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Comments on the Aetna Life Insurance Company Proposal to Increase Aetna Managed Choice (MC) & Aetna Preferred Provider Organization (PPO) Rates, Effective 1 January 2013.

State Tracking Number: HAO-2012-0182

Health Insurance Rate Watch

A Project of CALPIRG Education Fund

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About CALPIRG Education Fund: With public debate around important issues often dominated by special interests pursuing their own agendas, CALPIRG Education Fund offers an independent voice that works on behalf of the public interest. CALPIRG Education Fund, a 501(c)3 organization, works to protect consumers and promote good government. We investigate problems, craft solutions, educate the public, and offer Californians meaningful opportunities for civic participation.

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Executive Summary

Nearly 70,000 Californians in small group insurance plans will see rate hikes averaging 8%, with some as high as 22%, if the premium rate hike proposed by **Aetna Life Insurance Company** goes forward.

If Aetna moves forward with this increase, it would go into effect on January 1, 2013. The main reason given for this increase is Aetna's adjustments to health cost trends and rating factors. The rating factors are used to adjust base rates for differences in geographic area health care costs and changes in these relativities result in rate changes for policyholders. Aetna is requesting an average incremental change in rates of 2.2% for January 2013, an additional 1.3% incremental increase for February 2013 and a 1.9% incremental increase for April 2013. In addition, Aetna is filing increases for the HHS Taxes and Fees that will be paid for effective dates beginning January 2014.

The California Public Interest Research Group (CALPIRG) Education Fund worked with the actuarial firm *NovaRest Actuarial Consulting* to analyze the rate filing. Our staff and consulting actuary reviewed both the *Initial Review* and *Subsequent Submission (11-08-2012)* submitted by Aetna to the California Department of Insurance.[1]

After careful analysis of Aetna's filing and additional information provided, we are concerned that Aetna has not provided sufficient information to justify this rate increase. This is particularly troubling given the impact this rate increase would have on tens of thousands of enrollees if Aetna moves forward with this increase.

Key Findings

1. **Aetna's plan to raise rates 22.3% for small businesses appears unreasonable**

   Aetna plans to raise rates sharply for small businesses in the MC 2,500 75/50 plan due to a history of past losses, without expanding benefits or reducing administrative costs. While Aetna cites the high medical costs for enrollees in that plan, we question the appropriateness of allowing rating based on experience for plans with small enrollment rather than on actuarial value differences.

2. **Aetna's projected medical trend is not adequately justified and may be inflated**

   Based on historic trends cited in the rate filing, it appears that a lower trend should have been used by Aetna. The filing shows a medical trend of 1.8% for the last 12 months, which is significantly lower than the projected trend of 7.0%. Aetna has not adequately justified this high trend projection. A more reasonable medical trend figure could result in lower increases for consumers or a lower medical loss ratio for Aetna.

   In addition, Aetna submitted a traditional Medical Loss Ratio (MLR) of 78.1% for 2013 and then appeared to re-calculate as 81.4% with the adjustments for the ACA rebate formula. Combined with the above mentioned risk that Aetna is currently over estimating its trend rate, CALPIRG has strong reason to believe that Aetna will fail the MLR rebate formula for 2013 set out by the ACA, to the detriment of policyholders.

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[1] Accessed online at: http://interactive.web.insurance.ca.gov

3. **Aetna may be overcharging for fees**

Aetna is intending to charge members enrolled in 2013 a portion of the Health Insurer Fee and the Reinsurance Contribution fee the company will owe in 2014. Rather than risk having underpriced policies in 2014, Aetna is proposing having overpriced policies in 2013. Since Aetna is intending to collect this fee early and hold the funds, it seems appropriate to provide some interest offset to the prepaid funds.

4. **Aetna Reinsurance Contribution**

In addition, we are concerned the Reinsurance Contribution figures may not be appropriate. This is because at the same time Aetna pays these fees from its small employer plans, it is likely to be a recipient of reinsurance fees from other insurers for its individual insurance plans. Before Aetna collects these fees from its customers, it is important to confirm customers will only be charged for the net costs, with fees offset by any received reinsurance payments.

5. **Aetna Rate Increase Percentage Calculation**

CALPIRG found that many of Aetna's exhibits contained rate increases for the second half of 2013, which result in a 2013 rate increase that is higher than reported by Aetna. Using the rate increases for all of 2013 shown in the exhibits, the 2013 rate increase is closer to 11% with the increases for policyholders in later months exceeding 15%. As far as CALPIRG can tell from the documents submitted by Aetna, approval has not been requested for rates for the second half of 2013 in this filing. CALPIRG would like clarification whether this rate filing is for the first two quarters of 2013 only and that Aetna would be required to file for any additional rate increases for 2013 before they could be implemented.

After careful analysis of Aetna's filing, we are concerned that this rate increase may not be reasonable in its current form. The company has not adequately justified its medical trend projection, plans to raise rates sharply for small businesses in a way that may not be appropriate according to California small group rating requirements, and may be overcharging consumers for 2014 fees.

We respectfully urge the California Department of Insurance to request Aetna amend the rate change or make an official determination that the proposed rate change is unreasonable.

Key Features of the Proposal[2]

Filing at a Glance

- **Company:** Aetna Life Insurance Company
- **Product Name:** CA SG 1Q13 ALIC non-grandfathered Small Group Only - PPO
- **Date Submitted:** 10/26/2012
- **SERFF Tracking Number:** AETN-128690716
- **State Tracking Num:** HAO-2012-0182
- **HHS Issuer Id:** 40733
- **Implementation Date Requested:** 01/01/2013
- **Product Names:** 1) Aetna Managed Choice (MC) 2) Aetna Preferred Provider Organization (PPO)
- **Trend Factors:** The overall California Small Group core medical/Rx trend factor for the products included in this filing is 7.1%.

Company Rate Information

Company Name:	Company Rate Change:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Written Premium for this Program:	Maximum % Change	Minimum % Change
Aetna Life Insurance Company	Increase	2.200%	8.000%	$6,457,091	8,283	$293,504,136	22.400%	-22.700%

Prior Rate:

- **Total Earned Premium:** 294,439,553.00
- **Total Incurred Claims:** 220,709,726.00
- **Minimum Premium** : 131.75
- **Maximum Premium**: 1,376.67

Requested Rate

- **Projected Earned Premium:** 318,213,232.00
- **Projected Incurred Claims:** 248,192,790.00
- **Minimum Premium :** 142.05
- **Maximum Premium** : 1,484.26

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[2] See Aetna Life Insurance Company filing HAO-2012-0182, accessed online November 2012 at: http://interactive.web.insurance.ca.gov

Discussion of Rate Filing

In each of the sections below, we discuss key questions about the rate filing and its impact on Aetna members in California.

1. **Aetna Variation in Rate Increases**

   Aetna plans to raise rates sharply for small businesses in the MC 2,500 75/50 plan due to a history of past losses, without expanding benefits or reducing administrative costs.

   Aetna indicates that rate increases vary from -22.7% to 22.4%. The maximum renewal rate increase of 22.4% is for the MC $2,500 75/50 plan. In the filing, Aetna says that this plan “has been performing poorly for more than two years as indicated by the medical loss ratio for the plan.” This statement indicates that Aetna is basing the rates for this plan on its actual experience, as opposed to basing it on the actuarial value of its benefits.

   Appendix C-4 of the rate filing shows that the enrollment in MC $2,500 75/50 is 10,243 and the insured months is 102,920. We note that this plan would not be considered fully credible for medical loss ratio refund purposes. CALPIRG Education Fund would like clarification on whether Aetna’s calculations for the rating based on experience for plans with small enrollment (rather than on actuarial value differences) falls within the permissible guidelines of the small group rules (CA AB 1672 & AB 1083). If this is not permissible, then Aetna’s filing would represent an unreasonable rate increase for the small businesses in this plan.

2. **Aetna Trends**

   Based on historic trends cited in the rate filing, it appears that a lower trend should have been used by Aetna.

   Aetna chose an over-all trend of 7%. In the actuarial memorandum dated October 12, 2012, Robert Carver indicates that Aetna developed “utilization trends with a focus on the resulting trend assumptions and the reasonableness of these aggregate assumptions in relation to recent trend experience at a national level.” CALPIRG Education Fund interprets this as saying that aggregate trends were chosen from national level trends and that utilization trends were the total trend divided by the unit cost trends. Therefore, the choice of the aggregate trend is the deciding factor.

   This is contradicted by the *Subsequent Submission* dated November 8, 2012. In that submission Aetna describes the utilization trend as if it was developed independent to the total trend. Aetna points to the historic inpatient utilization trend as unsustainable and indicates that the inpatient utilization is the primary reason that the total utilization trend selected is higher than the historic.

   Looking at Appendix C-3 in the original rate filing, we see that the projected total trends for each benefit category, the total trends are always higher than recent trends for the major drivers of health care costs including; inpatient, outpatient, physician and prescription drug.

Based on historic trends, it appears that a lower trend should have been used. Even if we accepted the fact that the inpatient utilization trend may not be decreasing as much as seen in the historic data, reductions in the other service categories where projected trends are higher than historic would reduce the total trend. This would result in either a lower rate increase or a lower projected medical loss ratio.

We urge the California Department of Insurance to request Aetna amend the filing with a corrected trend figure. Doing so should result in a lower rate increase and more achievable projected medical loss ratio.

3. **Aetna Reinsurance Contribution and Health Insurance Fee**

   Policyholders who pre-pay a portion of the Health Insurer Fee and the Reinsurance Contribution fee and then opt to change coverage before their renewal date due to the new offerings available for January 2014 will pay for services they will not benefit from.

   We understand that Aetna is intending to charge members enrolled in 2013 a portion of the *Affordable Care Act* (ACA) fees the insurer will owe in 2014. We appreciate that the policies renewing in 2013 will be effective in 2014 and therefore subject to the fees in 2014. If the premiums are level for all months, policies will be underpriced in 2014. Rather than risk having underpriced policies in 2014, Aetna is proposing overpricing policies in 2013 instead. For example, policies renewing in July will be charged half of the $5.71 PMPM fee for the reinsurance contribution and half of the 2.4% of premium fee for the health insurance fee. This would result in members paying the full annual fee during the time period from July 2013 through June 2014.

   In regards to this methodology, CALPIRG Education Fund is concerned that policyholders who pre-pay the fee and then opt to change coverage due to the new offerings available for January 2014 will pay for services they will not enjoy. Rather in this case they will have paid for half a year and then on January 1, 2014 will start paying the full $5.71 and the remaining 2.4%. Since Aetna is intending to collect this fee early and hold the funds, it seems appropriate to provide some interest offset to the prepaid funds.

4. **Aetna Reinsurance Contribution**

   Reinsurance Contribution figures submitted by Aetna may not be wholly accurate.

   We understand the reinsurance contribution as a fee assessed upon all health insurance markets, including small groups such as the ones covered by this rate filing. The collected reinsurance funds will be used to pay for high cost individuals in the individual insurance market.

   In order to be balanced, we ask whether Aetna is considering that individual policies issued or renewed in 2013 will be effective in 2014 and therefore eligible for the reinsurance payments. We understand that this is not an individual policy rate filing, but it does not seem appropriate to allow carriers to collect fees that will be paid to individual carriers and not have an equal reduction in individual premium rates by carriers that will benefit from the reinsurance.

5. **Aetna Rate Increase Percentage Calculation**
CALPIRG found the annual rate increase for 2013 in many of Aetna's exhibits to be higher than reported by Aetna.

Aetna's actuarial memorandum indicates that this filing is for new members and renewal rates for the first two quarters of 2013. However in the Milliman Client Report provided in *Appendix C-2* of the rate filing, the rating period is indicated to be for the entirety of 2013 (i.e. January 1 to December 31). The filing's appendix - as well as exhibits in the rate filing itself - indicates rate increases in the second half of 2013 of 3.3% in July and October and 0.30% in other months. The resulting annual rate increase for 2013 would be higher than reported by Aetna, closer to 11% with adjustments combined with annual increases for later months exceeding 15%. As far as we can discern from the documents submitted by Aetna, there are no rate approvals being requested for the second half of 2013 in this filing.

CALPIRG Education Fund would like clarification on whether this rate filing is only for the first two quarters of 2013, which would require Aetna to file for any additional rate increases for 2013 and the 0.3% monthly increase for the ACA fees effective in 2014.

6. **Medical Loss Ratio**
Aetna predicts a Medical Loss Ratio (MLR) of 78.1% for 2013, which falls below ACA rebate levels.

Aetna submitted in the subsequent rate filing a traditional Medical Loss Ratio (MLR) of 78.1% for 2013, which Aetna appears to calculate as 81.4% with the adjustments for the ACA rebate formula. As we already noted, CALPIRG Education Fund is concerned that Aetna is currently overestimating its trend rate. This means that the 2013 MLR is likely to be even lower than current Aetna predictions. Given these two factors, there is strong reason to believe that Aetna will fail the MLR rebate formula for 2013 set out by the ACA, to the detriment of policy holders.

Implementing the rates as proposed in this rate filing will harm consumers. We recommend Aetna amend the filing and implement a lower rate increase at the outset, as opposed to having to issue rebate checks to small employers due to failing the MLR standards.

7. **Stability of the Plan and the Insurer**
CALPIRG Education Fund does not believe that Aetna will incur any substantial financial loss if current rate increase is not implemented.

In its rate filing, Aetna provided the following data regarding the company's post-tax statutory net income, statutory capital and surplus, and RBC authorized control level and dividend history according to the Annual Statement.

Aetna surplus condition

YEAR	**NET INCOME**	**CAPITAL & SURPLUS** ($ Millions)	**RBC AUTHORIZED CONTROL LEVEL**
2009	$882.6	$4,858.2	$651.5
2010	$1,193.1	$4,182.4	$572.6
2011	$1,001.2	$3,047.1	$471.1
2012 Forecast	$1,163.0	$3,726.0	Not Available

Aetna dividend history

YEAR	**DIVIDENDS TO STOCKHOLDERS** ($ Millions)
2008	$675.4
2009	$147.7
2010	$1,891.5

After a review of the company's surplus condition and dividend history, CALPIRG Education Fund does not believe that Aetna will incur any substantial financial loss threatening its ability to continue to exist as a profitable enterprise if this current rate increase is not implemented.

Conclusion

After careful analysis of Aetna's filing, we are concerned that the methodology used is not sufficient to justify this rate increase nor is this filing reasonable in its current form. Aetna has not adequately justified its medical trend projection, plans to raise rates sharply for small businesses in a way that may not be actuarially sound, and may be overcharging consumers for 2014 fees.

For consideration of this rate increase filing, it would be helpful if Aetna provided the California Department of Insurance with sample cost increases that small businesses will incur, illustrating the true cost of their proposed rate changes.

In light of all this, the CALPIRG Education Fund respectfully urges the California Department of Insurance to request Aetna amend the rate change or make an official determination that the proposed rate change is unreasonable.