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Comments on the Kaiser Foundation Health Plan of the Northwest Proposal for Individual Health Rates Effective January 2017

Filing # KFNW-130456968

Health Insurance Rate Watch
A Project of OSPIRG Foundation

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Executive Summary[1]

Kaiser Foundation Health Plan of the Northwest's 26,014 members with individual health insurance plans will see rate hikes of 14.5% on average, and as high as 22.05%, if the premium rate hike proposed by Kaiser goes forward.

Kaiser's reasons for the increase include a projected 4% increase in the cost of providing medical services and 12.74% due to the end of federal and state reinsurance programs. In addition, Kaiser is proposing to double the target underwriting profit included in the rates, from 1.5% to 3.0%.

After analysis of Kaiser's initial filing and the supplemental information provided, we acknowledge some of the factors that concern Kaiser and that prompted the rate hike proposal. Kaiser projects it will spend over $1.30 on health care for its Individual members for every premium dollar received in 2015, and sustain a 19% loss on its Individual market business.[2] In such a situation, it is not unreasonable for an insurer to seek a rate increase.

However, we are concerned about the impact of this increase on Oregon consumers, and on the Oregon Individual market. Although Kaiser's proposed increase is smaller than those proposed by some of its competitors, it remains a double-digit increase in a market that would be experiencing large increases for the second year in a row. While ongoing insurer financial losses are not sustainable for the long term, it is also unsustainable to continue hiking rates without addressing the drivers of health care cost growth.

We urge the Oregon Department of Consumer and Business Services (DCBS) to scrutinize the filing closely. We are concerned that, in some areas, Kaiser has not provided enough information to justify some elements of their case for a rate hike.

At the same time, we urge DCBS and Oregon policymakers to take stronger steps to address the underlying drivers of health care costs and instability in the Individual market. Action is urgently needed to ensure that Oregon consumers are not subjected to unreasonable and unsustainable rate increases going forward, and that they are not being asked to foot the bill for waste, estimated to represent a third or more of every dollar we spend on health care.[3]

Key Findings:

- **Kaiser's medical cost trend projection may be excessive.** Although a 4% medical cost trend is lower than many of Kaiser's competitors, it may be higher than necessary. As Kaiser has stated in response to questions, it has chosen to adopt a higher projection in order to stay in line with the market average. However, this could lead to Kaiser's members paying more in premium than is justified by the actual cost of health care, and we believe it is appropriate to ensure that Kaiser's trend projection reflects its actual costs.

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[1] OSPIRG Foundation's analysis is based upon the information currently available. OSPIRG Foundation reserves the right to submit further comments if additional relevant information becomes available.
[2] It should be noted that this $1.30 is before the impact of risk transfer and reinsurance. After considering those programs, the value is $0.99; adding in administrative costs, Kaiser can still be expected to lose money for 2015.
[3] See, for example, Health Affairs, "Reducing Waste in Health Care"

- **Kaiser's projected administrative costs for 2017 increased dramatically from values reported for prior years.** In particular, wages, salaries and benefits show an increase of more than 60% from 2016 to 2017. Kaiser has claimed in response to inquiries from OSPIRG Foundation that this is due to differences in accounting used for financial and rate filing purposes, but did not provide a reconciliation of the two different accounting systems. This issue should be explored carefully to ensure that excessive administrative expenses are not being passed on to insureds in higher rates.

- **Despite financial losses in 2015, Kaiser's financial position remains stable.** Kaiser is also proposing to add to its surplus, and is actually seeking a higher profit margin than in prior filings, while also proposing a large rate increase. While it is appropriate for Kaiser to take steps to avoid additional large losses next year, it may also be appropriate for its profit margin to be reduced or removed to provide some premium relief for Kaiser members.

- **A 14.5% increase would have a significant negative impact on affected Oregonians, representing more than $1,000 in additional premium costs per year for many Kaiser members.** While many Kaiser members can avoid or mitigate this impact via the Affordable Care Act's tax credits, or by switching coverage, such a large increase will still be disruptive for many Oregon families.

- **When it comes to reducing costs and improving the quality of care, it is unclear whether Kaiser is doing all it can, or whether its members will benefit appropriately from its successes in this key area.** Kaiser has not yet provided the cost and quality metrics required in rate filings, making it hard to evaluate their progress in this area. However, it appears that the company is proposing to raise rates on the basis of a higher medical cost trend than necessary given the actual cost of providing medical care to its members, meaning that even a highly successful cost containment effort might not result in lower premiums.

Key Features & Insurer Information

Key features of the rate proposal

State tracking # for this filing	KFNW-130456968
Name of health insurance company	Kaiser Foundation Health Plan of the Northwest
Type of insurance	Individual

Proposed Rates*

Standard Bronze	$244
Standard Silver	$312
Standard Gold	$359
% premium to be spent on medical costs	81.6%
% premium to be spent on administrative costs	15.4%
% premium to be spent on contribution to surplus	3.0%

Insurer's history of rate increases

	Requested	Approved
2013	2.00%	1.80%
2014	N/A**	N/A**
2015	0.20%	-4.10%
2016	-1.95%	8.30%

Basis for rate - key factors

Medical and Rx drug trend	4.00%
End of state and federal reinsurance programs	12.72%
Administrative cost trend	4.00%

Enrollment

Year	Members
2010	15,160
2011	15,469
2012	15,469
2013	10,655
2014	16,889
2015	17,749
2016	26,014

Insurer information

Basic Information

For profit or non-profit:	Non-Profit
State domiciled in:	Oregon

Insurer's financial position

Year	2015
Surplus	$419,300,000
Investment income	$36,600,000

Surplus History

Year	Amount in Surplus
2010	$500,000,000
2011	$490,600,000
2012	$471,700,000
2013	$480,100,000
2014	$203,200,000

*"Proposed rates" are for a benchmark population--a 40-year old nonsmoker in the Portland area
A Bronze plan will pay about 60% of the average policyholder's medical costs in a year; a Silver plan will pay about 70%, and a Gold plan will pay about 80%. For more information about the Oregon Standard plans, see http://www.oregonhealthrates.org/files/plan_summary.pdf
**Due to new consumer protections and coverage standards in the ACA, it is not possible to make an apples-to-apples comparison between the rates filed for 2014 and the rates filed for previous years.

Introduction and Background

Oregon's health insurance rate review program, administered by the Division of Financial Regulation of the Oregon Department of Consumer and Business Services (DCBS), serves as a critical backstop to protect Oregon individuals and families purchasing coverage on their own from paying unreasonable premium rates.

When health insurers in Oregon wish to change the rates charged to small businesses or people purchasing coverage on their own, the insurer must submit a detailed proposal to DCBS laying out a justification. DCBS then determines whether the proposal is reasonable and approves, disapproves or modifies the proposed rate.

In 2011, DCBS created a formal process for a consumer organization to analyze and comment on rate filings from a consumer perspective, supported by a grant of federal funds. OSPIRG Foundation has been the contracted organization under that program since November of 2011.

As part of this ongoing project, OSPIRG Foundation worked with the actuarial firm AIS Risk Consultants to analyze Kaiser's rate filing. We examined the insurance company's justification for the proposed rates, the financial position of the insurer, and how the proposed rates would impact Oregonians if approved. Our staff and consulting actuary also reviewed additional information made available by Kaiser.[4]

Health care in Oregon is undergoing major changes. As of 2014, insurers are no longer allowed to deny coverage to people with pre-existing conditions, and many Oregonians are receiving financial assistance to help pay for coverage. Also starting that year, many Americans were required to have health coverage or pay a penalty; this penalty is scheduled to increase next year. These changes make it more urgent than ever to ensure that premium rates are justified, and that consumers receive good value for their premium dollar.

At the same time, studies consistently show that as much as a third of every dollar spent on health care is wasted on something that does not improve health.[5] With rising costs making health care unaffordable for many Oregonians, Oregon needs all insurance companies to redouble their efforts to contain costs by cutting waste and focusing on prevention and other strategies to keep patients healthier.

But research continues to show that rising costs are due to unit costs as well as utilization, and that unit costs are driven by market power and provider consolidation as well as by increases in the actual cost of providing care.[6] Since health care providers have a role in rising unit costs for care as well as rising costs associated with inappropriate and wasteful health care practices, we recognize that insurers do not always have complete control to restrain overall cost increases. The broader health care industry also bears a great deal of responsibility for rising overall costs, and we urge DCBS and Oregon policymakers to consider options for broadening accountability for the industry as a whole going forward.

As an integrated system combining an insurer and a network of hospitals, clinics and physicians, Kaiser is in a unique position in the Oregon health care industry and is insulated to an extent from some of the dynamics that contribute to rising health care costs, including the market power of health care providers. This uniqueness underscores the importance of holding Kaiser accountable for delivering value for its members and ensuring that the company is using its position to do everything possible to keep costs in check before raising rates.

While health insurance rate review cannot solve the myriad problems facing our health care system on its own, rate review does provide an opportunity to strengthen accountability for insurance

[4] As part of this process, OSPIRG Foundation submitted questions to the insurer on May 20. Kaiser provided responses on May 30.
[5] See above, and also http://resources.iom.edu/widgets/vsrt/healthcare-waste.html
[6] See, for example, http://www.catalyzepaymentreform.org/images/documents/Market_Power.pdf and http://www.commonwealthfund.org/publications/issue-briefs/2015/oct/us-health-care-from-a-global-perspective

companies—to ensure that rates do not go up for consumers unless increases are fully justified, and unless insurers are putting in a meaningful effort to keep down costs and improve quality.

Discussion of rate filing

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

In our detailed discussion of the rate filing, we provide analysis of information provided in the initial rate filing as well as supplemental information from the insurer in response to questions from DCBS and OSPIRG Foundation. All of this information is public record and is or will be available on the Oregon Insurance Division's rate review website, www.oregonhealthrates.org.

Examining the justification for the proposed premium rates

Medical cost trends

Kaiser's projection of a 4% increase in medical costs is smaller than some of their competitors, but we are concerned that it may nonetheless be overstating health care cost growth trends, and may overcharge consumers as a result.

In response to OSPIRG Foundation questions about how the insurer's various cost containment and quality improvement efforts are incorporated into their rate proposal, Kaiser states that

> "The value of these initiatives has allowed KFHP to run historical trend rates that are typically lower than other carriers within the industry, especially in recent years. The claims trend assumed within this filing, 4%, is anticipated to be at the lower end of the market average. We have opted to not assume an even lower trend as a result of requests from the state during the review process on prior rate filings for KFHP to increase the assumed trend rate to be closer to the lower end of market assumptions."

This statement implies that the insurer's internal cost data is consistent with a lower trend projection, and this implication appeared to be confirmed by a representative from Kaiser during a public conference call to discuss the filing on May 31, who stated that the company initially considered including lower medical trend projection numbers in the filing.[7] In fact, the Kaiser filing shows a value for the "Individual Experience Cost Trend" of 3.0%.[8]

Kaiser appears to have decided to raise its medical trend projection above the level it considers necessary to meet the increases in medical costs it is actually experiencing. This is possibly due to last year's rate review process, when DCBS raised Kaiser's 2016 rates above the requested amount after Kaiser's filing included a medical trend rate of 3%. DCBS made this decision at least in part due to

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[7] A recording of this conference call is available here: http://www.oregon.gov/DCBS/Insurance/healthrates/hearings/Pages/20160531-call-kaiser.aspx The referenced statements begin shortly after the 20 minute mark in the recording.
[8] Kaiser filing, Trend Information and Projection Exhibit.

concern that Kaiser—and some of its competitors—were outliers on the low end and might destabilize the market if its rates were allowed to remain too far below market average.[9]

While DCBS's concern for the stability of the Individual market is understandable, we are concerned that Kaiser's members may be asked to pay more than they need to pay to cover the cost of health care services. The available data does not appear to support the position that it is necessary to require Kaiser's members to pay above cost for health care services in order to preserve the stability of the health insurance market.

It is critical for a functioning health insurance market to ensure that carriers can pass along the savings from lower medical costs to their members in the form of lower premiums, and that carriers themselves can benefit from increased market share as a result. If insurers that successfully contain costs cannot pass along those savings, there is less incentive for them to invest in the difficult work of improving health care delivery systems to bring down costs and improve quality.

Another issue to consider in relation to the medical trend is that Kaiser gave no consideration to reductions in bad debt and uncompensated care.[10] "KFHP has assumed that ACA coverage expansion will not provide a savings of "bad debt" on an allowed basis and thus there are no savings reflected in the trend development."[11] This is a further reason for believing the medical trend used to support the proposed rate increase may be excessive.

Administrative costs

Kaiser is proposing to increase its general administrative expenses from $29.43 to $47.30 per member per month, a more than 60% increase. This increase is largely due to an increase in the expense category "Salaries, Wages, Employment Taxes and Other Benefits," which the insurer is projecting will increase from $24.73 PMPM in 2016 to $39.94 PMPM in 2017. These large increases are well in excess of the Medical Producer Price Index benchmark DCBS uses to assess whether an administrative cost increase is reasonable.[12]

In response to OSPIRG Foundation questions about these projected increases, Kaiser stated that they are due in part to including costs for medical management programs in its administrative cost projections for 2017, which were not included in this category in previous years. This accounting issue may explain the magnitude of the increase, but since Kaiser did not provide a reconciliation of the two different accounting systems, we recommend that DCBS explore this issue further to ensure that excessive administrative expenses are not being passed on to insureds in higher rates.

It is also unclear why Kaiser needs to increase per member per month administrative costs when the company is also projecting a significant increase in membership next year. In the filing, Kaiser projects that its Individual membership will increase from 26,014 in 2016 to 39,608 in 2017, a 52% increase. With

[9] DCBS's explanation for this decision is available at www.oregonhealthrates.org.
[10] Uncompensated care occurs because the uninsured are rarely in a position to pay for their own care out of pocket, and underinsured individuals are frequently unable to cover all of their out-of-pocket costs. The cost of providing needed care to these individuals is often shifted onto the rest of us, but as the uninsured and underinsured rates in Oregon have declined, these costs have declined dramatically.
[11] Kaiser filing, Trend Information and Projection Exhibit.
[12] 1.2% from April 2015 to April 2016. Source: US Department of Labor, April 2016 PPI report, http://www.bls.gov/ppi/

more membership, it seems reasonable to expect that Kaiser could spread its fixed administrative costs more thinly and charge less per member per month.

It is also unclear why Kaiser appears to have pegged its administrative cost growth trend to its medical trend rate—both of which are 4% for the current filing. Administrative costs are not generally subject to the same cost drivers as medical inflation, and should generally be expected to grow more slowly. A 4% administrative cost trend is significantly higher than the rate of inflation in the broader economy, and merits scrutiny.

Insurer's financial position

Kaiser's financial position has improved since last year, with surplus growing from $203.2 million to $419.3 million. The insurer's financial position improved despite underwriting losses due to an infusion of capital—and a change in the accounting for retirement benefits. Despite adverse experience in 2015, the insurer's surplus is more than large enough to ensure financial stability without the need for major contributions to surplus.

We urge DCBS to consider whether it is appropriate for Kaiser to contribute to growing its surplus at this time. Even in the absence of a 3% margin from underwriting, Kaiser could still expect surplus to increase from investment gains. During 2014 and 2015, Kaiser had investment gains of $32.7 million and $36.6 million, respectively.[13]

Ensuring the financial health of insurers is a key consumer protection role of insurance regulators, and Kaiser's many customers are counting on them to have enough money to pay claims and ensure their access to needed services. But a contribution to the surplus from underwriting profits is not necessary to protect consumers at this time, and we believe it would be appropriate for DCBS to consider reducing Kaiser's contribution to surplus to provide some premium relief for members facing another year of large double-digit rate increases.

Cost impact of proposed rates

Total cost of Kaiser's plans

Taking into account premiums, deductibles, coinsurance and other forms of cost-sharing, the total cost of coverage in 2017 for Kaiser's plans as proposed in the filing would be a substantial increase from the 2016 cost.

A 14.5% increase would be nearly 7 times the rate of inflation in the broader economy and nearly 5 times the rate of inflation in the cost of medical services.[14] Although Oregon's economy appears to be improving, this increase would still take place against a backdrop of largely stagnant wage growth.

Such an increase would be disruptive for many consumers. While most Oregonians have access to a competitive health insurance marketplace and consumers have the option of shopping around, large

[13] Kaiser filing, Insurer's Financial Position.
[14] Total CPI less food and energy, 2.1%; CPI for Medical Services, 3.1%. Source: US Department of Labor, April 2016 CPI report, available at http://www.bls.gov/cpi/cpid1604.pdf

year-to-year premium fluctuations can be highly disruptive for consumers and for the stability of the health insurance market as a whole.

Federal tax credits will help eligible individuals and families cover some of the cost of premiums and out-of-pocket expenses.[15] Since the amount of premium assistance available via tax credit is pegged to the second-cheapest Silver plan available in a state's Individual market, and Oregon premium rates for 2017 have not yet been approved, it is impossible to project the impact of financial assistance precisely at this time. However, it is worth noting that Kaiser customers who rely on tax credits may face an increase even larger than 14.5% on average, depending on the premium of Kaiser's plans relative to the second cheapest Silver plan.

Regardless of the availability of tax credits, the cost of the proposed rates should also be considered on its own merits. The role of rate review is to ensure that the rate is appropriate for the benefits offered, whether the cost is borne by the policyholder directly or by the taxpayer in the form of subsidies.

The following case studies illustrate the total potential costs that Kaiser policyholders may accrue in the event of serious illness or other medical need.

Policyholders	Plan	Annual premium (Increase from 2016)	Out-of pocket max (deductible + coinsurance + copays)	Total potential cost
Sam, 33	Oregon Standard Bronze	$2,736 ($480)	$7,150	$9,886
Sarah and George, 50	Oregon Standard Silver	$10,464 ($1,392)	$13,700	$24,162
Eric and Cynthia, 45, and their two children	Oregon Standard Gold	$13,851 ($1,419)	$13,700	$27,551

These total potential cost calculations represent worst-case scenarios, but whether these costs are borne directly by policyholders or covered in part by taxpayers, they are substantial.

The case studies below illustrate the financial impact of a more likely, though still expensive, scenario: The total cost of an individual medical expense (such as childbirth or an inpatient hospitalization) costing $10,000.

15 For information about eligibility for these federal tax credits, see www.healthcare.gov, Oregon's health insurance marketplace.

Policyholders	Plan	Annual premium (Increase from 2016)	Deductible + Coinsurance	Total cost after premium and $10,000 claim
Sam, 32	Oregon Standard Bronze	$2,736 ($480)	$7,150 + $0	$9,886
Sarah and George, 50	Oregon Standard Silver	$10,464 ($1,392)	$5,000 + $1,500	$16,964
Eric and Cynthia, 45, and their two children	Oregon Standard Gold	$13,851 ($1,419)	$2000 + $1,600	$17,451

As the chart above demonstrates, higher-value plans such as the Oregon Standard Gold[16] plan reduce out-of-pocket exposure to financial risk in the case of medical need, but total costs remain high and will be burdensome on Oregon families and the federal budget.

Out-of-pocket maximums cannot be changed in the rate review process, but we urge DCBS to take these costs into account when evaluating whether the coverage provided by Kaiser's insurance products is worth the proposed premium cost.

Insurer's efforts to reduce medical costs while improving quality

Rising medical and prescription drug costs are far and away the most significant driver of rising health insurance costs. Health insurance companies have a significant role to play to help lower these underlying costs – not by cutting access to needed care – but by cutting waste and working with providers in their networks to focus on prevention and other proven strategies that keep patients healthier.

In this analysis, OSPIRG Foundation looks at two data sources: quantitative data reported by the insurer, and the insurer's qualitative description of its efforts to implement strategies effective in reducing costs and improve quality. In future years, we hope that both types of data are integrated, and presented in detail sufficient to evaluate the effectiveness of insurers' broader cost containment strategies.

Now that insurers cannot discriminate against individuals with pre-existing medical conditions, insurers can no longer base their business models on managing risk and exposure to potentially unhealthy members. Instead, insurers must redouble their efforts to help their members manage their health. These efforts are especially important in light of unexpectedly high costs in 2014 and 2015. Kaiser members will be expecting progress in bending the cost curve in coming years, and DCBS should take steps to hold them accountable for this.

For the third time this year, every Oregon insurer submitted hard data on health care quality, cost and utilization as part of the rate filing process. These metrics represent a step forward for transparency and

[16] Gold plans can be expected to cover about 80% of the average person's medical cost in a year, which is higher than Silver (70%) or Bronze (60%).

provide some helpful information to form a baseline to evaluate insurers' efforts to contain costs and improve quality of care. As of June 7, Kaiser had not yet submitted these required metrics.

In evaluating Kaiser's performance in these areas, comparing trend lines year-over-year is critical. Some insurers may serve a less healthy customer base than others, and this may be reflected in their performance on some of these metrics, but if insurers implement adequate, comprehensive cost containment and quality improvement efforts, consumers should be able to expect continuous improvement on these metrics as insurers work to bend the cost curve for quality care.

It is clear from their qualitative description of their efforts that Kaiser has many constructive initiatives underway to contain costs and improve quality of care, and for many of these initiatives the insurer supplied a dollar estimate of savings, though they were unable to provide an estimate of savings specific to the Individual market in response to OSPIRG Foundation questions.

However, this progress does not appear to be reflected in the company's proposed rates, and in fact—as discussed above—Kaiser appears to have decided to base its rate filing on a higher-than-necessary medical trend despite substantial successes in containing costs.

There do appear to be a number of encouraging efforts underway at Kaiser. However, for Kaiser to demonstrate success and fully meet the needs of its members, the insurer will need to do more to demonstrate that these initiatives are having a real impact in cost, utilization and quality of care—and, just as importantly, they are being shared with consumers in the form of lower rates.

Rate review provides an opportunity to hold insurers accountable for doing everything they can to contain costs; if an insurer is not first doing all it can to bring down costs for its members, a premium increase cannot be justified. We urge Kaiser to redouble their efforts, and we urge DCBS to continue taking steps to advance transparency and accountability in this critical area.