CALPIRG Education Fund Comments on Blue Shield Rate Filing HAO-2014-0231
December 11, 2014

Blue Shield has proposed rate increases as high as 9.7 percent for policyholders in its "grandfathered" health insurance plans, those that were established before the Affordable Care Act was signed into law.

The proposed rate changes affect 40,070 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.

These proposed rate hikes are on top of a 9.8 percent average rate hike in January 2014, an 11.7 percent average rate hike in March 2013, and a 7.9 percent average rate hike in March 2012.

As part of our analysis, CALPIRG Education Fund reviewed Blue Shield's initial filing, as well as supplemental information Blue Shield provided in response to questions from the California Department of Insurance.[1]

Our review found that Blue Shield failed to provide adequate justification for this rate increase. Below we lay out our remaining questions and concerns, given the information provided by Blue Shield to date. We respectfully urge the California Department of Insurance to require Blue Shield to amend the filing to provide this justification.

Basing Calculations on a Population Other Than the Covered Population
We are concerned that the rates proposed may not accurately reflect the changing population covered by this plan. The number of people enrolled in this plan declined considerably in previous years and is projected to decline by 23 percent in 2015. However, the historical enrollment trends that Blue Shield is using for its proposed rate increase for this plan are based on the company's customer base in the aggregate.

The rates do not appear to accurately account for differences between these two groups of customers.

This is particularly concerning because Blue Shield's proposed rates assume that this group of customers will use more health care than in years past, contrary to prevailing wisdom about grandfathered plans. In the supplemental filing information provided, Blue Shield notes that allowed total utilization increased 1.3% in the 2009-10, 2.1% in 2010-11, 1.5% in 2011-12, 1.2% in 2012-13, and 2.3% in 2013-14. They propose a 2.3% utilization increase in 2014-15.

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[1] All information in these comments is based on documents provided by Blue Shield of California Life & Health Insurance Company, Filing # BCCA-129758463, State Tracking # HAO-2014-0231, available 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:8948,\Blue%20Shield%20of%20California%20Life%20%26%20Health%20Insurance%20Company\,4&cs=19EB00AA77FC6C786F771ED7A07590A6F.

Without seeing more information, we are concerned that Blue Shield is overstating the health care costs for customers remaining with this grandfathered plan.

Potentially Overstating Morbidity Rates and Active Life Reserves

Insurance companies use morbidity assumptions to predict the average population health status and therefore cost of health care. Grandfathered plans such as these should show improving morbidity rates, as the sickest customers move to more comprehensive plans with better benefits. Blue Shield notes in their supplemental filing responses that "reduce[d] the residual trend by 3% in anticipation for improved residual trends on the closed Grandfathered block." Based on the information provided, it's unclear to us whether that is the appropriate calculation to use for this group of customers.

Another factor for our concern about this proposed rate increase is that Blue Shield may be overstating is its Active Life Reserves, which are reserves set up by the insurance company to accommodate morbidity compared to morbidity at initial purchase. Blue Shield should provide more information regarding its calculation of the active life reserves, as these are part of the incurred claims and can greatly affect the pricing. We are concerned that they may be overstated.

High Drug and Mental Health Increases

Blue Shield projects that prescription drugs will cost significantly more and be used slightly more, driving up prescription drug costs by 17 percent and 18 percent year after year. While we acknowledge that there are new, higher-priced drugs that have recently arrived on the marketplace, Blue Shield's cost trends are on the high end of what we have seen in other recent rate filings. For example, Health Net's prescription drug trend was 10.6% in their most recent filing for individual plans.[2] The high prescription drug costs deserve additional scrutiny.

Additionally, Blue Shield projects that costs for mental health care will increase 7.7 percent in 2015 compared to 2014, when they already increased 43.7 percent from 2013 to 2014. This seems high and deserves further scrutiny.

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

These comments were prepared by Emily Rusch, Executive Director, CALPIRG Education Fund

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[2] Health Net Life Insurance Company, Filing #:HNLI-129750181, State Tracking #:HAO-2014-0229, found 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:8929,%5CHealth%20Net%20Life%20Insurance%20Company%5C,4&cs=1A6323A5A4C41F84783B55244B8E4FB07

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