



## **Comments on the Anthem Blue Cross Life and Health Insurance Company Proposal to Raise Rates on Grandfathered Individual Plans, Effective April 1, 2015**

**State Tracking Number: HAO-2014-0253**

Health Insurance Rate Watch

*A Project of CALPIRG Education Fund*

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Anthem Blue Cross Life and Health Insurance Company has proposed increasing rates on April 1, 2015 for a number of “grandfathered” health insurance plans.<sup>1</sup> The average proposed rate increase for these plans is 8.7 percent, but for some customers the increase could be as high as 24.9 percent.<sup>2</sup> The benefits offered by the plans would not change. Nearly 170,000 people obtain their health insurance through these 28 grandfathered plans.

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 its proposed rate increase. We respectfully urge CDI to seek 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 proposed.

### **1. Anthem’s anticipated spending on administrative and non-medical costs is too high.**

In its proposed rate increase filing, Anthem’s projected 2015 medical loss ratio<sup>3</sup> is low, and the filing lacks adequate justification for why an established plan has such high non-medical costs.

The target traditional medical loss ratio for the plans in Anthem’s filing is 74.7 percent.<sup>4</sup> Using the ACA method for calculating the medical loss ratio, the ratio is 80.4 percent, barely above the ACA’s minimum requirement of 80.0 percent.<sup>5</sup>

This low medical loss ratio suggests that Anthem may spend a smaller portion of premiums than it should on medical care, and too much on administrative costs and surplus. Because these plans are closed to new enrollees and thus do not have marketing or enrollment expenses, Anthem should have lower administrative costs and a higher medical loss ratio than for other individual plans.

Yet, compared to all individual plans offered by Anthem, the grandfathered plans in this rate proposal have only slightly higher medical loss ratios. In 2015, Anthem projects its medical loss ratio for all individual insurance plans will be 79.6 percent, up from an estimated 76.6 percent in 2014.<sup>6</sup>

### **2. Anthem may be overestimating medical trend.**

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<sup>1</sup> “Grandfathered” plans are those that existed before the Affordable Care Act (ACA) became law in March 2010. These plans must still meet some of the ACA’s requirements – such as providing an easy-to-understand summary 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. Grandfathered plans are closed to new members.

<sup>2</sup> Anthem Blue Cross Life and Health Insurance Company, *H161 Individual Health - Major Medical/H161.005A Individual - Preferred Provider (PPO), Initial Filing, Part 1 of 2*, 26 November 2014, 3-4.

<sup>3</sup> Medical loss ratio is the portion of member premiums spent on care instead of administrative and sales expenses and profit.

<sup>4</sup> Anthem Blue Cross Life and Health Insurance Company, *H161 Individual Health - Major Medical/H161.005A Individual - Preferred Provider (PPO), Initial Filing, Part 1 of 2*, 26 November 2014, 177.

<sup>5</sup> Anthem Blue Cross Life and Health Insurance Company, *H161 Individual Health - Major Medical/H161.005A Individual - Preferred Provider (PPO), Initial Filing, Part 1 of 2*, 26 November 2014, 171.

<sup>6</sup> Anthem Blue Cross Life and Health Insurance Company, *H161 Individual Health - Major Medical/H161.005A Individual - Preferred Provider (PPO), Supplemental Filing*, 19 December 2014, 16.

The projected medical trend<sup>7</sup> may overestimate what Anthem will need to spend on health care for customers in these grandfathered plans in the coming year.

Anthem projects a medical trend of 9.5 percent without providing adequate justification. The trend is based on “data for various benefit plans and/or product categories based on corporate and possibly industry and/or macroeconomic health care data,” rather than using historic inpatient, outpatient and physician use and cost data for members of these grandfathered plans.<sup>8</sup> A pool of 170,000 members 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.

In addition, Anthem does not adequately discuss how the mix of members in these plans may be changing and affecting medical trend. Membership in these grandfathered plans declined by 65 percent from April 2013 and April 2014, and Anthem expects additional declines in enrollment as members leave grandfathered plans for ACA plans with richer benefits.<sup>9</sup>

### **3. Anthem’s rate increase is more than three times the rate of medical cost inflation.**

Anthem’s requested average rate increase of 8.7 percent is more the three times greater than the U.S. Bureau of Labor Statistics’ medical care cost inflation index. (Medical cost inflation in 2013 for urban customers was 2.5 percent.) This year’s proposed rate increase comes on the heels of a rate increase last year that was six times higher than the inflation rate for medical care.<sup>10</sup>

The fact that Anthem’s proposed rate increase so greatly exceeds the medical inflation rate underscores the need for thorough support and documentation to justify Anthem’s rate increase proposal.

### **4. The proposed rate increase for 2015 is on top of multi-year, double-digit increases.**

This year’s proposed rate increase is in addition to double-digit rate increases for the past two years. In February 2013, Anthem increased rates on this block of grandfathered plans by 10.3 percent.<sup>11</sup> Rates rose another 16.4 percent in April 2014. Many of the plans also were subject to 9.3 to 12.6 percent rate increases in 2012. CALPIRG Education Fund does not believe the current filing provides adequate information to justify the proposed rate increases.

### **5. Anthem did not provide sufficient information regarding which policyholders will enjoy premium decreases or suffer the biggest increases.**

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<sup>7</sup> Medical trend is the change in medical cost, calculated as the change in medical utilization times the change in the cost of that medical care.

<sup>8</sup> Anthem Blue Cross Life and Health Insurance Company, *H161 Individual Health - Major Medical/H161.005A Individual - Preferred Provider (PPO), Initial Filing, Part 1 of 2*, 26 November 2014, 161.

<sup>9</sup> Anthem Blue Cross Life and Health Insurance Company, *H161 Individual Health - Major Medical/H161.005A Individual - Preferred Provider (PPO), Supplemental Filing*, 19 December 2014, 14-15.

<sup>10</sup> CALPIRG Education Fund, *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*, February 2014.

<sup>11</sup> Anthem Blue Cross Life and Health Insurance Company, *H161 Individual Health - Major Medical/H161.005A Individual - Preferred Provider (PPO), Supplemental Filing*, 19 December 2014, 8.

In its initial filing, Anthem states that 1.5 percent of policyholders will enjoy a reduction from their current rates.<sup>12</sup> However, Anthem provided no information regarding which policyholders will be receiving decreases from their current rates. Conversely, Anthem does not make clear which 2.5 percent of its members will face a 24.4 percent to 24.9 percent increase in rates.

In conclusion, 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. A rate increase that will affect nearly 170,000 members should be held to the highest levels of transparency. Therefore, 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. If Anthem is unable to do so, this filing should be declared unreasonable.

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<sup>12</sup> Anthem Blue Cross Life and Health Insurance Company, *H16I Individual Health - Major Medical/H16I.005A Individual - Preferred Provider (PPO), Initial Filing, Part 1 of 2*, 26 November 2014, 212.