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Comments on the Anthem Blue Cross Life and Health Insurance Company Proposal to Raise Rates on Grandfathered Individual Plans, Effective April 1, 2014

State Tracking Number: HAO-2013-0171

<u>Health Insurance Rate Watch</u>

A Project of CALPIRG Education Fund

Authors

Jonathan Fox, California Public Interest Research Group Education Fund
Emily Rusch, California Public Interest Research Group Education Fund

Expert Review

Laura Etherton, U.S. Public Interest Research Group Education Fund
Anthony Wright, Health Access California

Actuarial Analysis

Donna Novak, NovaRest Actuarial Consulting

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

Anthem Blue Cross has proposed rate increases as high as 24.9% for policyholders in their "grandfathered" health insurance plans that were established before the Affordable Care Act was signed into law. The rate changes average out to a 16 percent increase for 153,000 policyholders, impacting a total of 238,000 Californians currently covered under the plans. These plans are closed to new enrollees and do not have to meet many of the coverage requirements of the Affordable Care Act.

As part of our analysis, CALPIRG Education Fund reviewed Anthem's initial filing, as well as supplemental information Anthem provided in response to questions from the California Department of Insurance (CDI).

Our review found that Anthem failed to provide adequate justification for this rate increase. We respectfully urge CDI to amend the filing to provide this justification. The lack of sufficient information is especially concerning because the rate increase is so high and affects so many Californians.

Key Findings:

• The suggested average rate change of 16.4% is more than six times the cost of medical care inflation index, as calculated by the federal government.
• Anthem's projected medical trend appears to be overstated.
• Broad assumptions in Anthem's actuarial models may leave some consumers paying more than they should.
• Anthem has not adequately explained its projection for high administrative costs for these plans, which are closed to new enrollees.

The California Department of Insurance should demand a complete and thorough justification from Anthem in order to make an objective appraisal of the proposal. If Anthem is unable to provide sufficient justification then the average rate change should be substantially lower than the one they are proposing.

Key Features of the Proposal[1]

Filing at a Glance

- **Company:** Anthem Blue Cross Life and Health Insurance Company
- **Product Name:** ABCL&H Grandfathered Plans
- **Date Submitted:** 26 November, 2013
- **SERFF Tracking Number:** AWLP-129298020
- **State Tracking Num:** HAO-2013-0171
- **HHS Issuer Id:** 48962
- **Implementation Date Requested:** 1 April, 2014
- **Product Names:**
    1. Form R420 Individual PPO Plan
    2. Form T160 Individual PPO HSA Compatible Plan
    3. Form 1518 Basic PPO 1000
    4. Form 7900 Basic PPO 1000
    5. Form PE25 Basic PPO 1000 CLONE
    6. Form PE26 Basic PPO 1000 CLONE
    7. Form R418 Basic PPO 2500
    8. Form R419 Basic PPO 2500 CLONE
    9. Form DL96 CORE 5000
    10. [IND CDHP HSA], Lumenos HSA
    11. [IND CDHP HIA], Lumenos HIA
    12. [IND CDHP HIA Plus], Lumenos HIA Plus
    13. Form NM31 PPO Saver Plan
    14. Form PE27 PPO Saver Plan CLONE
    15. Form H062 PPO Share
    16. [PPO Share 5000-R], PPO Share
    17. Form 1929 PPO Share
    18. Form 1930 PPO Share
    19. Form P958 RightPlan PPO (No Rx Coverage option)
    20. Form PE48 RightPlan PPO (Generic Rx Coverage option)
    21. Form PE49 RightPlan PPO (Full Rx Coverage option)
    22. [RightPlan 500], RightPlan
    23. [INDSS] SmartSense
    24. Form T773 Tonik ($1,500 Deductible option) (DN13)
    25. Form T774 Tonik ($3,000 Deductible option) (DN14)
    26. Form T775 Tonik ($5,000 Deductible option) (DN15)
    27. [2010 Basic], ClearProtection
    28. [INDCoreGuard], CoreGuard

[1] 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:8187,\Anthem%20Blue%20Cross%20Life%20and%20Health%20Insurance%20Company\,4&cs=14F90EA5D3C5255A9D952CE4740A74C6E

- **Trend Factors:** 11.5% annual Medical Trend factor[2]

Company Rate Information

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:
Increase	16.400%	16.400%	$102,112,580	153,627	$622,637,680	24.9%	-26.9%

Product Type:	HMO	PPO	EPO	POS	HSA	HDHP	FFS
Covered Lives:		194,178			44,128		
Policy Holders:		131,191			22,436		

Requested rate change information:

- Change Period: Annual
- Member Months: 3,271,270
- Benefit Change: None
- Percent Change Requested: Min: -26.9 Max: 24.9 Avg: 16.4

Prior rate:

- Total Earned Premium: 622,637,680.00
- Total Incurred Claims: 485,571,641.00
- Annual $: Min: 149.92 Max: 372.83 Avg: 240.02

Requested rate:

- Projected Earned Premium: $409,290,607.00
- Projected Incurred Claims: $308,427,195.00
- Minimum Premium : $177.03
- Maximum Premium : $437.18
- Average Premium: $282.11

[2] Anthem reduced the medical trend factor to 10%, based on updated experience, in subsequent submissions to the Department of Insurance.

Discussion of Rate Filing

As of January 2014, most health insurance plans sold inside and outside Covered California must meet minimum coverage standards. Specifically, all plans 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 exceptions, however, are "grandfathered"[3] plans that existed before the Affordable Care Act became law on March 23rd 2010. These plans must still meet some of the ACA's requirements – such as providing an easy-to-understand Summary of Benefits and Coverage (SBC) of what a plan covers and costs and excluding lifetime limits on coverage. Yet under the ACA grandfathered plans are not required to provide important elements such as free preventive care or to protect consumers' choice of doctors and access to emergency care.

1. Anthem has not shown adequate justification for the proposed rate increase.

Anthem failed to publicly disclose all necessary information in the initial filing to the California Department of Insurance, and continues to withhold full documentation from public view that it claims show the rate increase is justified.

From the documents provided, it appears that Anthem's independent actuarial firm, *Actuarial Services & Financial Modeling Inc.*, requested additional information in order to complete its analysis of the rate filing. While it seems that this information was provided to the independent actuarial firm, it was not provided to the CDI in the initial rate filing. Some of the items in Anthem's independent actuary report that were not supported by Anthem's actuarial memorandum included (but were not limited to):

1) Normalization of base period data for benefit plan mix, benefit plan changes, policy duration, and aging;
2) Seasonality factor analysis and support;
3) Benefit plan changes;
4) Development of the ACA insurer fee; and
5) Information regarding the structure and methodology used in the LLR Model that Anthem uses for rate development.

Upon request, Anthem provided some supplemental information to CDI, which has been made publicly available. However, it appears that Anthem did not supply information at the level of detail provided to its independent actuarial firm.

2. Anthem may be overestimating medical trend.

We are concerned that the proposed medical trend overestimates what this pool of customers will spend on health care in the coming year.

[3] To learn more, see : https://www.healthcare.gov/what-if-i-have-a-grandfathered-health-plan/

In its initial rate filing, Anthem claimed a high medical trend of 11.5 percent without providing adequate justification. Anthem's explanation of how it developed the high medical trend did not indicate that trends were analyzed at the level of granularity that would improve their accuracy, for example by looking at historic inpatient, outpatient, physician and cost data compared to utilization. Instead it appeared that the medical trend was devolved based on total medical claims in impacted plans. Furthermore, it appeared that Anthem's independent actuary had information not initially made available to the CDI to support the rate filing.

In the supplemental information given to the Department, Anthem adjusted the medical trend downward to 10% based on "updated experience." Additionally, Anthem did confirm that they looked at details including historic inpatient, outpatient, physician and cost data compared to utilization. However, Anthem chose to set their medical trend based on the combined experience of both their grandfathered plans and non-grandfathered plans. A pool of 153,000 policyholders is a large enough pool of customers to be credible, making it possible to base the medical trend only on the experience inside the grandfathered plans. Using just the experience inside the grandfathered plans and based on the numbers that Anthem provided, it appears that the medical trend should be adjusted down to 9 percent.

3. Anthem may be disproportionately shifting costs onto some consumers, which may lead to adverse selection.

The same medical trend assumption was used across all the insurance products in Anthem's filing, rather than addressing specific plans. This broad assumption across all plans overstates the trend for plans with lower fixed cost-sharing, such as deductibles, and understates the trend for higher fixed cost-sharing plans. This is due to Anthem applying a "deductible leveraging" factor for the trend for all the plans, when in reality this factor should vary by the level of the cost-sharing. In practice, Anthem's inappropriate calculations mean that some policy holders with low deductibles may pay too much while others with high deductibles may pay too little.

In addition to being inaccurate, this practice may also have adverse selection implications. If rates are raised excessively for people in low cost sharing plans, who tend to be the older and less healthy people, it may push them to drop coverage and seek coverage through Covered California. Likewise, if rates are suppressed for people in high cost-sharing plans, who tend to be younger and healthier, these people may be less likely to seek coverage elsewhere.

As noted above, the claims experience for grandfathered plans may improve as the less healthy members move to richer plans available on the California health care exchange. This trend does not appear to have been considered in the development of the demographic factor, and may therefore be inaccurate.

In addition, we note that in the initial filing Anthem did not include quantitative documentation to support the claims demographic factor of 3.1 percent. We appreciate that Anthem supplied this information in the supplemental information.

4. Anthem's grandfathered plans devote less than 80 percent of premiums to care.

Anthem's administrative expenses appear quite high and the company has not provided adequate detail to justify them.

The target traditional medical loss ratio for the plans in Anthem's filing are 75.3 percent and the projected medical loss ratio using the ACA formula is 83.7 percent for Anthem's entire individual block in California. This gives the CALPIRG Education Fund reason to believe that with this particular group of individual insurance plans, Anthem may spend a lower portion of the premium than it should on medical care, and may devote too much on administrative costs and surplus. This is puzzling because these plans are closed to new enrollees, eliminating the need for marketing and enrollment costs.

In the supplemental information Anthem provided, it explained that broker commissions make up 6.5 percent of the rates. This appears high, given the fact that these are closed plans. The brokers are not enrolling new customers and renewal commissions are typically quite a bit lower. Anthem did not to provide further explanation to justify these high broker commission costs, and without having access to additional detail we are concerned they may be too high, causing premium rates to rise unreasonably.

5. Anthem's rate increase is more than six times the rate of medical cost inflation.

Anthem's requested average rate increase of 16.5 percent is more the six times greater than the U.S. Bureau of Labor Statistics Consumer Price Index (CPI) for medical care.[4] The fact that Anthem's proposed rate increase so greatly exceeds the medical CPI underscores the need for thorough support and documentation to justify Anthem's rate increase proposal. The CALPIRG Education Fund does not believe the current filing provides adequate information to justify the proposed rate increases.

6. Anthem did not provide sufficient information regarding which policy holders will enjoy premium decreases.

In its initial filing, Anthem states that some policy holders will enjoy a reduction of up to 26.9 percent less than their current rates. However, Anthem provided no information regarding which policyholders will be receiving decreases from their current rates.

Supplemental information revealed that a small percentage of customers would receive a rate decrease, although we do not see any customer groups that would get a reduction of that size.

7. Rate increases for these grandfathered plans merit close scrutiny given the recent changes in the broader insurance marketplace.

These grandfathered plans do not have to meet the minimum benefit requirements that other plans have to meet under the ACA. Plans are closed to new entrants, eliminating marketing and enrollment costs. And plan holders who use more medical care may choose to leave these plans for more robust plans newly offered in 2014. These factors are additional reasons for closer scrutiny of the proposed rates.

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[4] http://www.forecast-chart.com/inflation-medical-care-cost.html

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 inadequately supported assumptions, broker commission fees that appear too high, and a medical trend that may be overstated.

This is the second rate increase filing Anthem has submitted to date for individual plans in 2014 (on top of the previous four rate increases in 2013). If this rate increase moves ahead, it will mark the second time in a year that Anthem will raise rates on Californians with individual insurance policies, and the cumulative impact of these increases may be excessive.

The fact that this large increase will affect over 153,000 policy holders means Anthem should maintain the highest levels of transparency in justifying the necessity and prudence of this rate hike.

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.