Premiums On The Rise

An Analysis of Health Insurance Premium Increases Facing Individuals and Small Businesses in Oregon

OSPIRG Foundation

May 2009

Acknowledgments

The opinions expressed in this report are those of the authors and do not necessarily reflect the views of those who provided editorial review. Any factual errors are strictly the responsibility of the authors.

Authors:
Laura Etherton, Advocate
David Rosenfeld, Executive Director
Jeff Bernstein, U.S. PIRG Policy Analyst

With public debate around important issues often dominated by special interests pursuing their own narrow 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.

Table of Contents

Executive Summary

For many years, Oregon businesses and consumers have been hit with a steady stream of increases in health insurance premiums and out-of-pocket health care costs.

The year 2008 was no exception. In this report, OSPIRG Foundation examines health insurance company requests to raise rates in the individual, small group and portability markets, and the dispositions of those requests using information provided at the website of the Insurance Division of the Oregon Department of Consumer & Business Services for the period January 1, 2008 to December 31, 2008.

Key findings:

Over 400,000 Oregonians received an average rate increase over 4 times the rate of inflation, with 133,000 Oregonians hit with premium increases over 21%.

443,365 Oregonians with individual, small group, or portable insurance plans received an average weighted rate increase of 14.2%, while the Consumer Price index for 2008 for Portland-Salem-Oregon-Washington increased only 3.3% from the average for 2007.

This breaks down as follows:

- *Individual market*: 184,585 Oregonians with individual insurance plans received an average weighted rate increase of 17.8%. The largest single increase in this category was made by Regence BlueCross BlueShield, which increased rates by 21.4% on 90,706 customers.

- *Small group market:* 241,584 Oregonians with small group insurance plans received an average weighted rate increase of 11.3%. The largest single increase in this category was made by Lifewise of Oregon, which increased rates by 21.2% on 36,066 customers.

- *Portability market:* 17,196 Oregonians with portable insurance plans received an average weighted rate increase of 15.8%. The largest single increase in this category was made by Regence BlueCross BlueShield, which increased their rate by 28.1% on 6,928 customers.

For all plans studied, administrative costs increased an average of 13.3% -- 3.9 times the rate of inflation.

The cost of health insurance premiums are determined by three factors: medical costs, administrative overhead and profits. Although administrative costs should track more closely with general inflation, and decrease as a percentage of premium as premiums rise, health insurance administrative costs climbed in 2008.

Moreover, this number represents the administrative costs of the insurers themselves, which is only a portion of the total health care administrative costs borne by Oregonians in 2008. This does not include any of the administrative costs that health care providers charge. Those additional costs are built into claims, and providers are currently not required to publicly report them.

Recommendations: Tougher Standards for Insurance Rate Increases

Controlling rising costs is essential for sustainable health system reform. There are many explanations for why health care costs are so high, and several strategies to control costs and improve care.

One approach to bringing down costs in a way that would provide almost immediate relief for Oregonians is to implement a more vigorous process for considering proposed health insurance rate increases.

There are currently very few standards in place that protect Oregonians from excessive health insurance rate increases. We recommend making reforms to Oregon's health insurance rate approval process that would prohibit approval of excessive rate increases, limit increases in administrative expenses to the rate of inflation, and increase public input into the rate approval process.

Additional Recommendations

In addition to improved oversight of health insurance rates, we also recommend a larger set of reforms to address excessive costs in the health care delivery system, including: reducing the amount of unnecessary medical care, reducing administrative costs unrelated to improved health care, and reducing prescription drug costs.

Introduction

Rising health care premiums and out of pocket costs are squeezing Oregon families and businesses. During the decade 1996-2006, family rates for health care premiums rose 161%, an average of 10.2% per year. This significantly outpaced inflation and increases in wages during that time.[1]

Without swift state and federal action to reduce health care costs, the yearly cost of the average employer-paid family health policy in Oregon is projected to more than double from $11,613 in 2006 to $27,047 by 2016 even after adjusting for inflation.[2]

Many individuals and businesses, facing year after year of double digit health insurance rate increases, can no longer afford coverage they once had or that they once offered their employees. Many businesses are shifting premium costs onto employees, or moving toward plans with less coverage or higher out-of-pocket costs. Some businesses and individuals are dropping coverage all together.[3]

A March 2009 report by OSPIRG Foundation found that far too much of skyrocketing health care costs go to enrich powerful interests, not to buy the best health care. The Congressional Budget Office estimates that nationally as much as one third of health care spending is wasted and does not improve outcomes. That means that, in 2007, one out of every three dollars that Americans spent on health care, or $730 billion, went to the insurance bureaucracies, drug companies, medical device manufacturers, and providers without improving a single person's health. In Oregon, one third of health spending amounts to $5.84 billion.[4]

There are three important sources of this unproductive spending:

Unnecessary Medical Care Undermines Patient Health and Increases Costs
Research has shown that patients who live in regions with above-average health care spending are not any healthier than people in lower-cost regions. In parts of the country where more specialists and hospital beds are available, doctors send patients to specialists or to the hospital more frequently, yet the patient outcomes are no better.

- Medicare and private insurance payment policies compensate doctors on the basis of how many tests and procedures are ordered, not on the basis of whether effective treatment is delivered.

[1] "Health Insurance in Oregon," Department of Consumer & Business Services, Insurance Division, January 2009.
[2] "Health Care in Crisis: How Special Interests Could Double Health Costs and How We Can Stop It," OSPIRG Foundation, 2009. http://www.ospirg.org/home/reports/report-archives/health-care/health-care/health-care-in-crisis
[3] "Employer Health Benefits: 2008 Annual Survey," Kaiser Family Foundation, Health Research and Educational Trust, 2008.
[4] OSPIRG Foundation, op. cit.

- Payment for care does not adequately support effective strategies that improve patient health and reduce the amount of unnecessary care prescribed such as primary care, coordinated care, patient involvement in care decisions, and the use of evidence-based care.
- High-performing health systems that seek to reduce unnecessary care, like the Mayo Clinic and Utah's Intermountain Health System, can reduce costs per patient by as much as 43%, while providing quality care. If America's hospitals achieved Intermountain's level of quality and efficiency, we would spend $299 billion less a year for hospital care. If Oregon hospitals improved their efficiency by 43%, the state would save $2.58 billion.

Excessive Administrative Expenses Inflate Insurance and Medical Prices
Many administrative costs within America's health care system are the result of efforts to shift costs from one payer to another—from the insurance company to a hospital, or from a physician to a patient. This paperwork increases total costs without improving outcomes for patients.

- Unnecessarily duplicative and complex billing and insurance certification requirements add billions in additional administrative costs.
- The credentialing process by which physicians are certified as providers is unnecessarily burdensome and wasteful
- Insurers and providers spend tens of billions a year nationally on insurance-related paperwork that does not contribute to the quality of care.

Unchecked Pharmaceutical Marketing Drives Up Costs
Americans spend billions of dollars annually on prescription drugs that are no better than cheaper alternatives or that may have dangerous or unrecognized side-effects. Drug companies' marketing campaigns in support of their most expensive drugs cost $11.5 billion in 2005.

- Drug advertising generally encourages the use of newer, more expensive medications, even if they are no more effective than existing ones
- Pharmaceutical companies increased prescription drug advertising by 250 percent from 1997 to 2007. In response, physicians prescribe and consumers purchase billions of dollars of unnecessary and even risky medicine each year.
- Direct marketing to physicians, which has been shown to rely on misleading information, boosts the total number of prescriptions and increases the number of prescriptions for newer and more expensive drugs that are no better than old ones.

Clearly, we must address all facets of the problem in order to truly fix the health care system.

In 2007 the Oregon Legislature took steps in the right direction, enacting a law aimed at improving transparency of the insurance rate increases experienced by the individual and small group markets. House Bill 3103 required health insurance rate filings – the premium rate increase requests insurers submit to the Insurance Division of the Oregon Department of Consumer & Business Services (Insurance Division) – be made publicly

available. Under this new law, the Insurance Division began posting rate filings on its website in January of 2008. This report is OSPIRG Foundation's first analysis of this newly available data.

The 2007 Oregon Legislature also created the Oregon Health Fund Board, a task force of business and community leaders from across the state charged with crafting a comprehensive health reform recommendation to the Legislature. The Board's final report was released in November 2008, and included many OSPIRG Foundation-backed solutions. In response, the 2009 Oregon Legislature is considering enacting a package of reforms draw from the Board's recommendations.

Meanwhile, it is likely that the U.S. Congress will begin debating President Obama's health care plan in the coming months.

Background:
Health Insurance in Oregon

Health Insurance Basics

In 2008, approximately 42% of Oregonians obtained their physician and hospital coverage via the commercial health insurance market. Medicare or Medicaid covered 25% of Oregonians, self-insured large employers covered 16%, and 15% were uninsured.[5]

Of the 42% or people who are covered by private insurance, about 1/3 (513,000) are insured by one of three types of health insurance plans: individual, small employee groups of 2-50 people, or "portable" plans to cover people who have lost employer-based coverage. The other 2/3 are members of "large" groups, insured through an employer employing more than 50 people.

While there are hundreds of insurance companies that sell a wide range of health insurance policies in Oregon, 25 insurers sell the "major medical" policies which cover typical physician and hospital services. The other types of health insurance include disability, long term, supplemental Medicare, and dental care. Among these 25 insurers eight account for 91% of the market.

Health Insurance Rate Review

The Insurance Division must review and approve proposed rate increases for individual, small group and portable plans. The Insurance Division does not approve rates for large group plans.

Health insurance companies are require to submit approvals for any planned rate increase for individual, small group or portability plans. The Insurance Division reviews each rate filing, and either approves, denies, or amends it. Current law requires the Insurance Division to consider whether a proposed rate increase is reasonable in relation to the benefits provided, whether the filings include provisions that are unfair, and whether the aggregate rate change is fairly distributed among rate payers.

Rate requests and approvals only reflect the "geographic average rate". Actual rates for particular customers can, and often do, vary widely in the individual market according to age, and in the small group market according to the group's combined age and claims experience.

[5] This section adapted from "Health Insurance in Oregon," Department of Consumer & Business Services, Insurance Division, January 2009.

Anatomy of an Insurance Premium

Each health insurance premium is made up of three portions: anticipated medical claims costs, insurance company administration costs, and insurance company profits.

Medical Portion of Premium
This is the amount paid out by an insurer for claims, calculated as a percentage of total premiums collected (also called the "loss ratio"). These are the costs that doctors, hospitals, labs, and other providers bill the insurance company for, according to contracts negotiated between the insurers and providers.

A provider's medical claim includes the actual medical costs of the procedure, but also the provider's administrative overhead and profit.

Administrative Portion of Premium
Administrative costs are all the insurance company's costs unrelated to direct payment of claims. They include commissions to health insurance brokers, marketing and advertising expenses, office supplies, rent, taxes, depreciation, and salaries and benefits. Compared with medical costs and premium costs overall, administrative costs ought to grow more slowly, at a rate in line with the general rate of inflation. This means that when overall premiums rise in cost, the percentage of premium spent on administration should *decrease* over time.

Profit
A company's profit is the amount remaining after medical and administrative costs, before the payment of income taxes. It is expressed as a percentage of the total premiums collected. Four of the eight largest health insurers are not-for-profit corporations.

Insurers may distribute profits to shareholders, use them for business expenses, or retain them as surpluses. Non-profit insurers only use excesses for the latter two purposes.

Insurers are required to maintain surpluses in addition to the amount they expect to pay in medical claims, to ensure they have sufficient means to meet their obligations if claims exceed the projected amounts. Assuring adequate surpluses is one of the mandates of the Insurance Division.

Findings

In this report, OSPIRG Foundation examines health insurance company requests to raise rates in the individual, small group and portability markets, and the dispositions of those requests using information provided at the website of the Insurance Division of the Oregon Department of Consumer & Business Services for the period January 1, 2008 to December 31, 2008.[6]

Over 400,000 Oregonians received an average rate increase over 4 times the rate of inflation, with 133,000 Oregonians hit with premium increases over 21%.
443,365 Oregonians with individual, small group, or portable insurance plans received an average weighted rate increase of 14.2%, while the Consumer Price index for 2008 for Portland-Salem-Oregon-Washington increased only 3.3% from the average for 2007.[7]

This breaks down as follows:
Individual market: 184,585 Oregonians with individual insurance plans received an average weighted rate increase of 17.8%. The largest single increase in this category was made by Regence Blue Cross Blue Shield, who increased rates by 21.4% on 90,706 customers.

Small group market: 241,584 Oregonians with small group insurance plans received an average weighted rate increase of 11.3%. The largest single increase in this category was made by Lifewise of Oregon, who increased rates by 21.2% on 36,066 customers.

Portability market: 17,196 Oregonians with portable insurance plans received an average weighted rate increase of 15.8%. The largest single increase in this category was made by Regence Blue Cross Blue Shield, who increased their rate by 28.1% on 6,928 customers.

It is important to note that rate requests and approvals only reflect the "geographic average rate". Actual rates for particular customers can vary in the individual market according to age, and in the small group market according to the group's age and claims experience.

The tables that follow outline these findings in greater detail.

For all plans studied, administrative costs increased an average of 13.3% -- 3.9 times the rate of inflation.
Health insurance premiums are made of three factors: medical costs, administrative overhead and profits. Although administrative costs should track more closely with

[6] Department of Business and Consumer Services, Insurance Division: http://www4.cbs.state.or.us/ex/ins/filing/
[7] Bureau of Labor Statistic, http://www.bls.gov/cpi/#tables (http://data.bls.gov/PDQ/servlet/SurveyOutputServlet;jsessionid=f03036197fda$02$5C$3)

general inflation, and decrease as a percentage of premium as premiums rise, health insurance administrative costs climbed in 2008.

Moreover, this number represents the administrative costs of the insurers themselves, which is only a portion of the total health care administrative costs borne by Oregonians in 2008. This does not include any of the administrative costs that health care providers charge. Those additional costs are built into claims, and providers are currently not required to publicly report them.

Table 1: Weighted Average for Proposed and Approved Rate Changes and Administrative Cost Changes for all Individual, Small Group and Portable Plans, January 1, 2008 – December 31, 2008

	Total # of Policyholders Affected by Rate Change	Average Weighted Rate Increase (%)	Average Weighted Increase in Administrative Expenses (%)
Individual Market	184,585	17.8	17.2
Small Group Market	241,584	11.3	10.6
Portability Market	17,196	15.8	8.6
TOTAL	**443,365**	**14.2**	**13.3**

Table 2: Proposed and Approved Rate Changes for Individual Plans, January 1, 2008 – December 31, 2008

Health Insurance Company	Premium Rate Change Requested (%)	Premium Rate Change Approved (%)	Number of Policyholders Affected by Rate Change
Clear Choice	16.6	16.5	115
Health Net	13.5	10.4	5696
John Alden/Time	18.0	13.3	19828
Kaiser	6.5	7.0	11134
Lifewise of OR	28.0	18.0	36458
National Foundation	4.0	-14.0	44
ODS	8.8	8.9	6958
Pacificare OR	10.0	9.3	616
PacificSource	25.0	16.9	10289
Providence	29.7	14.5	2711
Regence Blue Cross Blue Shield	26.0	21.4	90706
Thrivent Financial	20.0	20.0	6
Trustmark	20.0	20.0	24
TOTAL		**17.8**	**184,585**

Table 3: Proposed and Approved Rate Changes for Small Group Plans, January 1, 2008 – December 31, 2008

Health Insurance Company	Premium Rate Change Requested (%)	Premium Rate Change Approved (%)	Number of Policyholders Affected by Rate Change
Clear Choice	12.7	12.7	9695
Health Net	8.0	7.9	30634
Kaiser	6.8	7.6	27965
Lifewise of Oregon	26.0	21.2	36066
ODS	12.0	9.2	7313
Pacificare Life	15.2	15.2	5575
Pacificare Oregon	Not available[8]	15.9	401
PacificSource	19.6	12.4	35953
Preferred	8.0	8.0	1111
Providence	2.0	4.7	30496
Regence Blue Cross Blue Shield	16.7	10.7	38775
United	14.0	11.9	14000
Western Grocers	12.6	12.6	3600
TOTAL		**11.3**	**241,584**

Table 4: Proposed and Approved Rate Changes for Portable Plans, January 1, 2008 – December 31, 2008

Health Insurance Company	Premium Rate Change Requested (%)	Premium Rate Change Approved (%)	Number of Policyholders Affected by Rate Change
Clear Choice	-3.5	12.4	37
Great West	35.0	0.0	11
Health Net	11.4	11.4	941
Kaiser	6.1	6.1	6262
Lifewise of OR	19.5	17.4	814
ODS	8.1	8.1	275
Pacificare Life	36.3	25.2	41
Preferred	-0.4	-0.4	39
Providence	7.5	4.2	1631
Regence Blue Cross Blue Shield	28.1	28.1	6928
Regence Life	20.2	20.2	213
Unicare	11.6	12.8	4
TOTAL		**15.8**	**17,196**

[8] OSPIRG Foundation could not determine Pacificare Oregon's rate request from its filings. However, the approved rate increase and the number of policyholders were confirmed by the Insurance Division.

Recommendations

Tougher Standards for Insurance Rate Increases

Controlling rising costs is essential for sustainable health system reform. One key approach to bringing down costs in a way that would provide almost immediate relief for Oregonians is to implement a more vigorous process for considering proposed health insurance rate increases.

There are currently very few standards in place that protect Oregonians from excessive health insurance rate increases. OSPIRG Foundation recommends the following reforms to Oregon's health insurance rate approval process:

Prohibit Approval of Excessive Rate Increases
Before raising premium rates, health insurance companies should meet high standards showing they are operating as efficiently as possible, that they are making an effort to cut wasteful spending, and that any rate hike is necessary, justified and not excessive.

Oregon should strengthen the standards and factors used to in the rate review process such as the insurer's full financial position, including surplus levels and investment income; and the insurer's efforts to cut waste. In addition, increases in administrative expenses that exceed the rate of general inflation should be denied absent sufficient justification by the insurer that the increases are necessary and appropriate, or that such increases contribute to an increase in the quality of care provided.

Limit Increases in Administrative Expenses
OSPIRG Foundation agrees with the Oregon Health Fund Board's recommendation that increases in administrative expenses that exceed the rate of general inflation should be denied absent sufficient justification that the increases are necessary and appropriate, or that such increases contribute to an increase in the quality of care provided.

Increase Public Input
The insurance rate increase approval process should be opened to increased transparency and accountability. Oregon consumers and businesses must immediately have the opportunity to weigh in through a public comment period and potential public hearing before a rate increase is approved.

Oregon should examine making further changes to this process to give affected parties and the Oregon Attorney General the ability to formally challenge a proposed rate increase before it goes into effect. In addition, any rate increase approval should be accompanied with a publicly available detailed description of the Insurance Division's reasons for approving the rate.

Additional Recommendations
In addition to improved oversight of health insurance rates, we also recommend the following to address excessive costs in the health care delivery system, which drive much of the rise in insurance rates:

Reduce Ineffective Medical Care While Improving Quality

- Fund comparative effectiveness research that studies which medical procedures, regimens and drugs work and which do not.
- Broadly implement and incentivize coordinated care systems such as medical homes. Increase compensation to primary care providers.
- Expand information provided to patients and encourage them to share with their physician decision making about their care
- Reform public and private payment systems to provide the right incentives for high-quality care and reduce unnecessary but costly tests and procedures.

Reduce Expensive Administrative Bureaucracy

- Standardize systems for enrollment, credentialing, billing and insurance payment.
- Limit insurers' administrative expenditures to a certain percentage of premium dollars.

Reduce Prescription Drug Costs

- Strengthen FDA monitoring of false statements in direct-to-consumer advertising and marketing materials
- Undertake a publicly funded effort to publicize the benefits and prices of drugs to counter the unreliable information provided by pharmaceutical companies.
- Limit industry's gifts to physicians and require drug companies to disclose more information about their marketing practices

Methodology

In 2007 the Oregon Legislature enacted a law aimed at improving transparency of the insurance rate increases experienced by the individual and small group markets. House Bill 3103 required health insurance rate filings – the rate increase requests insurers submit to the Insurance Division of the Oregon Department of Consumer & Business Services (Insurance Division) – be made publicly available. Under this new law, the Insurance Division began posting rate filings on its website in January of 2008.

Included in this information is the number of policyholders for each insurance plan, the increases in insurer costs for claims and administrative costs, and any change in expected insurer profit.

This is OSPIRG Foundation's first analysis of this newly available data. Our staff analyzed the rate filings submitted between January 1, 2008 and December 31, 2008 which had received a "disposition," or approval from the Division. From each rate filing, we examined the following:

- the insurer's proposed rate change
- the insurer's stated change of costs due to medical claims and administrative costs
- number of insured impacted by rate change

In some cases the increases approved were for a quarter while others were annual and cumulative of any quarterly increases, but these distinctions were not made in the reports. In these cases we obtained information directly from the Insurance Division.

All figures except were calculated by weighting depending on number of policyholders. For example: Assume three insurers, A, B, and C with 60, 30, and 10 policy holders respectively. Assume further that A gets a rate increase of 12%, B 8% and C 21%. The average rate increase per policyholder would be (.60 x 12) + (.30 x 8) + (.10 x 21) = 11.7%.

Rate requests and approvals only reflect the "geographic average rate". Actual rates for particular customers can, and often do, vary widely in the individual market according to age, and in the small group market according to the group's combined age and claims experience.