Health Insurance Rate Watch

A Project of OSPIRG Foundation

Rate Review Comments
United HealthCare Insurance Company filing GH 0393 10
December 16, 2010

Executive Summary

In this rate filing, United HealthCare does not appear to justify the proposed 16.8% increase. While it provides an overall medical trend and a few specific increases due to benefit changes, there is no calculation showing exactly why they propose to increase rates 16.8%. The filing also does not appear to offer adequate information to support the medical trend calculation.

United HealthCare does offer justification for a 0.25% increase due to extending dependent coverage to age 26, and a small factor increase to extend 100% preventive care coverage to all enrollees. United HealthCare has also justified a 4% decrease in one geographic rating factor due to lower provider payment rates.

United HealthCare's rate filing details the insurer's efforts to control medical cost while improving quality, including strategies to promote evidence-based medicine, and other efforts to improve outcomes for patients. The insurer participates in the Robert Wood Johnson Foundation Aligning Forces for Quality project and provides data on quality to the Oregon HealthCare Quality Corporation, and is also part of several other Oregon quality efforts. According to the filing, this will reduce claims costs by $9.40 per member per month in 2011, but the insurer does not explain how this reduction impacts their medical trend estimate, or the degree to which consumers will share in these savings.

Administrative expenses under the proposal would increase by the same rate as the overall proposed increase – 16.8%. This increase is not justified in the rate filing. Of particular concern is the fact that sales commissions are the second highest category of administrative costs listed for 2009, making up 23.47% of non-claim administrative costs. The amount paid for commissions is set to increase under the insurer's 2010 budget.

The proposed increase is troubling in terms of affordability for small businesses and consumers, and because of that, the insurer risks losing enrollment. The insurer did not evaluate the estimated change to enrollment due to the rate increase of 16.8%, and this is problematic.

Key Features of the Proposal

State tracking # for this filing	GH 0393 10
Name of health insurance company	UNITEDHEALTHCARE INSURANCE COMPANY
Type of insurance	Small Grp Hlth Plans (small employers)
Grandfathered under federal health reform?	Grandfathered

Average rate increase	16.80%
Minimum rate increase	16.80%
Maximum rate increase	17.00%

Number of Oregonians affected	14,068
Anticipated enrollment if approved	14,068

Insurer's history of rate increases in this market	
2010	14.30%
2009	14.10%
2008	11.80%
2007	11.80%
2006	n/a

Proposed rate	
Percent increase in medical costs	15.98%
Percent increase in administrative costs	16.80%
% premium to be spent on medical costs	84.80%

Effective Date of rate increase	2/1/2011
Date rate filing posted	11/16/2010
Date comments due	12/16/2010
Link to rate filing:	http://tinyurl.com/289ajet

Basis for proposed increase	
Increase in medical costs	13.50%
Increase in Rx costs	12.50%
Time over which costs increased	4/1/09-3/31/10

Insurer Information

For profit or non-profit:	For profit
State domiciled in:	CT
Parent company:	UHIC is owned by UHIC Holdings, Inc., a wholly owned subsidiary of United Healthcare Services, Inc. (UHS) which is, in turn, a wholly owned subsidiary of UnitedHealth Group

Insurer's financial position	
Year	2009
Surplus	$3,423,000,000
Reserves	$912,000,000
Investment earnings	$453,000,000

Surplus History	
Year	**Amount of Surplus**
2009	$3,423,000,000
2008	$2,819,000,000
2007	$3,102,000,000
2006	$2,461,000,000
2005	$1,838,000,000

Discussion of Rate Filing

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

Medical and drug cost trends

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

There is insufficient data to support the medical trend calculation of 13.5 percent and the drug trend of 12.5 percent. While the filing describes a methodology evaluating historical per-unit costs, usage, and other factors, and describes a methodology to use those factors to estimate expected future costs, the filing does not appear to apply that methodology to the actual experience of these small group plans in order to determine the medical trend.

The insurer instead included a list of monthly per-member per-month claims data, but this is no substitute for the detailed calculation, as projections based solely on historical data may fail to take into account changes in utilization, reimbursement arrangements, and enrollee risk profile.

As a result of the limited information provided, it is impossible to assess whether the quoted drug and medical trends are reasonable, data-supported estimates.

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?

According to the description provided by the insurer, they are taking steps aimed at reducing costs while improving quality. These steps include improving efficiency, improving health outcomes, and also by reducing payments to providers.

The insurer participates in the Robert Wood Johnson Foundation Aligning Forces for Quality project and provides data on quality to the Oregon HealthCare Quality Corporation, and is also part of several other Oregon quality efforts.

If so, are these steps achieving measurable results?

United HealthCare estimates their efforts will reduce claims costs by $9.40 per member per month in 2011. The insurer does not explain how this relates to their listed medical trend of 13.5% or the 15.98% increase in medical claims costs included in the proposed rate increase, or the degree to which consumers will share in these cost savings.

Benefits

Is the rate reasonable given the benefits offered?

Due to new requirements contained in the federal Affordable Care Act, the rate filing proposes adding dependent coverage to age 26 and 100% preventive care coverage to all offered products. The impact on rates is 0.25% for adding dependent coverage, and either 0.6% or 1% for increased preventive care coverage, depending on the exact benefits already covered by existing plan designs. These modest rate increases are in line with other estimates of the anticipated rate impact of the ACA's new protections.

Beyond these changes, the filing does not include enough information to assess the overall reasonableness of the benefits offered. While the plan relativities page lists some of the elements of the 200 different benefit plans offered, it does not include information such as what services are exempt from the listed deductible, and there is not a full listing of the annual or lifetime out-of-pocket expenses for the different policies.

Fuller information on these products is included in other filings with the Department, but omission of these factors from this rate increase proposal prevents us from providing an overall assessment of the reasonableness of the benefits offered.

Administrative Costs

Percentage of premium spent on medical costs	
Insurer's previous % of claims spent on medical costs	85.40%
Insurer's proposed % of claims to be spend on medical costs	84.80%
Percentage of premium spent on administrative costs	
Insurer's previous % of claims spent on administrative costs	17.50%
Insurer's proposed % of claims to be spend on administrative costs	17.50%
Given the overall rate increase, the proposal results in an increase in administrative costs.	
Proposed increase in administrative costs	16.80%

Given that administrative costs are not medical costs, they should not, as a rule, increase according to medical inflation.	
Oregon rule (OAR 836-053-0475) states: "The director may approve reasonable increases or decreases in administrative expenses supported by the information provided under OAR 836-053-0471. In addition to the materials submitted under OAR 836-053-0471, in order to determine whether the proposed increase or decrease in administrative expenses is reasonable, the director may consider the cost of living for the previous calendar year, based on the Producer Price Index for Direct Health and Medical Insurance Carriers Industry, as published by the Bureau of Labor Statistics of the United States Department of Labor."	
Producer Price Index for Direct Health and Medical Insurance Carriers Industry for 2009	4.90%
Producer Price Index for Direct Health and Medical Insurance Carriers Industry for 2010	not yet available

Detail on non-claim-related administrative costs		
Year: 2009		
Top 3 categories of expenses	**Amount spent per member, per month**	**% of total non-claim related admin costs**
Salaries, Wages, Employment Taxes & Other Benefits	$18.50	32.57%
Commissions to insurance agents and brokers	$13.33	23.47%
Other Taxes, Licenses and Fees	$13.03	22.94%

Do the administrative expenses seem reasonable? If not, which particular expense is unreasonable and why?

United HealthCare is proposing to increase administrative costs by 16.8%, a rate that far exceeds the producer price index listed above, much less the very small annual CPI increase in the region in 2009 (.12%, see below). This increase in administrative costs is not justified in the rate filing. To the contrary, on the administrative expenses portion of the rate filing, the insurer says the rate change does not relate to administrative costs. Looking at the breakdown of administrative expenses, for 2010 United HealthCare has listed its overall monthly budget for each category of expense, rather than the per-member per-month numbers provided for other years, making it difficult to compare expenses across years. However, per-member per-month administrative costs increased from 53.87 in 2007 to 56.80 in 2009, for an annual increase of 2.6%, which again is lower than the requested increase.

In the 2009 administrative expense detail, the amount being paid for commissions to agents and brokers does seem unreasonable, and on the rise. Commissions are second only to the insurer's own costs for personnel expenses, coming in at $13.33 per member per month. In 2008, they were $13.06, and in 2007, $10.28. Assuming that the 2010 monthly budgeted number of $189,297.91 is allocated to the current 14,068 enrollees, the estimated 2010 per-member per-month cost would be $13.46, continuing the upward trend. The 2010 annual budget for commissions is $2,271,574.92, a significant portion of total premium revenue.

One possible explanation for the rise in commission expenditures is that United HealthCare might be paying agents and brokers commissions equivalent to a percentage of the overall premium paid. This practice leads to commissions rising at the rate of increase of medical costs, which is much higher than the rise in the actual costs of brokers and agents. If this is the case, moving to a system decoupling commissions from total premiums would help United HealthCare make its administrative costs more reasonable.

Does the loss ratio seem reasonable?

The loss ratio is the percentage of premium spent on medical claims, as opposed to administrative costs or profits. The proposed loss ratio of 84.80% falls in the normal range for the small group market, and it is a marked improvement over the 69.6% loss ratio United HealthCare posted in 2008. But it is noteworthy that it is somewhat smaller than last year's loss ratio of 85.40%, despite an overall proposed increase of 16.8%. As a rule, as premiums rise, the medical loss ratio ought to rise. This is because the administrative portion of the rate should become an ever smaller portion, as it should track not with medical trend, but with something closer to the general rate of inflation.

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?

United HealthCare's rate filing fails to state whether the rate increase is necessary in order for the insurer to maintain solvency. With $453 million in investment earnings last year, and $3.4 billion in surplus, it is unlikely that this rate filing, which will bring in roughly $6 million in additional premium dollars, is solely necessary to maintain the insurer's solvency. Fuller information about United's other lines of business would be needed to determine this rate proposal's role in maintaining solvency. However, the most recent quarterly results reported by United HealthCare's parent corporation, UnitedHealth Group, showed moderation in health system utilization, successful clinical management, and $230 million in favorable reserve development.

It is not possible to determine from the rate filing whether the rate increase is necessary this year, in order to avoid an even larger increase next year. This is because, as discussed previously, the filing does not show why United chose to propose a 16.8% rate increase, nor does it adequately document what is behind its medical trend projection of 13.5%. As a result, there is inadequate information to determine whether consumers should expect excessive rate increases in the future.

While the insurer may be in a stable financial situation, as discussed immediately below it is unclear whether this particular book of business is sustainable, with its rising premiums and decreasing enrollment.

Are enrollment numbers stable, increasing, or decreasing?

United HealthCare's small group enrollment numbers have declined since 2008, when enrollment was at 17,291. In 2009, rates increased 14.10% and enrollment went to 16,715. Last year, rates increased 14.30% and as of this filing enrollment has fallen to 14,068.

We are concerned that United HealthCare's rate filing does not evaluate the impact on enrollment due to the actual 16.8% proposed rate increase.

The insurer did estimated that enrollment in one geographic area might increase due to a 4% reduction in a geographic rating factor, and that the very small rate increases to add 100% preventive coverage and dependant coverage to age 26 would have minimal impact on enrollment, and we do not disagree with those estimated impacts. However, it is troubling that the insurer did not evaluate the impact of the actual double-digit rate increase which will be experienced by Oregon small businesses and their employees..

It is reasonable to expect that more small employers will switch from United HealthCare, or will drop coverage entirely when faced with a 16.8% increase. Perhaps United HealthCare plans to make up for dropped enrollment by signing up new businesses, potentially explaining the large amount of money being spent on sales commissions, but this strategy is not articulated in the filing.

Moreover, if United HealthCare does see a drop in enrollment due to this high proposed increase, the businesses most likely to drop their coverage, or select a less comprehensive product, are those containing the youngest, healthiest employees. This would further drive up medical costs and threaten the stability of the risk pool for this line of business.

Affordability

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

Economic climate in Oregon

	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%	49,098	25,531	38,787	67,264

*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.

Based on the information in the rate filing, we calculated the premium rate the following hypothetical consumers would experience if they chose the most popular benefit plan offered in this line of business. The benefit plan is the ChoicePlus O9A plan, which boasts 16.7% of total enrollees, with $20 copays, $500 deductible, 20% co-insurance, and $150 ER copay. In the calculation below, we used rates from the final month of the proposed rate period, March of 2012. We also included the H9 drug plan, which includes three tiers of copays at $10, $30, and $50.

We then compared these premiums to the median income in Oregon for individuals, two-person households, and families, evaluating whether consumers would have to pay more than 8% of their monthly income on the premium (though of course this is an underestimate of how much enrollees would actually pay in total for their health care, due to copays, coinsurance, deductibles, etc.). We chose the 8% figure because in federal health reform, if a person would have to pay more than 8% of his or her income for health care premiums and out of pocket costs, then that coverage is considered unaffordable and the person would be exempt from the individual coverage requirement.

Business Profiles

	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		
	Monthly premium in the most expensive geographic location	Monthly Premium in the least expensive geographic location	Monthly Premium in a middle expensive geogrphic location	Monthly premium in the most expensive geographic location	Monthly Premium in the least expensive geographic location	Monthly Premium in a middle expensive geogrphic location	Monthly premium in the most expensive geographic location	Monthly Premium in the least expensive geographic location	Monthly Premium in a middle expensive geogrphic location
Geographic area	Benton, Lane and Linn Counties	Clackamas, Washington, Multnomah and Yamhill Counties	Columbia County	Benton, Lane and Linn Counties	Clackamas, Washington, Multnomah and Yamhill Counties	Columbia County	Benton, Lane and Linn Counties	Clackamas, Washington, Multnomah and Yamhill Counties	Columbia County
Total Premium Rate	$467.44	$464.38	$464.95	$710.90	$693.63	$696.85	$1,249.34	$1,200.63	$1,209.69
8% monthly median income	$170.21	$170.21	$170.21	$258.58	$258.58	$258.58	$448.43	$448.43	$448.43
Rate Calclulation Detail:									
Base Rate (medical)	$476.24	$476.24	$476.24	$476.24	$476.24	$476.24	$476.24	$476.24	$476.24
Base Rate (Rx)	$70.17	$70.17	$70.17	$70.17	$70.17	$70.17	$70.17	$70.17	$70.17
Plan Relativity	0.8716	0.8716	0.8716	0.8716	0.8716	0.8716	0.8716	0.8716	0.8716
Drug Relativity	0.8490	0.8490	0.8490	0.8490	0.8490	0.8490	0.8490	0.8490	0.8490
Age/Tier	0.6860	0.6860	0.6860	2.0950	2.0950	2.0950	4.6800	4.6800	4.6800
Geographic area	1.0499	0.9886	1.0000	1.0499	0.9886	1.0000	1.0499	0.9886	1.0000
Tier Load	1.0000	1.0000	1.0000	2.1500	2.1500	2.1500	3.0000	3.0000	3.0000
Experience Adjustment	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Participation Factor	1.2200	1.2200	1.2200	1.0500	1.0500	1.0500	0.9500	0.9500	0.9500

*Note: In this calculation, we use 2009 median household income numbers as a reasonable estimate for median household income in future years, due to the stagnant nature of the economy.

Even in the lowest-cost geographic areas, median Oregon households would be paying roughly 20% of their income on premiums alone for this product. Of course, some of the cost of this insurance would be covered by the employer, but this analysis suggests that Oregon small businesses and their employees would have difficulty affording these health insurance premiums and out-of-pocket costs.

Conclusion

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

There is insufficient justification for this rate increase. In particular, there is not enough information to assess the reasonableness of the 13.5% estimate for medical trend increase, and the filing does not explain process by which the final 16.8% proposed increase was determined.

The modest premium increases due to the added benefits of dependent coverage and increased preventive care coverage do appear to be justified.

Are there key factors that should be highlighted in the rate filing to give consumers a better understanding of the rate filing or the eventual DCBS decision?

It would take a fairly close read of the filing in order for consumers to recognize that the insurer did not justify the proposed rate increase or estimate its impact on enrollment. Making this fact more apparent would benefit consumers' understanding of the rate filing. It would also be helpful to highlight the percentage the medical costs, administrative costs, and profits are increasing by, as opposed to just the changes in the percentage of the premium they respectively make up.

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

DCBS should seek additional information from the insurer in a number of areas. The insurer should provide information to justify the rate increase, explain how medical trend was arrived at, justify administrative expenses, explain whether the rate is necessary to remain solvent or maintain rate stability and demonstrate why this is the case, estimate the impact on enrollment of the rate increase, and provide the required information about benefits.

OSPIRG Foundation is a non-profit, non-partisan consumer organization. The Health Insurance Rate Watch Project is funded in part through a grant from the Oregon Insurance Division to provide comments on rate filings from a consumer perspective. For more information, please visit www.ospirg.org.