

July, 2013

**Comments on the Health Net Life Insurance
Company Proposal to Submit New Plans, Effective
1 January, 2014.**

State Tracking Number: HAO-2013-0108

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

In May 2013, Covered California - the state marketplace for individual insurance policies created by the Affordable Care Act (ACA) - announced the insurance coverage plans that it will offer in 2014.¹ The new tiered policies include Bronze, Silver, Gold and Platinum—each providing different levels of out-of-pocket costs. The Platinum tier has the lowest deductibles and co-pays, but it comes with higher premiums. In contrast, the Bronze tier includes higher deductibles but significantly lower premiums.

An estimated five million Californians are eligible to buy health insurance from the exchange, including 2.6 million Californians who are eligible to receive subsidies, for the different “metal” (Platinum, Gold, Silver and Bronze) plans offered by the exchange. While premiums vary based on an individual’s age, where they live, household size and extent of coverage they want, for the first time consumers will be able to easily compare the different offers which all follow the same set of plan-guidelines. Specifically, all policies sold by Covered California must cover preventive care, prescription drugs, contraception, medical screenings such as mammograms, and other essential benefits including pediatric, mental health, maternity and rehabilitation services.

The California Public Interest Research Group (CALPIRG) Education Fund worked with the actuarial firm *NovaRest Actuarial Consulting* to analyze the rate filing with state tracking number HAO-2013-0108² submitted by Health Net Life Insurance Company to the California Department of Insurance.

In this filing, Health Net submitted five individual PPO plans available both on and off the health care exchange to be effective 1 January, 2014. This filing is for a new product, therefore there are no previous rates to compare these plans to. Moreover, since these plans are tailored to the Affordable Care Act’s requirements that go into effect starting January 1, 2014, including the guaranteed issue requirement to offer insurance to everyone who applies, it is not possible to make a direct comparison of these rates to existing premiums in the commercial market.

Instead Health Net relied in its filing on claims experience from the Small Group market which is currently guaranteed issue. Health Net used an average medical and pharmacy trend of 7.7% based on Health Net’s Commercial book of business. However, it appears that overall Health Net’s assumptions about future costs – while sufficiently documented – tend to be higher than other health insurance providers. A comparison to competing rate proposals submitted to the California Department of Managed Health Care (DMHC) for plans for the same group of consumers, meeting the same Affordable Care Act requirements shows that Health Net’s proposed rates are higher. For example, comparing a Bronze PPO plan for a 30-year-old individual in two different regions, Health Net’s proposed rates are clearly higher.

¹ Press Release: *Covered California Announces Plans and Rates for 2014*, Covered California, 23 May 2013. Available online at: <http://www.coveredca.com/news/press-releases/pr-05-23-13-plans-announced.html>

² Available online at:

https://interactive.web.insurance.ca.gov/apex/f?p=102:9:0::NO::P9_RATE_FILINGS_ID,P9_COMPANY_NAME,P9_REFERRING_PAGE_NUM:7607,Health%20Net%20Life%20Insurance%20Company,4&cs=16FDA54247E591EFDF83F502B7028D59A

Provider	Zone #4	Zone #15
Anthem Blue Cross ³	\$250.05	\$183.80
Kaiser ⁴	\$231.09	\$228.55
Health Net ⁵	\$305.08	\$220.24

Key Findings

1. Health Net's proposed rates appear to be unreasonably high.

CALPIRG Education Fund worked with the actuarial firm *NovaRest Actuarial Consulting* to review Health Net's filing and while we found it to be complete and with sufficient detail documenting the assumptions and methods used in setting proposed rates, overall the rates proposed appear to be unreasonably high when compared to identical products offered by competing health insurance providers.

2. Health Net's filing is based on higher than expected morbidity rates.

In its filing, Health Net predicts that future patients will require medical treatment at a rate 71.4% higher than patients did in 2012.⁶ While we recognize the contention surrounding efforts to predict future use of health care services, nonetheless this rate is high. For comparison, a Milliman report prepared for Covered California included a best estimate for the change in medical services used as 26.5%, with a maximum predicted increase of 40%.⁷ CALPIRG Education Fund is concerned that Health Net's morbidity rates are nearly double of best estimates and may therefore be unreasonable.

3. Subsidies may make Gold plans cheaper than lower rated plans.

CALPIRG Education Fund found that in order to assess the real consumer cost of each of these plans, it is not enough to look at the "sticker price" noted by Health Net. Consumers must also take into account state and federal subsidies that change according to household income, age, and geographic location. The table below illustrates the impact of subsidies on different metal plans, based on changes in income for a 27-year-old individual living in Alameda County (area #6):

		Gold		Silver		Bronze		Catastrophic * Not subsidized, and only available to people under 30 years old.
FPL Level	Annual income	Plan cost	What you pay	Plan cost	What you pay	Plan cost	What you pay	What you pay
150%	\$17,235	\$336.93	\$111.32	\$296.86	\$71.25	\$260.14	\$62.43	\$171.76
250%	\$28,725	\$336.93	\$277.56	\$296.86	\$237.49	\$260.14	\$208.11	\$171.76
400%	\$45,960	\$336.93	\$336.93	\$296.86	\$296.86	\$260.14	\$260.14	\$171.76

³ Blue Cross of California, DMHC Individual On and Off Exchange, SERFF Tr Num: AWLP-129043539, P.9. Available online at: <http://wpso.dmhc.ca.gov/ratereview/>

⁴ Kaiser Foundation Health Plan, Inc., KFHP Individual Plan HMO Rates Jan 2014, SERFF Tr Num: KHPI-129039751, Exhibit E-1 Att 2 FF2b KFHP Ind. HMO_5-30-13_Jan 2014. Available online at: <http://wpso.dmhc.ca.gov/ratereview/>

⁵ Health Net Life Insurance Company, IFP PPO P30601 (CA 1/14) IEX, State Tr Num: HAO-2013-0108, p. 19 & 42. Available online at: <https://interactive.web.insurance.ca.gov>

⁶ Health Net Life Insurance Company, IFP PPO P30601 (CA 1/14) IEX, State Tr Num: HAO-2013-0108, p. 47. Available online at: <https://interactive.web.insurance.ca.gov>

⁷ Factors Affecting Individual Premium Rates in 2014 for California, March 28, 2013, Figure 11: Estimated Premium Impact Due to Change Health Status Factor. Accessed online 1 July, 2013.

The above table illustrates that for an individual earning 150% of the Federal Poverty Level⁸ (FPL) it is cheaper to purchase the more extensive “Gold” coverage than the limited “Catastrophic” plan, once federal and state subsidies and tax rebates are taken into account. Similarly, for an individual earning 250% of FPL the real premium difference between the “Silver” and “Bronze” plans is less than \$30 per month. Consumers must therefore carefully consider their own circumstance, income, and location before choosing a health insurance plan via Covered California in order to get the most health insurance “bang” for their buck.

Key Features of the Proposal⁹

Filing at a Glance

- **Company:** Health Net, Inc
- **Product Name:** Standard Coinsurance Plans
- **Date Submitted:** 23 May, 2013
- **SERFF Tracking Number:** HNLI-129044832
- **State Tracking Num:** HAO-2013-0108
- **HHS Issuer Id:** 99110
- **Implementation Date Requested:** 1 January, 2014
- **Product Names:**
 - Health Net PPO Platinum \$20/\$0
 - Health Net PPO Gold \$30/\$0
 - Health Net PPO Silver \$45/\$2000
 - Health Net PPO Bronze \$60/\$5000
 - Health Net PPO Catastrophic \$0/\$6400
- **Trend Factors:** 7.7% annual trend

Company Rate Information

This is a new product, so information in is not available.

Prior Rate:

- **Total Earned Premium:** N/A
- **Total Incurred Claims:** N/A
- **Minimum Premium :** N/A
- **Maximum Premium:** N/A

Requested Rate

- **Projected Earned Premium:** \$276,727,968.00
- **Projected Incurred Claims:** \$205,374,493.00
- **Minimum Premium :** \$81.33
- **Maximum Premium :** \$1,192.50

⁸ The 2013 Poverty Guidelines for the 48 Contiguous States and the District of Columbia, accessed online at: <https://www.federalregister.gov/articles/2013/01/24/2013-01422/annual-update-of-the-hhs-poverty-guidelines#t-1>

Discussion of Rate Filing

In its filing, Health Net provided for the most part sufficient documentation of their assumptions and key data used to develop their proposed rates based on Health Net's experience in the small group market. The data, assumptions, rating factors, and methods used to determine the premium rates provided by Health Net to the California Department of Insurance in connection with this rate filing are in sufficient clarity and detail such that a qualified health actuary could make an objective appraisal of the reasonableness of the rates. Missing from Health Net's filing is information on the compensation of any officer, executive or employee. The Milliman actuarial memorandum states that this information was reviewed, but that these costs were considered as part of the overall administrative expense load and were not considered explicitly in the rate calculation for this filing. Health Net should have provided this information for review.

Due to the fact that 2014 plans are structured differently than most plans currently sold on the market, consumers' out-of-pocket expenses this year compared to last year will vary greatly depending on whether they had insurance, the type of insurance they previously had, and how often they used it. Some consumers will see their medical costs increase more than the rise in inflation, particularly those who are healthy and previously weren't paying for health insurance. However, these premium rates, combined with the limits on out-of-pocket costs and copays and the generous subsidies for low-income Californians, may result in a decrease in medical costs for many California families.

In its filing, the anticipated loss ratios exceed the 70% state minimum and the 80% ACA federal standard loss ratio minimum. Health Net projected the federal rebate medical loss ratio to be 81.6%, which falls within federal guidelines. This means that at least 81 cents of every premium dollar paid by consumers will go to actual care, rather than overhead or profits. If Health Net ends up spending less than 80 cents per premium dollar on care, under the federal law consumers will receive rebates for the difference.

The only risk classifications used by Health Net in this filing are age and geographic location, as defined by *Covered California* and the ACA. Rates vary depending on where Californians live. Likewise, rates are higher or lower depending on age. However, under the law, in an effort to make sure that insurance companies are providing reasonable rates to older Californians (and not just trying to cover the young and healthy), the rate for a 64-year-old can be no more than three times the rate for a 21-year-old. The rating factors applied result in a distribution of the proposed rate increase across the allowed risk categories under the guidance of *Covered California* and the ACA, and are reasonable and not overly burdensome on any particular individual or group.

However, it appears that overall Health Net's assumptions about future costs – while sufficiently documented – tend to be higher than other health insurance providers. A comparison to competing rate proposals submitted to the California Department of Managed Health Care (DMHC) for plans for the same group of consumers, meeting the same Affordable Care Act requirements shows that Health Net's proposed rates are higher. For example, comparing a Bronze PPO plan for a 30-year-old individual in two different regions, Health Net's proposed rates are clearly higher.

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In its filing, Health Net predicts that future patients will require medical treatment at a rate 71.4% higher than patients did in 2012.¹³ Even while recognizing the complex nature of attempts to predict future use of health care services, nonetheless this rate is high. For comparison, a Milliman report prepared for Covered California included a best estimate for the change in medical services used as 26.5%, with a maximum predicted increase of 40%¹⁴ CALPIRG Education Fund is concerned that Health Net’s morbidity rates are nearly double of best estimates and may therefore be unreasonable.

Conclusion

CALPIRG Education Fund worked with the actuarial firm *NovaRest Actuarial Consulting* to review Health Net’s filing and found it to include sufficient detail documenting the assumptions and methods used in setting proposed rates. However, some of the methodologies and assumptions used lead us to believe that the proposed rates are unreasonable. In light of all this, we respectfully urge the California Department of Insurance to request Health Net amend their proposed rates for plans under the California Health Benefit Exchange or make an official determination that the proposed rate change is unreasonable.

¹⁰ Blue Cross of California, DMHC Individual On and Off Exchange, SERFF Tr Num: AWLP-129043539, P.9. Available online at: <http://wpso.dmhc.ca.gov/ratereview/>

¹¹ Kaiser Foundation Health Plan, Inc., KFHP Individual Plan HMO Rates Jan 2014, SERFF Tr Num: KHPI-129039751, Exhibit E-1 Att 2 FF2b KFHP Ind. HMO_5-30-13_Jan 2014. Available online at: <http://wpso.dmhc.ca.gov/ratereview/>

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