase our concern that the trend they propose is too high. Before mid to late 2010, observed and normalized trends tracked each other reasonable closely (with normalized trends lower than actual experience data). Since then, however, Regence has seen its actual paid claims experience trend decline (for both medical and drug claims), while its normalized trend has held steady or increased.[6] As a result, over 2011, the normalized and actual claims trends have diverged by a substantial degree. This new, very large difference raises the concern that Regence may have changed its methodology, or that its calculations may be relying on assumptions that are no longer valid. Again, without more detailed information about how Regence normalizes its data, it is impossible to determine whether this normalized trend is reasonable.

More broadly, determining a medical trend by correcting for changes in benefits, enrollee health, and other factors makes most sense in circumstances where an insurer expects to see significant changes in the benefits enrollees purchase or in the size or composition of its risk pool. However, there are no major benefit changes proposed in this filing, and Regence says that does not expect significant changes in enrollment as a result of its rate proposal. As discussed in more detail below, Regence has recently discontinued several of its product lines, but it does not reveal what impact it expects this to have on enrollees' choice of plans and benefits.

In justifying why they use a normalized medical trend rather than their actual claims experience Regence argues – as they have in previous filings – that historical data has "little predictive value," because the final trend also must incorporate factors such as changes in enrollee demographics and enrollees shifting to lower-benefit products. Again, however, the filing does not attempt to quantify the extent to which demographics and product choice are expected to change.

Regence also points out that their claims experience reflects past increases in medical costs, while their medical trend is a projection of expected costs in the future. However, many commercial insurers report

---

[6] For example, for medical, while the actual paid claim trend for the year ended April 2011 was 3.6% compared to 9.3% for the year ended April 2010, the "normalized" claim trend for the year ended April 2011 was 9.1% compared to 8.6% for the year ended April 2010.

an ongoing pattern of consumers utilizing fewer medical services due to the weak economy, making it likely that this trend of lower utilization will continue.[7]

A comparison with Regence's proposed trends in its filing earlier this year adds to our concern that the normalized trend they currently propose may be unreasonable. In its filing this spring, Regence reported an observed claims trend of 6.1%, and after normalization requested a medical trend of 12% and a drug trend of 14%. In this filing, the claims experience trend has fallen to 3.6% – a drop of over 40% – yet Regence is proposing medical and drug trends of 10.8% and 12.2% respectively, which are only 10% and 13% smaller than those Regence proposed earlier in the year. While the normalized trend may not depend linearly on observed claims trend, this is a very large difference.

As a result of these factors, we are concerned that even though Regence has lowered their proposed medical trend relative to that approved by DCBS in June, their trend may still be unjustifiably high.

Further, according to Regence, four factors drive their medical trend: the change in the per-unit cost of services; overall utilization increases; shifts in what treatments are used; and the leveraging impact of deductibles and other fixed cost-sharing elements. However, the filing only breaks down the first two of these categories numerically – 56.6% and 27.5% of the trend respectively, or 6.2 and 3.0 percentage points of the overall 11% trend. Leveraging is included alongside all other factors in a catchall "Other" category that makes up 15.8% of the total trend (1.7 percentage points of the total trend).

After DCBS requested that Regence provide additional information, they disclosed a full breakdown of how each factor contributes to both the projected medical and drug trends. For medical trend, cost increases due to reimbursement agreements with providers came to 4.2%; utilization came to 3.5%; mix of services to 2.0%; and deductible leveraging 1.8%. For the drug trend, unit cost came to 6.9%, utilization 1.5%, mix to .1%, and leveraging was also 1.8%.

In their response, Regence also confirmed that they no longer include a "fluctuation" factor as a component of its medical trend; Regence's filing in the spring included such a factor, which DCBS disallowed as inappropriate.

Insurer's efforts to reduce medical costs while improving quality

Is the insurer taking sufficient steps within their power to reduce health care costs while improving quality, and if so, are those steps achieving measurable results?

Regence's filing does not include a comprehensive list of its cost and quality initiatives, and so we cannot evaluate their progress in this area with absolute certainty.[8] However, based on the comparatively few

[7] See, e.g., Aetna's press release on its third-quarter 2011 results, *at* http://www.aetna.com/news/newsReleases/2011/pr_3rdquarter2011_earnings.html.

new and changed programs listed in the filing, Regence does not appear to be acting aggressively to adopt innovative reforms that can improve the long-term affordability and quality of health care.

We reviewed the list of new and modified initiatives Regence says that it is undertaking to lower costs and improve the quality of care, and compared it with a master list of six important practices, outlined below, that can address the largest factors driving up medical costs. Based on the information provided, Regence is pursuing new or stepped-up efforts in only two of the categories.

Regence does not list an estimate for total savings to enrollees from all of its cost-saving measures, but does include estimates for the savings for four of the six initiatives its filing discusses – they come to an annual savings of $800,000. From the document included in the filing, it's unclear whether these saving estimates apply only to Regence's small group business, or are calculated on a companywide basis. DCBS should ask Regence to clarify this issue, and request cost-saving estimates for existing initiatives and the two new programs that do not have savings estimates included.

Regence's New or Changed Cost and Quality Initiatives		
Initiative	**Description**	**Regence's current efforts**
1. Reforming methodology of payment to providers	This includes initiatives such as moving away from a fee-for-service payment model, toward payment methodologies that reward best practices, quality care and outcomes.	Regence will no longer reimburse for vitamin D testing in routine screenings.
2. Medical Home initiatives	This includes paying providers differently to best provide coordinated care.	No new or changed initiatives listed.
3. Benefit designs that encourage effective care, such as prevention and chronic disease management.	This includes no co-pays for essential preventative care treatments, low co-pays for treatments proven to be effective, and higher cost sharing for unnecessary procedures.	No new or changed initiatives listed.
4. Management of prevalent chronic diseases[9] to reduce unnecessary hospital admissions and expensive escalations of these diseases.	This includes provider reimbursement and incentives for patient behavioral changes and clinical treatments that maintain the health of patients suffering from chronic diseases.	A rare disease condition management program is listed, though the details of the services provided are not detailed. No new or changed initiatives to deal with common or prevalent disease are listed.

[8] In supplemental information provided after submitting its filing, Regence has noted the existence of other cost and quality initiatives, such as a medical home pilot program. Because the filing contains detailed information only on new and changed initiatives, however, and we lack a comprehensive overview of all Regence's efforts in this area, our discussion is confined just to those discussed in the filing.
[9] Such as diabetes, asthma, depression, coronary artery disease, and congestive heart failure

5. Reduce hospital readmissions	This includes giving preference to providers who make efforts to ensure that a discharged patient has adequate follow up care post-discharge, not reimbursing for preventable readmissions, and other strategies.	No new or changed initiatives listed.
6. Reduce errors and adverse events in a clinical setting	This includes not reimbursing for "never events," and using payment methodologies and other incentives to encourage provider safety practices.	No new or changed initiatives listed.

Some of the cost-containment efforts mentioned in Regence's filing, such as targeting potentially unnecessary use of radiological testing and spinal surgery, its rare condition management program, and its vitamin D testing policy, could provide a further avenue for lowering costs and improving quality, or they could serve to throw up barriers between patients and needed care. More details would be needed to assess these programs more fully.

Overall, Regence has not put in place significant new initiatives to increase quality and lower costs since its last filing. Given the ongoing challenge of swiftly-rising health care costs, we are concerned that Regence does not appear to be acting aggressively to adopt innovative reforms that can improve the long-term affordability of health care.

Changes to Age Factors

Regence is requesting modifications to the age factors it uses to set rates. The table below displays the changes from the age factors approved in Regence's spring filing in detail, but overall, the requested changes would lower relative rates for businesses with younger employees, and further raise them for employers with older workforces (the breakpoint is age 35 for employees, and 30 for their spouses). The rate reductions for younger workers are comparatively modest, coming in around two percent, while the increases for older workers are often quite high, around 4% increases for those in their 60s. Regence also proposes changing the rates it charges for children, decreasing them for children below 7 and older than 19, while increasing them for children in between.

The effect of these proposed changes would be to lower relative rates for businesses with younger, healthier employees, while further raising them for businesses with older, presumably less-healthy employees. As discussed in more detail below, Regence has seen substantial enrollment loss over the past months, and these changes may represent an attempt to stabilize its risk pool by making its rates more attractive to low-risk businesses and less attractive to those with employees more likely to get sick.

Regence does not provide per-member-per-month claims data broken down by the age of enrollees. Without this information, we cannot determine whether the proposed changes are adequately justified by differences in Regence's experience, or if they are unfairly discriminatory. Given the significant rate increases businesses with older employees may face, DCBS should request this information from Regence and carefully scrutinize it to make sure that the proposed changes are reasonable.

Subscriber			
Age	Effective July 2011	Effective April 2012	Percent Difference
0 - 24	0.474	0.462	-2.53%
25 -29	0.591	0.576	-2.54%
30 - 34	0.66	0.648	-1.82%
35 - 39	0.753	0.753	0.00%
40 - 44	0.827	0.833	0.73%
45 - 49	0.955	0.965	1.05%
50 - 54	1.331	1.347	1.20%
55 - 59	1.629	1.661	1.96%
60 - 64	1.98	2.03	2.53%
65+	2.368	2.439	3.00%

Spouse			
Age	Effective July 2011	Effective April 2012	Percent Difference
0 - 24	0.784	0.768	-2.04%
25 -29	0.81	0.794	-1.98%
30 - 34	0.827	0.827	0.00%
35 - 39	0.784	0.792	1.02%
40 - 44	0.847	0.864	2.01%
45 - 49	0.958	0.987	3.03%
50 - 54	1.176	1.211	2.98%
55 - 59	1.57	1.61	2.55%
60 - 64	1.993	2.072	3.96%
65+	2.153	2.25	4.51%

Child			
Age	Effective July 2011	Effective April 2012	Percent Difference
0	1.026	0.985	-4.00%
1	1.026	0.985	-4.00%
2 - 6	1.026	0.985	-4.00%
7 - 12	0.912	0.985	8.00%
13 - 19	0.912	0.985	8.00%
20+	1.141	1.027	-9.99%

Benefits

Is the rate reasonable given the benefits offered?

Can a rate be reasonable if it's not affordable? In this day and age, unfortunately, if affordability was the test, few if any insurance plans would pass. The reality is that given the very high cost of medical care, it is reasonable for a consumer who may become very sick to have coverage, as opposed to paying 100% out of pocket costs. Also given the high cost of medical care, it is often reasonable for the insurers to charge high rates for coverage, so that they may pay claims.

More must be done, and faster, to lower the cost of care so that what's "reasonable" and what's "affordable" are not so far apart.

In general, the simplest way to compare the value of the benefits enrollees receive with the premiums they pay is by looking at the medical loss ratio of their plan. Because this measures the percentage of dollars going to medical care, it provides a rough estimate of return on value. Of course, this is a crude measure, because different enrollees will have very different experiences; those who stay healthy and only have a few doctor visits in a year will pay more in and get less out, while those who need high-intensity services will pay more out of pocket but have their insurer pay out significantly more in benefits. Still, on the whole, the medical loss ratio is a useful guide.

Regence is proposing to spend 83.8% on medical care (above the 80% floor set by federal law). This is comparable to the medical loss ratios of many other small group plans, and does not seem unreasonably low.

Regence does not propose any benefit changes in this filing, though the rate increase does include the effects of previously-approved benefit changes required by newly-passed laws. The filing also notes that in September, they filed a notice that they were discontinuing and modifying several of their products, including eliminating a limit on office visits for certain plans, and discontinuing the Activate and Engage lines of plans. From their descriptions in the previous filing, Activate plans included a special account that would increase when the employee engaged in "healthy behaviors," and the Engage plans were PPO products with a flat level of coinsurance for all services for a given category of provider (preferred, in-network, or out of network). Because Regence does not provide plan-level enrollment data in this filing, we cannot determine what impact discontinuing these products will have.

There are new products included in the filing, which appear similar to existing PPO offerings but with extended networks focusing on particular providers.

Regence also proposes a "realignment" of plan relativities, "to account for the effect of deductible leveraging and an updated pricing model." These changes will go into effect on July 1, 2012. Regence's filing lists the changes they propose for each plan, but does not provide any methodological details.

The rate increase Regence proposes is not directly based on benefit changes, though the relativity realignment will change rates for many businesses, and its discontinuation of two of its product lines may lead to some enrollees paying a substantially different rate for a new product.

Variation in Rate Impact

Will the rate increase be uniform over most enrollees, or will some enrollees experience rate changes that are substantially higher or lower than the overall increase?

The average rate increase Regence's enrollees would see under this proposal appears to be 8.0%, but there is substantial variation in the impact different enrollees will experience. The information on variation Regence provides in its filing and in follow-up correspondence with DCBS is incomplete and not fully explained.

In the filing, Regence lists the maximum increase its enrollees will experience as 6.6%, with the lowest change a rate decrease of 8.2%. However, these values appear to only be for those businesses renewing in April 2012, and they do not appear to take into account the changes in rating factors, like age and area, also proposed in the filing.

In information Regence provided to DCBS after it submitted its rate filing, the insurer listed additional detail on the variation its customers who renew in other quarters may experience. These range from a low of 7.0% for businesses renewing January 1, 2013, to a high of 11.9% for those renewing on July 1, 2012. Again, these values do not account for changes to rating factors.

A final table provided by Regence does include the impact of the rating factor changes and lists a rough breakdown of the actual expected rate changes Regence customers will experience if they renew on July 1, 2012 or later. According to this chart, some enrollees will see rate increases over 15% (the percentage of enrollees getting these largest rate hikes is 8% for groups renewing on July 1, 4% for groups renewing on Oct. 1, 2012, and 2% for groups renewing Jan. 1, 2013), though Regence does not list an actual maximum rate change. While the remaining data in the chart does provide a rough breakdown of how increases will distributed, it lacks information for businesses renewing on April 1, 2012.[10]

The information subsequent to its filing presents only a partial view of how these rate increases will be distributed. DCBS should ask Regence to clarify the actual maximum and minimum rate increases its customers will experience under this proposal, after accounting for all the changes proposed in this rate filing.

Other Changes

If the filing includes changes to other rating factors, are these changes justified and will they have a substantial impact on enrollees?

Regence also proposes changes to the area factors it uses; Area 1, comprising Clackamas, Multnomah, Washington, and Yamhill counties, will see a reduction of four percentage points relative to previously-approved factors, for example, while Area 2 (Benton, Lane, and Linn counties) will see an increase of 2.4 percentage points. All other geographic regions will also see changes, ranging from roughly 1 to 3%; in general, businesses in the Portland metropolitan area, near Salem, and in Southern Oregon, would experience decreases, while those along the coast, in Eastern and Central Oregon, and in the mid-Willamette Valley, would experience increases.

The filing does not provide a breakdown of how many enrollees will be impacted by each of these changes, nor does Regence provide any area-specific claims data to explain their proposed changes. Since some enrollees may experience rate increases of 3% as a result of these changes, businesses in some geographical areas will experience substantially higher rate changes than those living in other areas.

As with the changes Regence proposes to its age factors, on the basis of this filing, it is impossible to determine whether these changes are reasonable and based on actual differences in the costs of care in different geographical regions. DCBS should request area-specific per-member-per-month claims data to ensure that these changes do not lead to rates that are unfairly discriminatory.

---

[10] Information on the variation in rates for April 1, 2012 renewals was included in the initial filing; however, because these values do not appear to include the effect of changed rating factors, they cannot usefully be compared with the fuller information subsequently provided to DCBS.

Administrative Costs

Do the administrative expenses seem reasonable?

Regence's administrative costs overall seem reasonable.

Oregon's rate review program empowers DCBS to reject or modify an insurer's rate filing if the administrative costs are not reasonable.[11] Given that administrative costs are not medical costs, they should not, as a rule, increase according to medical inflation. Instead, they should increase more in line with overall inflation rate. The Producer Price Index (PPI) for Direct Health and Medical Insurance Carriers Industry is a helpful index to compare with an insurance company's proposed increase in administrative costs.[12] In 2010, the PPI increased 3.9 percent.

Regence expects its non-claims related per-member per-month administrative costs for this market segment to change from $50.24 in 2011 to $46.48 in 2012, which is a 7.5% reduction. This is of course below the PPI increase of 3.9%.

The overall change in administrative costs thus does not appear to be unreasonable, as measured against the PPI.

Does the loss ratio seem reasonable?

The loss ratio is the percentage of premium spent on medical claims, instead of profits or administration. Regence's proposed loss ratio of 83.8% appears reasonable. Federal law requires plans on the small group market to meet an 80% medical loss ratio standard or issue rebates to consumers, but allows for an alternate method of calculating the loss ratio that generally serves to increase the loss ratio. Though the filing does not reveal what loss ratio Regence expects to report under the federal definition, it will likely be substantially above the 80% floor, meaning that it will likely not be required to pay any rebates.

As noted in the previous section, administrative costs should rise more slowly than medical costs. This means that the loss ratio should generally increase over time. In this market segment, Regence has seen modest variation in its loss ratio. Their prior loss ratio was 80.3%, the lowest it had been in recent years: in 2009, it was 83%, it was 86.2% in 2008, and 85.5% in 2007. 80.3% is perilously close to the 80% standard required by federal law, and this may be one reason Regence appears to moving to lower administrative costs and increase its loss ratio.

Does any particular expense seem unreasonable, and why?

[11] Oregon rule (OAR 836-053-0475).
[12] *Id.*

None of Regence's administrative expenses seem immediately unreasonable, as most of the largest expenditures are moving on a downward trend. This is especially the case for agent and broker commissions. In 2011, these came to $18.90 per member per month – a substantial increase from the $14.05 charged in 2008. In our comments to Regence's spring rate filing, we noted this very fast rate of growth as potentially unreasonable. However, in 2012, commission costs are projected to be only $16.19, a more reasonable total; we are glad that Regence is taking action to rein in these costs.

Stability of the Plan and the Insurer

Looking at the historical context of the insurer's rate filing, does it appear the requested rate maintains rate stability and operates in a way to prevent excessive rate increases in the future? Are enrollment numbers stable, increasing, or decreasing?

1. Enrollment trends

Regence's filing states that it does not expect material changes in enrollment for its small group plans, but its recent experience belies this rosy prediction. In 2009, Regence had almost 58,000 enrollees in its small group plans, but in the filing they submitted to DCBS in the spring of this year, they reported 54,299 enrollees, and in this filing, coming less than a year later, they have seen their enrollment drop to 47,806. That amounts to an almost 12% drop in less than a year.

These enrollment losses must be seen in the context of the poor economic climate nationwide – most likely, businesses are dropping coverage because rising premiums are becoming harder and harder to afford, or because they are closing their doors. But Regence's history of double-digit rate increases has surely exacerbated matters.

This filing's proposal of a 4.5% average rate increase is substantially below those Regence has requested in recent years, so it may serve to slow this trend of falling enrollment. But we are concerned that their prediction of zero enrollee loss after the rate increase is approved is too optimistic.

2. Risk pool health and stability

Decreasing enrollment can often pose problems for an insurer's risk pool; because those enrollees most likely to go without coverage are those who are healthiest, while sicker enrollees are more likely to wish to maintain their coverage, fewer enrollees can also mean that the risk pool is less healthy. An unbalanced risk pool can increase medical claims costs, further driving up rates and exacerbating the trend of healthy enrollees leaving and sicker ones staying.

From the filing, it is unclear whether Regence's risk pool is growing less stable. In particular, because Regence does not disclose information on enrollment in particular products in this filing, we cannot determine whether its enrollment is shifting towards higher-benefit plans, which would be another sign that its risk pool is becoming less healthy. Therefore, we recommend that DCBS request per-product

enrollment data to allow it to assess to what degree enrollees are concentrated in high-cost-sharing products, and that it further ask Regence whether the insurer is concerned about the stability of its risk pool.

With that said, the comparatively lower rate increase Regence requests in this filing, as well as the changes to age rating factors they propose, may help to mitigate this problem if in fact they are experiencing it.

3. Financial stability

Regence notes that their small group plans operated at a loss of $7.95 million in 2010, slightly more than 1% of its surplus of $544 million. If this rate proposal is approved, they predict a -0.2% change to surplus; given the total written premium of $273 million, this would amount to a modest $550,000 reduction to surplus. Given the negative enrollment trends identified above, accepting a small reduction to a healthy surplus in order to keep rates lower is entirely appropriate – indeed, given some of the issues we identify above, it appears that Regence could even reduce its proposed rates further without threatening its overall financial stability or running the risk of higher rate increases for its customers in the future.

Conclusion

Is the rate reasonable considering the proposed profit or contribution to surplus and other factors?

Regence's rate increase proposal is somewhat lower than those it has sought in previous years; indeed, for some businesses, relative to rates for these plans approved earlier this year this proposal would amount to a rate decrease. We are glad that Regence is revising its rates to share the savings from lower-than-expected medical costs with its enrollees. Regence also appears to be moving to lower its administrative costs, increasing value for its enrollees.

While acknowledging these positive steps, there remain some aspects of Regence's proposal that are problematic. First, even Regence's reduced medical trend remains high, and does not appear to fully reflect the substantial drop in claims experience they report. The normalization-and-projection technique they describe may be a reliable way to estimate future medical costs, but they do not provide enough details of calculation and methodology to determine whether this is the case, and comparison with actual claims experience and the trends of other insurers suggest that a lower trend value may be more reasonable.

The information in Regence's filing also does not clearly establish the variation in rate increases that businesses will experience. While the charts and tables Regence provided in response to questions from DCBS do provide some relevant data, it remains unclear what would be the largest and smallest rate changes a businesses could experience under this rate proposal. Knowing this would help determine whether any businesses are experiencing unfairly high rate increases – and because these businesses are

the ones most likely to reduce or drop their coverage, this information would also help DCBS understand likely changes to Regence's risk pool.

Further, we are concerned that Regence is not moving aggressively enough to adopt cost-saving delivery and payment reforms. The list of new and changed initiatives included in the filing is fairly modest, and by Regence's estimates would save less than $1 million. The long-term growth of health care costs is a major threat to the affordability of health insurance for consumers, and if an insurer does not do enough to stem those increases, the inevitable consequence will be large, unaffordable premium increases. We are concerned that unless Regence does more on this front, their enrollees will eventually be faced with much higher rate increases.

Finally, this filing does not adequately address the substantial drop in enrollment Regence has experienced over the past year, which may pose dangers for the stability of its risk pool. The comparatively-lower overall rate increase, and the changes Regence proposes to its age factors, may help to reduce this danger, but without more information, we cannot be sure whether it would be better for Regence to lower its rates further. It is also the case that the age-factor changes Regence is proposing may make its rates less affordable for some businesses and may be unfairly discriminatory.

Are there areas in the rate filing where DCBS should seek additional information from the insurer?

As noted throughout this comment, there are several areas where DCBS should ask Regence for additional information. Per-plan enrollment data would help DCBS determine whether Regence's risk pool is becoming destabilized. Full details of the calculations and methodology used to support the proposed medical and prescription drug trend may help show whether these figures are justified. And claims experience data broken down by area and employee age would help determine whether the requested area and age factor changes are justified and not unfairly discriminatory.