

Comments on the Moda Health Plan Proposal for Individual Health Rates Effective January 2017 Filing # ODSV-130478786

Moda Health Plan's 58,280 members with individual health insurance plans will see rate hikes of 32.3% on average, and as high as 84.2%,¹ if the premium rate hike proposed by Moda goes forward.²

Moda's reasons for the increase include a projected 7.2% increase in the cost of providing medical services, 10.2% due to the end of federal and state reinsurance programs, 3.8% due to increasing administrative costs, and 5.1% due to a change in the company's service area.³

Moda has experienced major financial turmoil over the past year and was briefly taken into supervision by the state of Oregon before entering into a consent decree in February enabling the company to continue offering health coverage.⁴ This turmoil was caused in part by financial losses stemming from the company's Individual plans. Moda projects it will spend \$1.12 on health care for its Individual members for every premium dollar received in 2015, and sustain a 37% loss on its Individual market business. In such a situation, it is not unreasonable for an insurer to seek a rate increase.

However, we are deeply concerned about the impact of this large increase on consumers, and on the Oregon Individual market. While some increase is likely needed for Moda's long-term financial stability, we are concerned that the proposed hike may be larger than necessary, and may overcharge consumers as a result. Ongoing insurer financial losses are not sustainable for the long term, but 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, Moda has not provided enough information to justify 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.⁵

To prepare this analysis, OSPIRG Foundation staff and consulting actuary reviewed the initial rate filing as well as supplemental information from the insurer in response to questions from DCBS and OSPIRG

¹ As Moda's filing explains, the 84.2% increase would only be experienced by members currently enrolled in the insurer's Catastrophic plan, which is being discontinued. Excluding this plan, the maximum increase Moda members would experience is 58.4%

² Moda had 58,280 members as of March 31, 2016. However, because of service area reductions by Moda for 2017, the number of these members in 2017 services areas is 31,317; or about 46% lower.

³ Moda's original filing included a provision of 5.1% for this item. (see Exhibit 3) In response to OSPIRG Foundation's questions, item 12, Moda changed this value to 3.8%. "Having discovered an error in our original calculation, the service area adjustment should be 3.8%." It is not clear if Moda will be adjusting its proposed rate downward to reflect this.

⁴ See [here](#) and [here](#) for background.

⁵ See, for example, Health Affairs, "[Reducing Waste in Health Care](#)"

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.

Findings:⁶

- **It is unclear from the information provided whether Moda is sufficiently adjusting its cost projections to reflect reductions in costs to Oregon hospitals.** Public filings from Oregon hospitals continue to demonstrate that factors including record-low levels of uncompensated care are contributing to large hospital profit margins across the state.⁷ In light of these surpluses, it seems reasonable for insurers to expect commensurate savings on hospital costs.
- **Moda's medical cost trend projections may be excessive.** Moda's 7.4% medical trend projection is higher than many of their competitors, and insufficiently supported. While Moda's filing indicated that a number of items were considered in developing its trend projections, Moda's explanation of how these items were considered was vague.⁸ Since the burden of proof is on the insurance company to justify the proposed rate increase, and considering the high annual trend proposed by Moda, we would urge DCBS to scrutinize these projections closely.
- **Moda's administrative cost projections may be excessive.** Moda's 3.8% projected premium increase due to administrative costs is also insufficiently supported. Moda has projected that its administrative costs will increase by more than 70% per member per month from 2016 to 2017.⁹ While some increase in per member costs could be explained by an expected decrease in membership in 2017, passing along a 70% projected increase appears to be excessive, especially since the basis for the large increase was not provided.
- **A 32.3% increase would have a significant negative impact on affected Oregonians, representing thousands of dollars in additional premium costs per year for many Moda members.** Such a large increase would be highly disruptive for consumers. While many Moda 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.
- **Moda has chosen to stop offering coverage in many parts of the state.** Moda is currently offering plans statewide, but has chosen to stop offering coverage in 2017 for much of Central, Eastern and Southern Oregon, as well as Eugene and much of the mid-Willamette Valley region. This will have a disruptive effect not only for current Moda members living in these areas, but for the competitive landscape in these regions. With fewer insurance companies competing for members in these places, the remaining insurers will have less incentive to keep down costs going forward. While this would seem at first glance to be a cost-cutting move for Moda, the insurer is actually including an increase due to its service area changes that at least partially offsets any gains from tighter control of the insurer's provider network. This increase merits close scrutiny. We also urge DCBS to consider

⁶ 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.

⁷ See, e.g., <http://www.wweek.com/news/2016/04/13/the-five-things-hospitals-dont-want-you-to-know-about-obamacare/> for background on this issue.

⁸ See, e.g., Moda's response to OSPIRG Foundation request item 11.

⁹ Moda's response to OSPIRG Foundation request item 14. $\$46.82$ (2017 Filed Admin PMPM) / $\$27.33$ (2016 Filed Admin PMPM) = 1.713

the impact of this decision and develop a strategy to ensure sustainable access to reasonably-priced health coverage in all parts of the state.

- **When it comes to reducing costs and improving the quality of care, it is unclear whether Moda is doing all it can.** Moda outlines a number of cost containment and quality improvement programs in its filing that may be worthwhile, but the company did not provide the cost and quality metrics required in rate filings or respond to OSPIRG Foundation's questions about these issues until very recently, and we have not had the opportunity to fully consider the answers provided.¹⁰ With the company projecting a large medical cost trend going forward, it is all the more urgent to ensure that it is doing all it can to contain costs and cut waste before passing these costs along to consumers in the form of higher rates.

¹⁰ The cost, quality and utilization metrics demonstrate a mixed bag of results. Moda's ER costs per member per month increased slightly and are significantly higher than many of their competitors, and pharmacy costs increased by over 43% PMPM, but its inpatient hospital costs decreased. Moda's performance on the five quality metrics included in the filing varied only slightly from last year's filing.

Key Features & Insurer Information

Key features of the rate proposal	
State tracking # for this filing	ODSV-130478786
Name of health insurance company	Moda Health Plan
Type of insurance	Individual

Proposed Rates*	
Standard Bronze	\$ 360
Standard Silver	\$ 404
Standard Gold	\$ 440
% premium to be spent on medical costs	86.20%
% premium to be spent on administrative costs	11.80%
% premium to be spent on profits	2.00%

Basis for rate - Key factors	
Medical and Rx cost trends	7.20%
End of state and federal reinsurance programs	10.20%
Administrative cost increases	3.80%
Service area changes	5.10%

Insurer information

Basic Information	
For profit or non-profit:	For profit
State domiciled in:	Oregon

Insurer's financial position	
Year	2015
Surplus	\$67,018,290
Investment earnings	\$1,400,000

Insurer's history of rate increases		
	Requested	Approved
2012	7.50%	3.80%
2014	N/A**	N/A**
2015	12.50%	10.60%
2016	25.60%	25.60%

Enrollment	
Year	Members
2008	11,295
2009	18,903
2010	25,492
2011	26,333
2012	27,748
2013	32,894
2014	95,948
2015	102,393
2016	58,280

Surplus History	
Year	Amount in Surplus
2009	\$71,413,177
2010	\$76,604,830
2011	\$80,800,000
2012	\$75,878,603
2013	\$74,900,000
2014	\$121,061,663

**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 in previous years.

Discussion

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 Moda'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 Moda.¹¹

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.¹² 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.¹³ 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.

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 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.

¹¹ As part of this process, OSPIRG Foundation submitted questions to the insurer on May 25. OSPIRG Foundation has not yet fully reviewed Moda's very recent response.

¹² See above, and also <http://resources.iom.edu/widgets/vsrt/healthcare-waste.html>

¹³ 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>

Health Insurance Rate Watch *A Project of OSPIRG Foundation*

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

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