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Comments on the Anthem Blue Cross Life and Health Insurance Company Proposal to Raise Rates on Non-Grandfathered Individual Plans, Effective February 1, 2013.

State Tracking Number: HAO-2012-0190

Health Insurance Rate Watch

A Project of CALPIRG Education Fund

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

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Executive Summary

Nearly 340,000 Californians in individual insurance plans will see average rate hikes of 20%, with some as high as 24.9%, if the rate hike proposed by Anthem Blue Cross Life and Health Insurance Company goes forward as planned on February 1st 2013.[1] These increases are in addition to rate increases that went into effect beginning in May of 2012, bringing the cumulative average annual rate increase to 24.2% for closed non-grandfathered plans and 22.7% for open plans.

This rate increase is among the largest by any insurance company in the last year, both in terms of its percent increase and the number of people affected. It also comes at a time when Californians are just beginning to recover from the economic downturn, and while the median income for Californians has declined every year for the last 5 years when adjusted for inflation.[2] Yet if this rate increase goes forward, policy holders will see rates increase $459.36[3] per year on average, on top of the previous increase. Given the magnitude of this rate hike and its impact on policyholders, the insurer should be held to a high standard of scrutiny in justifying the need for such a significant increase.

The California Public Interest Research Group (CALPIRG) Education Fund worked with the actuarial firm NovaRest Actuarial Consulting to analyze the rate filing, and the analysis was reviewed by policy staff at Health Access. As part of this process, we reviewed both the *Initial Review* and *Subsequent Submission* submitted by Anthem to the California Department of Insurance and referenced the previous rate filing that went into effect in May.[4] We evaluated the initial filing and subsequent submission against the factors the California Department of Insurance considers as part of the rate review process set forth in the SB 1163 Guidance.

After careful analysis, we are concerned that Anthem has not provided sufficient information to justify this rate increase. This is particularly troubling given the impact this rate increase will have on hundreds of thousands of enrollees if Anthem moves forward with it.

Key Findings

1. **Anthem's medical trend may be overstated.**
   The cost trend Anthem proposes significantly outpaces other estimates of average national cost increases. In addition, Anthem does not support the leveraging factor used in the development of the projected medical trend. This leveraging factor increases the medical trend by 22% for closed plans – from a trend of 10.9% to a trend of 13.3%, and increases the trend by 24% for open plans – from 10.9% to 13.5%. Given the sizable impact on the trend, it is imperative that Anthem thoroughly explain the leveraging factor used.

2. **Anthem uses unsupported loss ratios to develop the required rate increases.**
   In the filing, Anthem states that the requested rate increases are the result of a specific set of assumptions combined with their associated specific loss ratios. However the target loss ratios

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[1] Anthem Blue Cross Life and Health Insurance Company Proposal to Raise Rates on Non-Grandfathered Individual Plans, State Tracking Number: HAO-2012-0190. Accessed online December 2012 at: http://interactive.web.insurance.ca.gov

[2] Accessed online at: http://laist.com/2012/09/12/california_poverty_rates.php

[3] Calculated by dividing the Written Premium Change ($102,235,781) by the number of Policy Holders Affected (222,561) from page 3 of the filing.

[4] Anthem Blue Cross Life and Health Insurance Company, State Tracking Number: PF-2011-02237. Accessed online at: http://interactive.web.insurance.ca.gov

specified do not correlate with the data provided, and they are far below both the federal medical loss ratio rebate threshold and Anthem's projected loss ratio listed elsewhere in the filing. Determining a rate increase based on a low loss ratio results in an artificially high rate increase.

3. **It is not clear how Anthem arrives at the proposed rate increase.**
   Anthem's filing fails to provide sufficient clarity and detail to enable an assessment of the reasonableness of the rate increase. It seems that the rate increases ultimately requested by Anthem are different than the ones that would have been required based on Anthem's stated assumptions and selected loss ratios. Anthem does not explain the reasoning behind these differences.

4. **It is likely Anthem will have to issue premium rebates if this rate increase goes forward.**
   Because the rate is based on low target loss ratios and high medical trend projections, it is likely Anthem's actual ACA-defined medical loss ratio will slip below their stated projection of 83%. If it goes below 80%, the company will have to issue premium rebates to policyholders. It would be preferable for Anthem to reduce the rate hike at the outset, leaving those extra funds with policyholders.

5. **The cumulative impact of this proposed increase combined with the rate hike implemented in May 2012 may be unreasonable.**
   In May 2012, Anthem raised rates on the same plans for which it is now filing an additional rate increase request.[5] The cumulative impact of the two rate increases is not made clear in the filing information authored by Anthem but was mentioned in the independent actuary's report included with the filing. According to subsequent information filed by Anthem, the average annualized impact of the increases is 24.2% for the closed non-grandfathered plans and 22.7% for the open plans.

6. **Anthem may be double-charging for maternity benefits.**
   Anthem appears to be adding an impact to claims of between 1.3% and 5% to account for California's maternity benefits required as of July 2012. Anthem appears to have already charged these policyholders for the maternity benefit in the previous rate increase that went into effect in May of 2012.

After careful analysis of Anthem's filing, we do not believe this increase is reasonable in its current form. The company has not adequately shown that the rate proposal is based on reasonable assumptions supported with evidence. We are concerned the rate is based on unsupported medical loss ratios and overstated medical trend projections. We therefore believe it is likely Anthem will need to issue premium rebates if this rate increase goes forward.

Given the magnitude of the increase, its timing less than a year after the last increase, and the fact that it will have a significant impact on roughly 340,000 Californians, we respectfully urge the California Department of Insurance to request Anthem amend the rate change or make an official determination that the proposed rate change is unreasonable.

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[5] Anthem Blue Cross Life and Health Insurance Company, State Tracking Number: PF-2011-02237. Accessed online at: http://interactive.web.insurance.ca.gov

Key Features of the Proposal[6]

Company: Anthem Blue Cross Life and Health Insurance Company
Product Name: ABCL&H Non-Grandfathered PPO and HSA Plans
State Rate Filing Tracking Number: HAO-2012-0190
Proposed Effective Date: February 1, 2013

Proposed Average Increase: 20.0%
Minimum Increase: -14.1%
Maximum Increase: 24.9%

Cumulative Increase Closed NGF: 24.2%
Cumulative Increase Open NGF: 22.7%
Number of Policy Holders: 222,561
Number of Covered Lives: 339,822

Prior Rate:

- **Total Earned Premium:** $684,548,352.00
- **Total Incurred Claims:** $558,934,708.00
- **Minimum Premium:** $129.95
- **Maximum Premium:** $569.07

Requested Rate

- **Projected Earned Premium:** $911,798,127.00
- **Projected Incurred Claims:** $724,172,014.00
- **Minimum Premium:** $160.32
- **Maximum Premium:** $707.06

Discussion of Rate Filing

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

1. **Anthem's medical trend may be overstated.**

We are concerned that Anthem has not provided sufficient information to determine whether the rate request is based on a reasonable assumption for projected medical trend. Anthem's medical trend is driven mainly by price inflation, as opposed to an increase in utilization, and their price inflation figures significantly outpace other estimates. In addition, Anthem further increased its medical trend projection by applying an unsupported leveraging factor that has the effect of increasing trend 24%.

Anthem bases its rate request on a 13.3% projected medical trend for the closed plans and a 13.5% trend for the open plans. These trend figures are based on an underlying trend of 10.9% combined with a leveraging factor.

[6] See Anthem Blue Cross Life & Health Insurance Company filing HAO-2012-0190, accessed online December 2012 at: http://interactive.web.insurance.ca.gov

In the filing, Anthem shows that most of the total medical trend is due to price inflation, as opposed to being due to an increase in utilization. The table below, taken from information in the initial filing, shows that cost increases —as opposed to increases in the use of services— represent more than half of every category.

Table 1. Amount of Projected Trend, by Aggregate Benefit Category, Attributable to Price Inflation vs. Use of Services.[7]

Type of Service	Price Inflation	Total Medical Trend
Inpatient	9.7%	9.8%
Outpatient	12.9%	19.6%
Physician/Other Professional	6.7%	12.0%
Rx	12.7%	17.4%

These price inflation figures appear higher than other estimates. The U.S. Bureau of Labor Statistics Consumer Price Index for All Urban Consumers Medical Care Cost Inflation Index shows medical inflation for 2011 at 3.0%. The California Health Care Foundation estimates an average annual growth rate in national health spending at 6.5%.[8] The same report estimates an average growth of spending for private insurers at 2.4%.[9]

In its filing, Anthem describes the methodology used to develop an underlying trend of 10.9%. We note that it takes five years of data to establish patterns. Anthem provided only three years of data, and we cannot verify that the projected trend is appropriate based on past trends. It appears consistent with Anthem's recent trends, but given how high it is, we would encourage the insurer to provide additional data to support it. Assuming it is accurate, this growth in costs is troublesome and underscores the need for greater focus on effective cost containment efforts.

In addition to having a high underlying trend, we are concerned that Anthem does not support the leveraging factor used in the development of the projected medical trend. Attachment 9 of the filing indicates an underlying medical trend of 10.9% for both closed and open non-grandfathered plans.[10]

Anthem then assumes a necessary leverage factor of 1.22 (22%) for closed plans and 1.24 (24%) for open plans, and uses this factor to calculate a price trend of 13.3% for closed plans and 13.5% for open plans.

Anthem did not respond to the question concerning changes in cost sharing in the rate filing, omitting information that might have shed light on the role of leveraging in these plans (See page 729 of the rate filing). Given the significant impact on the trend and therefore on the proposed rate increase, it is imperative that Anthem provide numerical support for how the leveraging factor was derived.

2. **Anthem uses unsupported loss ratios to develop the required rate increases.**

Anthem states that the requested rate increases are the result of a specific set of assumptions combined with their associated specific loss ratios. However, the target loss ratios the company specifies do not result from the data provided, and are far below both the federal medical loss ratio (MLR) standard of 80% and Anthem's projected loss ratio listed elsewhere in the filing. Moreover, the rate increases Anthem ultimately

[7] Anthem Blue Cross Life & Health Insurance Company, filing HAO-2012-0190, pp. 718-719.
[8] California Health Care Foundation, 2012 Health Care Almanac, p. 21. Accessed online at: http://www.chcf.org/~/media/MEDIA%20LIBRARY%20Files/PDF/H/PDF%20HealthCareCosts12.pdf
[9] California Health Care Foundation, 2012 Health Care Almanac., p.27.
[10] Anthem Blue Cross Life & Health Insurance Company, filing HAO-2012-0190, p.706.

requests are different than the ones that would have been required based on Anthem's stated assumptions and selected loss ratios. Anthem did not explain the reasoning behind these differences.

On page 707 of the initial filing, Anthem outlines the process used to develop the rate increase. The required rate is based in part on low target loss ratios – 76.6% for closed non-grandfathered plans and 69.1% for open non-grandfathered plans.

Anthem failed to sufficiently explain the loss ratio targets for each of these sets of plans, and the CALPIRG Education Fund is concerned that they are very low and likely inaccurate. The loss ratio for a closed block of business should be much higher since no marketing costs will be incurred, and the loss ratio for the open non-grandfathered plans appears to be unusually low (69.1%). Both loss ratios are below the federal medical loss ratio rebate threshold of 80%, and they contradict information elsewhere in the filing. In Attachment 15 of the initial filing,[11] Anthem states that they anticipate an unadjusted medical loss ratio of 80.7%, which translates to an adjusted federal medical loss ratio of 83.0%.

In the end, it appears that the rate Anthem is requesting may not be based on these loss ratios at all. As is addressed more completely in the next section, the required rate changes that result from these very low loss ratios are then modified without explanation to arrive at the requested rate changes.

3. It is not clear how Anthem arrives at the proposed rate increase.

Anthem's rate increase filing fails to provide sufficient clarity and detail to enable an assessment of the reasonableness of the rate increases. It seems that the rate increases ultimately requested by Anthem in their rate filing are different than the ones that would have been required based on Anthem's stated assumptions and selected loss ratios. Anthem does not explain the reasoning behind these differences.

In the initial filing,[12] Anthem projects a total *required* rate change of 36.5% for closed and open non-grandfathered plans. However the *requested* rate change is only 20.0%, and it is not clear how Anthem got from one number to the other. See Table 2 below.

Table 2. Anthem Rate Increases, 2012

	Required rate increase using Anthem's assumptions and loss ratios	Requested rate increase
Closed non-grandfathered plans	18.7%	19.9%
Open non-grandfathered plan	38.8%	20.0%
Total increase	36.5%	20.0%

As we can see, the aforementioned high projected medical trends combine with very low target loss ratios result in very high "required" rate increases. But Anthem does not appear to use these resulting figures. For closed plans, Anthem adds another 1.2 percentage points to bring the requested rate increase to 19.9%, and subtracts 18.2 percentage points from the required increase for open plans to arrive at requested increase

[11] Anthem Blue Cross Life & Health Insurance Company, filing HAO-2012-0190, p.617.
[12] Anthem Blue Cross Life & Health Insurance Company, filing HAO-2012-0190, p.707.

of 20.0%. The difference between the rates using Anthem's assumptions and their requested rates is quite significant, yet no explanation is given for this difference.

4. It is likely Anthem will have to issue premium rebates if this rate increase goes forward.

Because the required rate increase is based on low loss target loss ratios and high medical trend projections, it is likely Anthem's actual ACA-defined medical loss ratio will slip below their projected figure of 83%.

If the federal medical loss ratio goes below 80%, the company will have to issue premium rebates to policyholders. It would be preferable for Anthem to reduce the rate hike at the outset, leaving those funds in policyholders' pockets.

Issuing rebates is a way to protect consumers from being overcharged for insurance coverage, but it would be better to avoid over-charging consumers in the first place.

5. The cumulative impact of this proposed increase with the rate hike implemented in May 2012 may be unreasonable.

In May 2012, Anthem raised rates on the same plans for which it is now filing additional rate increase request.[13]The cumulative impact of the two rate increases is not made clear in the filing information authored by Anthem but was mentioned in the independent actuary's report included with the filing. According to subsequent information filed by Anthem, the average annualized impact of the increases is 24.2% for the closed non-grandfathered plans and 22.7% for the open plans.

Anthem's independent actuarial analysis set the cumulative average increase of open and closed non-grandfathered plans at 26.0%, a rate which would exceed Anthem's own policy capping annual increases at 24.9%. Anthem's subsequent submission, however, stated the cumulative increases of 24.2% and 22.7% stated above. These statements contradict and create ambiguity over how much policy holders will really see their rates increase over the course of the year.

6. Anthem may be double-charging for maternity benefits.

Anthem may be counting new maternity benefits twice as a justification for cost increases.

The May 2012 filing states that Anthem anticipates the new maternity mandate to have an impact of 0.8% on the overall increase. Meanwhile the August 2012 filing which we are reviewing here claims that maternity mandates are increasing rates by 1.3% for the closed block and 5.0% for the open block.

We encourage the Department of Insurance to ensure consumers are not being charged more than once for these added benefits.

7. The rate increase does not appear necessary to maintain Anthem's financial position and solvency.

After a review of the company's income and surplus condition, it does not appear that this rate increase is necessary to maintain its solvency. The company continues to enjoy profitability and experienced a return on equity of 17.8% in 2011.

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[13] Anthem Blue Cross Life and Health Insurance Company, State Tracking Number: PF-2011-02237. Accessed online at: http://interactive.web.insurance.ca.gov

As the chart below shows, the insurer has well over five times the minimum required level of surplus.

YEAR	2008	2009	2010	2011
NET INCOME ($ Millions)	$194.5	$170.5	$205.9	$203.5
Total Adjusted Risk Based Capital ($ Millions)	$760.1	$813.8	$973.8	$1,145.4
Risk Based Capital as % of Authorized Control Level	600%	568%	564%	577%

Conclusion

After careful analysis of Anthem's filing, we believe the proposed increase is not reasonable in its current form. The rate increase has not been adequately justified, and appears to be based on unsupported low loss ratios and a medical trend that may be overstated.

If this rate increase moves ahead, it will mark the second time in a year that Anthem has raised rates on Californians with these insurance policies, and the cumulative impact of these increases may be excessive.

The fact that this large increase will affect roughly 340,000 consumers means Anthem should be very clear in justifying its necessity and prudence.

In light of all this, the CALPIRG Education Fund respectfully urges the California Department of Insurance to request Anthem amend the rate filing to provide sufficient support for the rate increase and the assumptions upon which it is based.