June
2013

Comments on the LifeWise Health Plan of Oregon Proposal for Individual Health Rates Effective January 2014

Filing # PBCC-129002086

Health Insurance Rate Watch
A Project of OSPIRG Foundation

Authors
Jesse Ellis O'Brien
Laura Etherton
David J. Rosenfeld

Actuarial Analysis
Allan Schwartz, AIS Risk Consultants

Project Advisory Committee
Jerry Cohen, AARP-Oregon
Laurie Sobel, Consumers Union
Jim Houser, Small Business Owner, Hawthorne Auto Clinic

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.

About OSPIRG Foundation: With public debate around important issues often dominated by special interests pursuing their own 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.

For more about OSPIRG Foundation or for more copies of this report, please visit:
http://www.ospirgfoundation.org

This publication was made possible by Grant Number IPRPR0057A from Department of Health and Human Services Center for Consumer Information and Insurance Oversight. Its contents are solely the responsibility of the authors and do not necessarily represent the official views of the Department of Health and Human Services Center for Consumer Information and Insurance Oversight.

Executive Summary

LifeWise Health Plan of Oregon has proposed premium rates for its individual and family plans for 2014.

Thanks to a new law requiring all Oregon insurers to offer standard plans, it is now possible to compare proposed rates apples-to-apples across Oregon's insurers for the first time. In our analysis of this and other filings, we examine the premium proposed for one of these standard plans, the Oregon Standard Bronze plan for a 40-year-old nonsmoker in the Portland Metro area. This allows us to make meaningful comparisons across insurance companies.

LifeWise is proposing a rate of $195 for this benchmark plan. [1]

Oregon's health insurance rate review program, administered by 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.

With federal health reform bringing important new consumer protections into effect in 2014, many more Oregonians will be able to access coverage, and health insurance benefits and out-of-pocket costs will change substantially for many Oregonians. In addition, insurers will no longer be allowed to deny coverage to people with pre-existing conditions, and many Americans will be required to have health coverage or pay a penalty. 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.

OSPIRG Foundation worked with the actuarial firm AIS Risk Consultants to analyze LifeWise's rate filing. We examined the insurance company's justification for the proposed rates, the financial position of the insurer, and how the rates would impact Oregonians if approved. Our staff and consulting actuary also reviewed additional information made available by LifeWise.[2]

After careful analysis of LifeWise's initial filing and the supplemental information provided so far, we are concerned that the insurer has not provided sufficient information to evaluate the justification for their proposed rate.

Key Findings:

- **We are concerned that LifeWise's projection of an 8.2% trend for medical costs has not been justified by the documentation provided.** With a number of major national studies demonstrating a substantial slowdown in health care cost growth in recent years, LifeWise's projection of accelerating cost growth deserves close scrutiny.

[1] LifeWise received approval for a rate increase for its individual plans last year, a 2.8% change effective as of September 1, 2012. LifeWise had initially requested an increase of 3.1%, but DCBS approved the lower value. *See* DCBS, Rate Filing Decision Summary – LifeWise Health Plan of Oregon Individual Health Plan, *at* http://www.oregonhealthrates.org/index.cfm?B64=nZzVWZjFGdvljbo12bl1TJFJ2cvhyd1UmRvR2Yn1XbmQGdft3cmJ2XpZGbul1Zk92b9MjMzQwM%3D%3D
[2] As part of this process, OSPIRG Foundation submitted questions to the insurer on May 24. LifeWise provided responses on May 31.

- **LifeWise's projections of an additional 15% increase in claims cost due to the health status and pent-up demand of the currently uninsured have not be justified.** The exact cost impact of expanding coverage remains unclear, but the basis for LifeWise's projections is unclear should be scrutinized closely. Some experts have predicted that covering the currently uninsured will prove to reduce costs, since many uninsured individuals are young and healthy, and incur few medical costs.

- **LifeWise failed to adjust its cost projections to reflect a reduction in "bad debt" due to the expansion of coverage as the Affordable Care Act (ACA) comes fully into effect.** With hundreds of thousands of Oregonians newly eligible for coverage in 2014, uncompensated care is sure to decline, and this benefit should be passed along to consumers in the form of lower rates. LifeWise's filing indicates a number of areas where ACA provisions may increase costs, but does not include this key area where reform will reduce costs.

- **When it comes to reducing costs and improving the quality of care, it is not clear that LifeWise is doing all it can**. LifeWise reported taking steps to reduce health care cost in ways that improve quality for patients in only three of the six areas we track, and the insurer did not provide enough data to meaningfully evaluate its cost containment strategy.

Before deciding to approve or deny this rate request, we urge the Insurance Division to scrutinize the issues raised here, require LifeWise to provide all documentation necessary to evaluate their proposal, and to implement a concrete, achievable plan to contain costs for Oregon individuals and families.

Key Features & Insurer Information

Key features of the rate proposal	
State tracking # for this filing	PBCC-129002086
Name of health insurance company	LifeWise Health Plan of Oregon
Type of insurance	Individual

Proposed Rates*	
Standard Bronze	$195
Standard Silver	$252
Standard Gold	$303
% premium to be spent on medical costs	76.00%
% premium to be spent on administrative costs	24.00%
% premium to be spent on profits	0.00%

Insurer's history of rate increases	Requested	Approved
2010	15.00%	15.00%
2011	9.00%	7.20%
2012	3.10%	2.80%
2013	5.60%	pending

Basis for rate	
Medical cost trend	8.20%
Rx cost trend	8.20%
Cost due to health status of new customers (under federal health reform)	15.00%

Enrollment	
Year	**Members**
2006	38,745
2007	35,826
2008	32,554
2009	29,675
2010	26,607
2011	22,766
2012	22,550

Insurer information

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

Insurer's financial position	
Year	2012
Surplus	$64,704,973
Investment earnings	$4,138,656

Surplus History	
Year	**Amount in Surplus**
2006	$74,922,815
2007	$69,922,493
2008	$58,818,863
2009	$58,463,824
2010	$54,758,998
2011	$62,480,141

*"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

Discussion of rate filing

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

In our detailed discussion of the rate filing, we provide analysis of information provided in the initial rate filing as well as supplemental information from the insurer in response to questions from DCBS and OSPIRG 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.

Examining the justification for the proposed premium rates

LifeWise's projection of an 8.2% trend for medical and prescription drug costs has not been justified by the documentation provided.

A number of major national studies have demonstrated a substantial slowdown in health care cost growth in recent years; from 2009 to 2011, health care spending per capita rose about 3% per year.[3] According to a more recent study, health care prices have increased only 1.1% over the past year, with total expenditures—including both price and utilization—increasing 4.2%.[4]

LifeWise's projection of a cost trend higher than the national average going forward deserves close scrutiny. Furthermore, the 8.2% medical trend being used by the insurer is significantly higher than that used by many other insurance companies in the current rate filing period. There is no reason to believe that the underlying economic, demographic and medical issues that impact cost changes should result in a trend that is unusually high for LifeWise in comparison to other insurers.

LifeWise did not provide sufficient information in their initial filing to enable independent evaluation of their claims about growth in medical costs, and specifically their projections of a 2.7% increase in utilization and a 5.4% increase in unit costs.

In its response to questions about the development of these projections, LifeWise provided more context—stating that the insurer expects utilization to increase due to lower cost-sharing requirement as the ACA comes into effect, and explaining that its unit cost projections are based on negotiated provider contracts—but did not provide further empirical support for its claims. In addition, any change in utilization resulting from the ACA may already be reflected in the "1/1/2014 Risk Pool Impact" factor of 15% used by LifeWise. Hence, including additional increases in utilization in the trend factor may constitute double counting.

The trend data for the past year cited in LifeWise's filing are variable, but average out to about 6.7%[5]—well below the trend projection used for developing the proposed premium rates for the coming year. LifeWise's projection that cost growth will accelerate in the coming year merits scrutiny, since many experts expect that health care cost growth will remain low in the medium term.[6] Furthermore, even the 6.7% value is significantly higher than the observed increase in health expenditures per capita in recent years.

Lifewise also relies on the Milliman Medical Index (MMI) as support for the selected trend stating "For comparison purposes, the 2011 Milliman Medical Index shows that on a national level for the period

[3] CMS. National health expenditure accounts: historical national health expenditures by type of service and source of funds, CY 1960–2011 http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/
[4] Altarum Institute, Center for Sustainable Health Spending. June 2013 Health Sector Economic Indicators. Available at http://www.altarum.org/research-initiatives-health-systems-health-care/altarum-center-for-studying-health-spending/health-indicator-reports
[5] See Trend Information and Projection Exhibit 1, average of values in rightmost column.
[6] Alexander J. Ryu, Teresa B. Gibson, M. Richard McKellar, and Michael E. Chernew. "The Slowdown In Health Care Spending In 2009–11 Reflected Factors Other Than The Weak Economy And Thus May Persist." Health Affairs, May 2013. http://content.healthaffairs.org/content/32/5/835.abstract

2011 compared to 2010, the inpatient unit cost increased 8.3%." However, those figures are outdated. The most recent data indicates that the 2013 MMI shows that on a national level, for the period 2013 compared to 2012, inpatient cost increased only 5.0%. Furthermore, the total MMI index across all components, reflecting both unit cost changes and utilization changes, increased by only 6.3% from 2012 to 2013, and has been trending down over time.

LifeWise's projection of a 15% increase in claims costs due to the health status and pent up demand of the newly insured has not been justified.

Experts differ in their estimates of the health status of the currently uninsured and the impact this may have on the costs insurers will face when, starting in 2014, many more Americans will be able to purchase health coverage.

While some projections have estimated higher cost impacts than LifeWise's projection in the current filing, many—including some of LifeWise's competitors in the current rate filing period—have made much lower projections. Some experts have predicted that covering the currently uninsured will prove to reduce costs, since many uninsured individuals are young and healthy, and incur few medical costs.

In its filing, LifeWise provides calculations projecting a much higher cost impact for covering the uninsured, 35.4%, but identified the 15% projection as its "proposed change in the risk pool" and did not incorporate the 35.4% projection into its premium calculation. While 15% is a more reasonable estimate, the basis for deciding on 15% was not specified in the filing.

In response to OSPIRG Foundation questions, LifeWise clarified that they adopted the 15% estimate from a Society of Actuaries study due to uncertainty about their own internal projections. While clarifying the source of the projection is helpful, this estimate still deserves close scrutiny.

A study commissioned by CMS suggests that the majority—about 69%—of the currently uninsured have better-than-average health status.[7] A key consideration in determining the cost impact of expanding coverage to the uninsured is estimating how many of these healthy individuals and families will enroll, which will depend in large part on the success of the large-scale outreach, public education and enrollment efforts that the state and federal governments will undertake over the coming year. The extent of the success of these endeavors is difficult to predict, but consumers should not be made to pay extra for insurance on the assumption that coverage expansion efforts will fail.

LifeWise failed to adjust its cost projections to reflect a reduction in "bad debt" due to the expansion of coverage as the Affordable Care Act (ACA) comes fully into effect.

Hundreds of thousands of Oregonians are expected to gain access to health coverage over the coming year as Cover Oregon comes online, enabling access to tax credits to pay for coverage, and as the state expands its Medicaid program.

Among the many benefits of this expansion will be a significant reduction in uncompensated hospital care for uninsured and underinsured individuals. Since the uninsured are rarely in a position to pay for their own care out of pocket, and underinsured individuals are frequently unable to cover all of the out-

[7] http://marketplace.cms.gov/ExploreResearch/social-marketing-research-for-the-health-insurance-marketplace.pdf, see page 8.

of-pocket costs associated with their plans, the cost of providing needed care is often shifted onto the rest of us and is reflected in the reimbursement rates insurers pay hospitals and doctors for various services.

This is the so-called "bad debt" factor, and the anticipated reduction in bad debt should exert substantial downward pressure on hospital rates. LifeWise's filing does not directly discuss the impact of this downward pressure in the development of its cost projections.

In response to questions, LifeWise stated the following:

> "As provider contract negotiations continue throughout the year, this will be a part of the future discussions. However, with the uncertainties around the 2014 insured individuals, providers want to actually see their bad debt reduced before they will be willing to forgo reimbursement increases or reductions to reimbursement."

The insurer's forthcoming answer is appreciated, but there is good reason to believe that uncompensated care will go down substantially even in the first year of the coverage expansion, and it would be unfortunate if these benefits were not passed along to consumers. LifeWise's customers count on their insurer to act as their advocate to ensure that cost savings like these are realized in lower premiums.

According to the Office for Oregon Health Policy and Research, uncompensated care cost Oregon hospitals over $1 billion in 2008 alone.[8] The primary driver of these costs is the health needs of Oregon's estimated 636,000 uninsured individuals.[9] Oregon's Medicaid expansion is expected to cover at least 222,000 currently uninsured individuals,[10] and according to a conservative estimate, at least 60,000 currently uninsured individuals will receive coverage in Oregon's individual market in 2014.[11]

With nearly half of currently uninsured Oregonians expected to gain coverage in 2014, uncompensated care is sure to decline—most likely by hundreds of millions of dollars statewide—and this benefit should be passed along to consumers in the form of lower rates. LifeWise's filing includes allowances for a number of areas where ACA provisions may increase costs, but does not include this key area where reform will lead to lower costs.

Comparison of rates between LifeWise products

In addition to the Oregon Standard plans at the Gold, Silver and Bronze level, LifeWise is offering a range of non-standard plans. These plans have a number of differences from the Standard plans, including different benefits and out-of-pocket cost arrangements, and LifeWise's filing proposes significantly different premium costs for them.

---

[8] See http://www.oregon.gov/oha/OHPR/RSCH/docs/uncompensated_care/uncompensatedcaretrends_08.pdf
[9] See http://www.cbs.state.or.us/ins/consumer/federal-health-reform/wakely-aca-actuarialanalysis-20120731.pdf, page 14.
[10] See http://www.oregon.gov/oha/Documents/MedicaidExpansion-EstimatedFinancialEffects.pdf, page 4.
[11] See http://www.cbs.state.or.us/ins/consumer/federal-health-reform/wakely-aca-actuarialanalysis-20120731.pdf, page 29

While non-standard plans designs may offer innovative benefits that are important for some consumers, the rationale for offering additional plans at a different price point should be crystal clear, and the rationale is not clearly spelled out in LifeWise's filing. For example, the rate proposed for LifeWise's Essential Gold 1000 plan ($302) is slightly lower than the rate proposed for its Oregon Standard Gold Plan ($303), despite the fact that the Essential Gold 1000 plan has a slightly higher Actuarial Value (AV)—i.e., it covers more of the average patient's medical costs. These differences are slight, but premium price points are a critical signal for consumers.

Clarifying the basis for these cost differences is important to ensure that consumers can rely on the premium prices of these plans as accurate signals of the value of the coverage they are purchasing, and not a reflection of an expectation that a plan will have a sicker and more costly membership base. Insurers offering non-standard plans should be doing so in order to offer unique benefits to consumers, not in order to find new ways to direct unhealthy individuals elsewhere, or to charge sick individuals higher prices for coverage.

In response to questions, LifeWise provided more detailed information for each plan. They also clarified that they do not anticipate any systematic differences in utilization, age or health status between the customer bases for the Standard and non-standard plans, but the insurer did not provide additional data to support this assertion.

While providing a choice of plans at each metal level may benefit consumers with unique needs, we urge DCBS to scrutinize the proposed price differences between these plans to ensure that they accurately reflect differences in benefits and cost sharing.

Cost impact of proposed rates

Total cost of LifeWise's plans

Taking into account premiums, deductibles, coinsurance and other forms of cost-sharing, the total cost of coverage for LifeWise's plans as proposed in the filing would be substantial.

Federal tax credits will help eligible individuals and families cover some of the cost of premiums and out-of-pocket expenses,[12] but the cost of the proposed rates should be considered on its own merits. The role of rate review is to ensure that the rate is appropriate for the benefits offered, whether the cost is borne by the policyholder directly or by the taxpayer in the form of subsidies.

The following case studies illustrate the total potential costs that LifeWise policyholders may accrue in the event of serious illness or other medical need.

[12] For information about eligibility for these federal tax credits, see www.coveroregon.com, the website for Oregon's Health Insurance Exchange. Since the amount of premium assistance available via tax credit is pegged to the second-cheapest Silver plan available in a state's Individual market, and Oregon premium rates have not yet been approved, it is impossible to project the impact of financial assistance precisely at this time.

Policyholders[13]	**Plan**	**Annual premium**	**Out-of pocket max (deductible + coinsurance + copays)**	**Total potential cost**
Sam, 32	Oregon Standard Bronze	$2,160	$6,350	$8,510
Sarah and George, 50	Oregon Standard Silver	$8,448	$12,700	$21,148
Eric and Cynthia, 45, and their two children	Oregon Standard Gold	$9,712	$12,700	$22,412

These total potential cost calculations represent worst-case scenarios, but whether these costs are borne directly by policyholders or covered in part by taxpayers, they are substantial.

The case studies below illustrate the financial impact of a more likely, though still expensive, scenario: The total cost of an individual medical expense (such as childbirth or an inpatient hospitalization) costing $10,000.

Policyholders	**Plan**	**Annual premium**	**Deductible + Coinsurance**	**Total cost after premium and $10,000 claim**
Sam, 32	Oregon Standard Bronze	$2,160	$5,000 + $1,350	$8,510
Sarah and George, 50	Oregon Standard Silver	$8,448	$5,000 + $1,500	$14,948
Eric and Cynthia, 45, and their two children	Oregon Standard Gold	$9,712	$2,600 + $740	$13,052

As the chart above demonstrates, higher-value plans such as the Oregon Standard Gold[14] plan reduce out-of-pocket exposure to financial risk in the case of medical need, but total costs remain high and will be burdensome on Oregon families and federal budgets.

The out-of-pocket maximums above were established by the ACA cannot be changed in the rate review process, but we urge DCBS to take these costs into account when evaluating whether the coverage provided by LifeWise's insurance products is worth the proposed premium cost.

[13] For the sake of simplicity, all policyholders reside in the Portland Metro area.
[14] Gold plans can be expected to cover about 80% of the average person's medical cost in a year, which is higher than Silver (70%) or Bronze (60%).

Comparison with current rates

It is impossible to make apples-to-apples comparisons between the proposed rates and the rates LifeWise offers today, due to new coverage requirements and other consumer protections that will be going into effect next year.

However, the $195 benchmark rate represents a significant increase from the rate for the closest comparable plan LifeWise offers today. LifeWise's "WiseValue Plus Rx" $5000 deductible plan, which offers the closest equivalent to the benefits and out-of-pocket costs in the Oregon Standard plans, costs $162 today.[15] This means that current LifeWise customers in that plan wanting to purchase similar coverage will face an increase of about 20% for 2014.

While many customers will have access to premium assistance tax credits, and will have substantially expanded options for finding coverage elsewhere through Cover Oregon, these increases are large and, if approved, the impact of these rates will be substantial.

Insurer's efforts to reduce medical costs while improving quality

Rising medical and prescription drug costs are far and away the most significant driver of rising health insurance costs. Health insurance companies have a significant role to play to help lower these underlying costs – not by cutting access to needed care – but by cutting waste and working with providers in their networks to focus on prevention and other proven strategies that keep patients healthier.

Reporting on efforts in this area as part of the rate filing is relatively new for insurers. From the consumer perspective, we are looking for a frank discussion of the insurer's approach to contain costs in ways that cut waste and improve quality.

In this analysis, OSPIRG Foundation tracks the insurer's reported efforts to implement six strategies understood to effectively reduce costs and improve quality, outlined through the chart below.

[15] For the same reference population: A 40-year-old single non-smoker in the Portland Metro area. See https://www.lifewiseor.com/visitor/shop-for-plans/individual-and-family-plans/health-plans/ for information about LifeWise's current plans and rates.

Insurer's Cost and Quality Initiatives

Initiative	Description	Insurer's current efforts	Projected Savings
Quality pricing, also known as "payment reform"	In contrast with the fee-for-service payment model, this model rewards providers that use best practices to help keep patients as healthy as possible.	None specified	Not specified
"Medical Home" initiatives	Coordinated patient-centered care that focuses on prevention and keeping patients healthy and out of the ER.	None	Not specified
Value based benefits	Plans with lower co-pays for treatment proven to be effective, and higher cost sharing for unnecessary procedures. Some insurers use this term to describe plans with higher cost sharing for specialty care or brand-name drugs.	Value-based formulary for prescription drugs mentioned but not described in detail	Not specified
Chronic disease management	Case management and other tools to improve the health of patients with chronic disease. [16]	8 new care utilization programs	$21 million (for LifeWise's whole book of business)
Reducing hospital readmissions	Working with providers to ensure that discharged patients have adequate follow up care.	Preadmission assessment calls, discharge planning program, follow-up referral programs	Not specified
Reducing errors, hospital-acquired infections and other adverse events.	This includes not reimbursing providers for "never events," and incentives to encourage provider safety practices.	None specified	Not specified

In its initial filing, LifeWise reported taking steps to reduce health care cost in ways that improve quality for patients in only three of the six key areas we track. In response to questions, the insurer additionally explained its efforts in the critical area of reducing hospital readmissions, but did not provide detailed cost savings or health outcome data for any of its specific programs, with the exception of its new utilization management programs. LifeWise forecasts $21 million in savings accruing from these programs. In response to questions from DCBS, it was clarified that this figure represents a sum of savings across LifeWise's entire book of business.

In response to questions, LifeWise explains that they are pursuing a strategy of moving away from the fee-for-service model of reimbursement, but are currently exploring what they describe as "intermediate models" due to the difficulty of bringing the Medical Home model to scale. Since these intermediate service delivery models are not detailed in the filing or supplementary materials, it is difficult to evaluate the adequacy of this strategy.

[16] Such as diabetes, asthma, depression, coronary artery disease, and congestive heart failure

In response to questions from DCBS about how the savings from its cost containment programs are realized in Individual market premium rates, LifeWise states that "It is often not meaningful to measure the effectiveness of any particular program at a line of business level. There may not be a sufficient number of members impacted by a particular program during the current rating period." While measuring specific cost impacts can be challenging, it is also critical both for evaluating the adequacy of the insurer's overall strategy and for ensuring that savings are appropriately passed along to consumers.

We urge LifeWise to redouble their efforts in this critical area, and we urge DCBS to encourage LifeWise and other insurers to seek and submit more detailed measures of the success of cost containment and quality improvement programs, and associated savings, as part of the rate review process, so that expected reductions in costs can appropriately be passed through to policyholders.

Conclusion

LifeWise has not adequately justified its proposed rates.

OSPIRG Foundation is concerned that LifeWise has not provided enough data to support its projections of medical and prescription drug cost trends as well as its projections of the cost of covering the currently uninsured, and that the insurer has not done enough to pass along to consumers the cost savings associated with health reform.

We are also concerned that LifeWise has not provided information about its cost containment and quality improvement programs sufficient to enable independent evaluation of adequacy of the insurer's strategy in this key area.

We respectfully urge DCBS to closely examine these issues, as well as all the others raised through these comments, as it completes review of this rate proposal.