June
2013

Comments on the Moda Health Plan Proposal for Individual Health Rates Effective January 2014

Filing # ODSV-128996855

Health Insurance Rate Watch
A Project of OSPIRG Foundation

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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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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.

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Executive Summary

Moda Health Plan—formerly known as ODS Health Plan—has proposed premium rates for its individual and family plans for 2014. Moda's proposed rates are the lowest filed for an insurer in Oregon's Individual market.

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.

Moda Health Plan is proposing a rate of $169 for this benchmark plan. [1]

While Moda's product is inexpensive relative to the competition, it remains critical to examine the justification for their rate. In the coming competitive marketplace of Cover Oregon, the state's health insurance exchange, it is likely that many cost-conscious consumers will be attracted to the cheapest product available, and rate review has an important role to play in making sure that the rates those consumers experience are fully justified, sustainable, and not inflated or wasteful.

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 Moda's rate filing. We examined the insurance company's justification for the proposed rates, the financial position of the insurer, and how the proposed rates would impact Oregonians if approved. Our staff and consulting actuary also reviewed additional information made available by Moda.[2]

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

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[1] Moda (then known as ODS received approval for a rate increase for its Individual plans last year, a 3.8% change effective as of November 1, 2012. Moda had initially requested an increase of 7.5%, but DCBS approved the lower value. *See* DCBS, Rate Filing Decision Summary – ODS Health Plan, Inc., Individual Non-Grandfathered Health Plan, *at* http://www.oregonhealthrates.org/index.cfm?B64=nZzVWZjFGdvljbo12bl1TJFJ2cvhyd1UmRvR2Yn1XbmQGdft3cmJ2XpZGbul1Zk92b9MzMxAwM%3D%3D

[2] As part of this process, OSPIRG Foundation submitted questions to the insurer on May 20. Moda provided responses on May 27.

Key Findings:

- **We are concerned that Moda's projection of a 5.2% 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, Moda's projections deserve close scrutiny.

- **Moda 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. Moda'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 Moda is doing all it can**. Moda 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 Moda 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	ODSV-128996855
Name of health insurance company	Moda Health Plan
Type of insurance	Individual

Proposed Rates*	
Standard Bronze	$169
Standard Silver	$225
Standard Gold	$276
% premium to be spent on medical costs	76.20%
% premium to be spent on administrative costs	22.80%
% premium to be spent on profits	1.00%

Basis for rate	
Medical cost trend	5.20%
Rx cost trend	5.20%
Cost due to health status of new customers (under federal health reform)	3.00%

Insurer's history of rate increases		
	Requested	**Approved**
2009	17.67%	17.67%
2010	20.73%	17.54%
2011	9.94%	8.94%
2012	7.50%	3.80%

Enrollment	
Year	**Members**
2006	3,352
2007	5,354
2008	11,295
2009	18,903
2010	25,492
2011	26,333
2012	27,748
2013 (projected)	36,000

Insurer information

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

Insurer's financial position	
Year	2012
Surplus	$75,900,000
Investment earnings	$2,700,000

Surplus History	
Year	**Amount in Surplus**
2006	$37,794,399
2007	$38,281,240
2008	$39,846,144
2009	$71,413,177
2010	$76,604,830
2011	$80,800,000

*"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

Moda's projection of a 5.2% trend for medical 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]

Moda's projection of a higher cost trend than the national average going forward deserves close scrutiny, since many experts expect that health care cost growth will remain low in the medium term.[5]

Moda did not provide sufficient information to enable independent evaluation of their claims about growth in medical costs, and specifically their projections of a 1.62% increase in utilization and a 3.51% increase in unit costs.

Impact of federal health reform

Moda 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-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. Moda's filing does not consider the impact of this downward pressure in the development of its cost projections.

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[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] 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

Moda's filing states that "the effects of 'bad debt' reduction are expected to be long term, and reflect actual reductions in bad debt rather than anticipated reductions, and will therefore not be realized in the projection period."

While the cost impact of reducing bad debt can be expected to become clearer—and to grow—over time, there is good reason to believe that uncompensated care will go down substantially even in the first year of the coverage expansion.

According to the Office for Oregon Health Policy and Research, uncompensated care cost Oregon hospitals over $1 billion in 2008 alone.[6] The primary driver of these costs is the health needs of Oregon's estimated 636,000 uninsured individuals.[7] Oregon's Medicaid expansion is expected to cover at least 222,000 currently uninsured individuals,[8] and according to a conservative estimate, at least 60,000 currently uninsured individuals will receive coverage in Oregon's individual market in 2014.[9]

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. Moda'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 Moda products

In addition to the Oregon Standard plans at the Gold, Silver and Bronze level, Moda is offering a range of non-standard plans, including a number of plans described in the filing as "innovative limited network PPOs." These plans have a number of differences from the Standard plans, including both network differences and different out-of-pocket cost arrangements, and Moda's filing proposes significantly different premium costs for them.

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 Moda's filing. For example, the rate proposed for Moda's Be Aligned ($205) plan is lower than the rate proposed for its Oregon Standard Silver Plan ($225), despite the fact that the Be Aligned plan has a slightly higher Actuarial Value (AV)—i.e., it covers more of the average patient's medical costs.

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.

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

In response to questions, Moda clarified that some of their non-standard plans will offer additional benefits beyond the standard Essential Health Benefits, including alternative care and accident benefits. These benefits are important to many Oregonians.

The insurer 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 did not provide additional data to support this assertion. We urge DCBS to scrutinize the proposed price differences between Moda's plans to ensure that they accurately reflect differences in benefits and cost sharing.

Cost impact of proposed rates

Total cost of Moda's plans

Taking into account premiums, deductibles, coinsurance and other forms of cost-sharing, the total cost of coverage for Moda'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,[10] 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 Moda policyholders may accrue in the event of serious illness or other medical need.

Policyholders	**Plan**	**Annual premium**	**Out-of pocket max (deductible + coinsurance + copays)**	**Total potential cost**
Sam, 32	Oregon Standard Bronze	$1,872	$6,350	$8,222
Sarah and George, 50	Oregon Standard Silver	$7,536	$12,700	$20,236
Eric and Cynthia, 45, and their two children	Oregon Standard Gold	$10,636	$12,700	$23,336

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.

[10] 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.

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	$1,872	$5,000 + $1,350	$8,222
Sarah and George, 50	Oregon Standard Silver	$7,536	$5,000 + $1,500	$14,046
Eric and Cynthia, 45, and their two children	Oregon Standard Gold	$10,636	$2,600 + $740	$13,976

As the chart above demonstrates, higher-value plans such as the Oregon Standard Gold[11] 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 Moda's insurance products is worth the proposed premium cost.

Comparison with current rates

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

The $169 benchmark rate for the Oregon Standard Bronze plan represents a slight reduction from the rate for the closest comparable plan Moda offers today. Moda's Beneficial Value 5000 plan ($152) with an optional prescription drug rider ($22), which offers the closest equivalent to the benefits and out-of-pocket costs in the Oregon Standard plans, costs $172 today.[12]

Moda estimates that "the overall premium rate increase is estimated at 28%" for its current customers. However, it appears that this estimate is largely due to the expectation that policyholders currently purchasing plans that do not meet the ACA's coverage standards will switch coverage to the more generous plans that the ACA requires.

[11] 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%).
[12] For the same reference population: A 40-year-old single non-smoker in the Portland Metro area. See https://www.modahealth.com/plans/individual/121101/med_plans.shtml for detailed plan and premium information for Moda's current plans.

While Moda is to be commended for protecting consumers from price increases, maintaining price stability is not sufficient to ensure that consumers will be paying reasonable premium rates. Most experts estimate that one third or more of all health care spending is wasted on things that do not improve health.[13] It is critical for Moda to take all necessary steps to reduce the waste that contributes to medical cost inflation.

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.

[13] Institute of Medicine, Best Care at Lower Cost: The Path to Continuously Learning Health Care in America (2012), available at http://iom.edu/Reports/2012/Best-Care-at-Lower-Cost-The-Path-to-Continuously-Learning-Health-Care-in-America.aspx

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.	Not specified.	Not specified
"Medical Home" initiatives	Coordinated patient-centered care that focuses on prevention and keeping patients healthy and out of the ER.	Medical home pilot program mentioned but not described in detail.	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.	Not specified.	Reflected in plan relativities
Chronic disease management	Case management and other tools to improve the health of patients with chronic disease. [14]	Case management and care coordination programs mentioned but not described in detail.	Not specified
Reducing hospital readmissions	Working with providers to ensure that discharged patients have adequate follow up care.	Admissions reduction programs, length-of-stay review, post-hospitalization care management	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.	Not specified	Not specified

In its initial filing, Moda reported taking steps to reduce health care cost in ways that improve quality for patients in three of the six key areas we track. In response to OSPIRG Foundation questions, Moda provided some more information but did not outline any other initiatives or specify savings projections, goals or benchmarks.

The steps Moda reports to reduce health care cost in ways that improve quality for patients are not described in detail and their effectiveness is not supported with data. Moda has not provided estimates of total savings associated with these programs, or detailed the impact of these efforts on the quality of care. Moda also does not break down the savings from each cost containment effort, making it difficult to evaluate the success of these efforts, whether the savings are higher or lower than anticipated, and whether the efforts are effective at controlling costs in ways that maintain or improve quality.

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

There do appear to be encouraging efforts underway within those areas. They have programs in the area of case management and care coordination, and their medical home pilot programs are contributing to innovation in service delivery. However, without much more detailed savings and effectiveness data, it is not possible to evaluate the adequacy of the insurer's strategy.

We encourage the insurer to redouble its efforts in this critical area, while addressing the questions raised here to help the public and policyholders understand the breadth and depth of the company's cost and quality improvement programs. We additionally urge DCBS to encourage Moda 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

Moda has not adequately justified its proposed rates.

Many aspects of the filing appear reasonable, such as premium costs that are low relative to Moda's competition, a reasonable projected profit margin, and a number of cost containment and quality improvement programs.

However, OSPIRG Foundation is concerned that Moda has not provided enough data to support its projections of medical and prescription drug cost trends, 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 Moda 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.