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Comments on the PacificSource Health Plan Proposal for Individual Health Rates Effective January 2016

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Health Insurance Rate Watch
A Project of OSPIRG Foundation

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The authors bear responsibility for any 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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[1] Ms. Sobel has moved on from Consumers Union and we are currently seeking to replace her on the Advisory Committee with one of her colleagues.

Executive Summary

PacificSource Health Plan members with individual health insurance plans will see rate hikes of 42.7% on average, and as high as 60.4%, if the premium rate hike proposed by PacificSource goes forward.

PacificSource's increase is the largest proposed by a major health insurance carrier in Oregon's individual market since 2010, when new rules heightening scrutiny of health insurance rates were implemented.

The main reason given for this increase is the insurer's claim that the health status of the customers it enrolled in 2014 was much worse than anticipated, leading to higher costs and financial losses for the insurer. The insurer also projects that medical costs will rise by 5.5%, and that prescription drug costs will rise by 16%.

After analysis of PacificSource's initial filing and the supplemental information provided, we acknowledge some of the factors that concern PacificSource and that prompted the rate hike proposal. However, on balance, we are concerned that the insurer's specific proposal may be overreacting to short-term market fluctuations that are still playing themselves out, while also underestimating the company's ability to take a longer term approach, at significant cost for many Oregon families and individuals. This, plus our finding that the insurer has not provided sufficient evidence to justify some elements of the case for a rate hike, makes us concerned that the proposed rate increase is not entirely justified.

Key Findings:

- **A 42.7% increase would have a significant negative impact on affected Oregonians, representing more than $2,000 in additional premium costs per year for many PacificSource members.** A 42.7% increase would be nearly 24 times the rate of inflation in the broader economy and more than 16 times the rate of inflation in the cost of medical services.[2] Such a large increase would be highly disruptive for consumers and does not seem consistent with PacificSource's stated intent to "maintain rate stability and prevent future excessive rate increases for this line of business."

- **Despite financial losses in 2014, PacificSource's financial position remains strong.** PacificSource is also proposing to add to its surplus while also proposing one of the largest rate increases in recent Oregon history. The insurer's risk-based capital ratio, a key measure of solvency, improved by 3% in 2014[3] despite reported losses of 2% of total premium income. This means that the insurer could take a more moderate approach to increasing rates to avoid a large, disruptive rate increase in 2016, and that it may be appropriate for its surplus margin to be reduced or removed to provide some premiums relief for PacificSource members.

- **PacificSource's cost projections for covering their current members and future enrollees may be overestimated.** While the cost of covering the new members that enrolled in health coverage in 2014 may be higher than PacificSource initially projected, there are reasons to believe that these costs will go down in future years. PacificSource acknowledges this to some degree, but it is possible that PacificSource is prematurely overcorrecting before it is widely understood how the market will

[2] Source: US Department of Labor, April 2015 CPI report, http://www.bls.gov/news.release/cpi.nr0.htm
[3] The RBC ratio went from 381.7% in 2013 to 394.3% in 2014.

develop. Many of the Oregonians who signed up for coverage in 2014 had been unable to access coverage in prior years due to pre-existing medical conditions. The cost of providing medical services to individuals who have been blocked from coverage for many years is likely to go down in future years as those conditions require fewer acute interventions and become more manageable with ongoing treatment.

- **PacificSource's projection that prescription drug costs will increase by 16% is higher than many of their competitors, and insufficiently supported.** The insurer attributes this increase to a spike in specialty drug costs, but does not provide sufficient explanation for this effect, especially given the company's statement that it had very limited exposure to the high cost of new drugs for Hepatitis C., which is one of the most frequently-cited recent drivers of prescription drug costs.

- **It is unclear from the information provided whether PacificSource is sufficiently adjusting its cost projections to reflect reductions in "bad debt" from the Affordable Care Act's expansion of coverage.** Recent public filings from Oregon hospitals demonstrate record-low levels of uncompensated care resulting in large hospital profit margins across the state, and these cost savings should be shared with consumers through lower hospital costs and lower premiums. PacificSource claims that these savings are incorporated into its medical cost trend projections but does not provide a specific estimate of the savings. With many Oregon hospitals posting margins of 10% or more, the potential savings are dramatic, but consumers will not benefit unless the savings are appropriately incorporated into premium rates.

- **When it comes to reducing costs and improving the quality of care, it is not clear that PacificSource is doing all it can**. Metrics submitted in the filing indicate that PacificSource's ER costs and utilization for 2014 were much higher than the previous year, and inpatient hospital costs doubled on a per member, per month basis. While this is consistent with the insurer's claim that 2014 costs were higher than expected, it is unclear from the information submitted in the filing whether the insurer is doing enough to keep its members healthy and out hospitals and emergency departments. It is also unclear whether PacificSource is adequately taking into account the projected savings impact of cost containment efforts in their rate calculation.[4] Further inquiry should be made to ensure PacificSource is doing everything possible to cut waste and improve quality of care, and pass the savings on to their members.

Before deciding to approve, deny or modify this rate request, we urge the Oregon Department of Consumer and Business Services (DCBS) to scrutinize the issues raised here, require PacificSource to provide all documentation necessary to evaluate their proposal, and to implement a concrete, achievable plan to contain costs for Oregon individuals and families.

[4] For example, in response to OSPIRG Foundation questions, PacificSource states that they project a total savings of $2 million across its commercial membership during calendar year 2015 from new utilization management strategies. It is not clear from the information provided if and how these savings are reflected in the proposed rates.

Key Features & Insurer Information

Key features of the rate proposal

State tracking # for this filing	PCSR-130009954
Name of health insurance company	PacificSource Health Plans
Type of insurance	Individual

Proposed Rates*

	Rate	Increase from 2015
Standard Bronze	$323	56%
Standard Silver	$405	56%
Standard Gold	$494	56%
% premium to be spent on medical costs		86.20%
% premium to be spent on administrative costs		11.80%
% premium to be spent on profits		2.00%

Insurer's history of rate increases

	Requested	Approved
2010	6.70%	6.70%
2011	5.00%	3.90%
2012	7.70%	7.70%
2013	N/A**	N/A**
2014	15.90%	3.90%

Basis for rate - Key factors

Medical cost trend	5.50%
Rx cost trend	16.00%
Cost due to health status of new customers	30.10%

Enrollment

Year	Members
2009	10,242
2010	11,114
2011	11,398
2012	12,788
2013	15,391
2014	12,056
2015	8,216

Insurer information

Basic Information

For profit or non-profit:	Non-profit
State domiciled in:	Oregon

Insurer's financial position

Year	2014
Surplus	$148,100,000
Investment earnings	$3,800,000

Surplus History

Year	Amount in Surplus
2008	$93,200,000
2009	$107,100,000
2010	$114,100,000
2011	$125,700,000
2012	$126,300,000
2013	$151,300,000

*To enable easy comparison with other insurers, "proposed rates" are for a benchmark population--a 40-year old nonsmoker in the Portland area
Since many PacificSource members are outside the Portland metro area, this benchmark is not fully representative of the rate proposal.
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
**Due to new consumer protections and coverage standards in the ACA, it is not possible to make an apples-to-apples comparison between the rates filed in 2013 and the rates filed in previous years.

Introduction and Background

Oregon's health insurance rate review program, administered by the Insurance Division of 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.

When health insurers in Oregon wish to increase their rates on small businesses or people purchasing coverage on their own, they must submit a detailed proposal to DCBS laying out the justification for a rate hike. DCBS then determines whether the proposal is reasonable and approves, disapproves or modifies the proposed rate.

In 2011, DCBS created a formal process for a consumer organization to analyze and comment on rate filings from a consumer perspective, supported by a grant of federal funds. OSPIRG Foundation has been the contracted organization under that program since November of 2011.

As part of this ongoing project, OSPIRG Foundation worked with the actuarial firm AIS Risk Consultants to analyze PacificSource'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 PacificSource.[5]

Health care in Oregon is undergoing major changes. As of 2014, insurers are no longer allowed to deny coverage to people with pre-existing conditions, and many Oregonians are receiving financial assistance to help pay for coverage. Also starting that year, many Americans were required to have health coverage or pay a penalty; this penalty is scheduled to increase next year. 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.

At the same time, studies consistently show that as much as a third of every dollar spent on health care is wasted on something that does not improve health.[6] With rising costs making health care unaffordable for many Oregonians, Oregon needs all insurance companies to redouble their efforts to contain costs by cutting waste and focusing on prevention and other proven strategies that keep patients healthier.

While health insurance rate review cannot solve the myriad problems facing our health care system on its own, rate review does provide an opportunity to strengthen accountability for insurance companies—to ensure that rates do not go up for consumers unless increases are fully justified, and unless insurers are putting in a meaningful effort to keep down costs and improve quality.

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

[5] As part of this process, OSPIRG Foundation submitted questions to the insurer on May 26. PacificSource provided responses on June 2.

[6] 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

New member costs in 2014, 2015 and 2016

The main reason PacificSource provides for its proposed increase is the insurer's claim that the health status of the customers it enrolled in 2014 was much worse than anticipated, leading to higher costs and financial losses for the insurer. 30.1% of PacificSource's proposed rate hike is attributed to these unexpectedly large costs.[7]

We do not dispute that the cost of covering the new members that enrolled in health coverage in 2014 was higher than PacificSource initially projected. However, there are reasons to believe that these costs will go down in future years. More specifically, we are concerned that PacificSource may be overestimating the degree to which "pent-up demand" will continue to drive up utilization and costs, while possibly underestimating the number and degree to which younger, healthier people will sign up in the coming years.

We acknowledge that some degree of educated estimation is always inherent in making business decisions such as these when historical data is scarce. However, the aggressive approach to raising rates that PacificSource has chosen could have major negative consequences for consumers. Thus, we encourage DCBS to consider if a more moderate approach is also supported by the facts, and if the marketplace would be better served by a more moderate approach until market conditions stabilize

Regarding the insurer's projections of pent-up demand: Many of the Oregonians who signed up for coverage in 2014 had been unable to access coverage in prior years due to pre-existing medical conditions. The cost of providing medical services to individuals who have been blocked from coverage for many years is likely to go down in future years as those conditions require fewer acute interventions and become more manageable with ongoing treatment. PacificSource's filing incorporates a 7% reduction due to this factor,[8] but it is unclear whether this is sufficient, especially given the company's own internal estimate that the impact could be 11%.[9]

PacificSource also may not be adequately accounting for the lower cost of covering future enrollees. Many market experts expect that the mix of customers enrolling in health coverage in 2015 and 2016 will be younger and healthier than those who signed up for 2014, which may bring down costs.[10] This is especially true in Oregon, where the technological problems with the Cover Oregon web portal likely suppressed the enrollment of younger, healthier Oregonians. As a result, only the most motivated consumers—those with serious medical needs—were the most likely to enroll in 2014.

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[7] This projection is significantly larger than some of PacificSource's competitors, for unclear reasons. For example, Regence BlueCross BlueShield and Moda Health Plan project 11.9% and 22.8% increases due to this factor, respectively.

[8] The 7% reduction is applied to adjust the morbidity of the newly insured in 2014 to a 2016 basis. This value is incorporated as part of the overall change in market morbidity factor of 0.9605 (i.e., - 3.95%)

[9] This estimate is cited in PacificSource's response to questions submitted by DCBS on May 14.

[10] This is a generally recognized actuarial concept, as expressed by the American Academy of Actuaries: "In general, higher-cost individuals are more likely to enroll early during the open enrollment period and in the first year of the program. Lower-cost individuals are more likely to enroll later during the open enrollment period and perhaps in later years as the individual mandate penalty increases." - "Drivers of 2015 Health Insurance Premium Changes," available at http://www.actuary.org/content/actuaries-shed-light-2015-health-insurance-premium-changes

Specifically, PacificSource projects that 10,000 newly insured individuals will enter the market in 2015 and 2016, respectively. [11] The insurer also projects that the newly insured individuals in 2015 will be 41% more expensive to cover than the market average in 2013, while newly insured individuals in 2016 will be 25% more expensive.

These projections are noticably lower than some of PacificSource's competitors. For example, Regence projects that there will be an additional 120,000 in the Oregon ACA-compliant individual market during 2016 compared to 2014, with 50,000 coming from non-ACA compliant plans and 70,000 from the currently uninsured.

PacificSource's filing does incorporate a 3.95% reduction due to projected improvements in the health status of members in the individual market. However, this is lower than many of its competitors,[12] for unclear reasons.

In addition, it is unclear whether these projections are consistent with the insurer's response to questions from OSPIRG Foundation on this issue. The insurer stated that small group data was used to calculate the health status of 2016 members, arguing that since the small group market has not barred enrollment due to pre-existing conditions, its experience should be similar to that of the individual market in future years. If this is the case, however, then it is unclear why PacificSource is proposing a much higher rate for its individual plans than for its small group plans—a 13.7% difference.[13]

Insurer's financial position

Despite financial losses in 2014, PacificSource's financial position remains strong. The insurer's risk-based capital ratio, a key measure of solvency, improved by 3% in 2014 despite reported losses of 2% of total premium income. PacificSource's capital and surplus dropped from $151 million in 2013 to $148 million in 2014, but its risk based capital requirements also declined, buoying the stability of the company in spite of losses.

This strong financial position means that the insurer could potentially take a more moderate approach to increasing rates to avoid a large, disruptive rate increase in 2016. PacificSource states in its filing that "A strong capital position has allowed the company to avoid large fluctuations in rate levels in the past." Since a 42.7% rate hike would represent a very large rate fluctuation, we urge DCBS to better understand why the insurer would not use its favorable capital position to mitigate the impact on consumers in this instance as well.

This line of inquiry is critical since, as discussed above, there is reason to believe that a number of factors contributing to the high costs facing insurers in Oregon's individual market in 2014 were one-

[11] In response to OSPIRG Foundation questions, PacificSource attributes its projections about new market entrants to the Cover Oregon budget. It is unclear from the information provided whether this budget adequately accounts for the factors raised here. In addition, since Oregon's state-based health insurance exchange is required to be self-sufficient based on fees, and does not have a large surplus to cushion for unexpected losses, its projections of future enrollment may be excessively conservative as a point of comparison for a major health insurer.
[12] For example, Regence uses an 8% reduction in overall market morbidity from 2014 to 2016.
[13] If the insurer's proposed rates are approved, a 40-year-old Portlander on a small group Oregon Standard Silver plan would pay $356 a month, while the same individual would pay $405 for an identical plan in the Individual market.

time occurrences, or will gradually decline in coming years. It could be appropriate for Oregon insurers to take advantage of their surpluses to smooth out rate increases over the next few years – or at least until the previously-discussed market trends are better understood. Smoothing out unexpected cost spikes is one of the primary rationales for insurers to maintain large surpluses.

We also urge DCBS to consider whether it is appropriate for PacificSource to contribute to growing its surplus at this time. Even in the absence of a 2% margin from underwriting, PacificSource could still expect surplus to increase from investment gains. During 2013 and 2014, PacificSource had investment gains of $18.4 million and $3.9 million, respectively.[14] While a 2% contribution to surplus would not be unreasonable in the context of a rate hike closer to the historical average, proposing a contribution to surplus in the context of a 42.7% increase merits close scrutiny.

Prescription drug cost trends

Increasing prescription drug costs are a growing concern for consumers, employers and health insurers alike. Many insurers are attributing a significant portion of their proposed rate hikes for 2016 to the high cost of prescription drugs, including several blockbuster specialty drugs new to the market in the past year with extraordinarily high sticker prices, such as the Hepatitis C drug Solvaldi.

However, PacificSource's projection that prescription drug costs will increase by 16% isn't entirely supported by the information in the filing. That figure is higher than many of their competitors[15] and higher than that indicated from independent sources.[16] In addition, a 16% annual drug trends seems at odds with PacificSource's claim that "[w]hen we have implemented a more evidence-based formulary, we have been able to blunt the rising cost of pharmaceutical expenditures by ~5%."[17]

The insurer attributes this increase to a spike in specialty drug costs, but does not provide the specific trend figure for this drug category. We can, however, estimate a range for this figure based on other information in this filing. In doing so, we are not convinced that the information provided justifies the projection.

Because the insurer's stated non-specialty prescription drug cost trend is 4.5%, and it is reasonable to assume that the majority of PacificSource's prescription drug utilization is for non-specialty drugs (since specialty drugs are generally needed only for relatively rare conditions), we can guess that the insurer's projected specialty drug trend may be in the range of 35% to 40% annually.[18]

This very large trend projection merits scrutiny, especially given PacificSource's statement that it had very limited exposure to the high cost of new drugs for Hepatitis C, widely cited as one of the largest

[14] These values reflect both investment income and realized capital gains (losses). These investments gains, as a percent of surplus, were 16.7% in 2013 and 2.6% in 2014.
[15] For example, Moda uses a prescription drug trend of 10.5%
[16] "Health care prices in March 2015 were 1.3% higher than in March 2014 … Prescription drug prices rose 5.7%, up from 5.2% in February." Altarum Institute, Price Brief #15-5: March 2015 Data; http://altarum.org/our-work/cshs-health-sector-economic-indicators-briefs
[17] As PacificSource stated in response to OSPIRG Foundation questions.
[18] Assuming that non-specialty drugs represent about 2/3 of total drug costs and specialty drugs represent about 1/3: 4.5% X (2/3) + 39% X (1/3) = 16%

recent drivers in prescription drug trends.[19] While it is possible that PacificSource's exposure to these costs may increase in coming years, it is unclear why PacificSource would be more vulnerable to these costs than its competitors. Furthermore, there are indications that spending on Hepatitis C drugs may be leveling off and is "likely to contribute much less to health spending growth in 2015 than in 2014."[20]

In response to OSPIRG Foundation questions, PacificSource did not provide additional support for these projections, stating that the relevant data from their pharmacy benefit manager is proprietary.

Administrative costs and other expenses

PacificSource's rate filing includes a number of costs and expenses that are not adequately supported, and merit scrutiny from DCBS.

In its Actuarial Memorandum, PacificSource projects a 40% income tax rate—higher than the previous year[21]—without providing sufficient explanation for this increase. While the actual effective tax rate for a given year may depend on many factors, the actual effective tax rate for PacificSource was not 40% in either 2013 or 2104. In 2013 it was 1.2%[22] and in 2014 it was 10%.[23]

PacificSource's Rate Development Exhibit includes two cost contributors that are not fully explained in the filing. One is a "Change in Benefits" factor of 5.23%. PacificSource attributes this to "anticipated changes in utilization due to changes in average cost sharing," without providing additional information. In addition, the insurer's Cost Containment and Quality Improvement Efforts section states that "PacificSource estimates the savings of the shift from the traditional open Preferred Drug List formulary to the evidence-based closed Oregon Drug List formulary at 10% of pharmacy claims cost. This adjustment was built into the rate development via the 'Change in Benefits' factor in order to pass this savings along to our members." However, these savings are not referenced in the section addressing the "Change in Benefits" factor in the Actuarial Memorandum and it is unclear whether and how they are incorporated into the proposed rates.

The Rate Development Exhibit also includes a Change in Demographics factor of 5.76%. This is not adequately explained in the Actuarial Memorandum, which attributes the projection to changes in age and geographic distribution of members without providing supporting information and calculations. The value of 5.76% appears high given that PacificSource has characterized these issues as relatively minor: "[t]he average three child capped age factor of our insured population is slightly higher … [s]mall differences in geographic exposure".[24] It is not clear how these minor differences can result in the premiums charged to consumers being increased by almost 6%.

[19] In response to questions from DCBS, the insurer states that "there were no Sovaldi claims in PacificSource's Oregon individual 2014 experience. We had limited exposure to Harvoni, an alternative to Sovaldi with a similarly large potential health cost. This accounted for $0.49 per member per month in our 2014 Oregon individual experience."

[20] Altarum Institute Center for Sustainable Health Spending, Health Sector Trend Report, May 2015 http://altarum.org/publications/health-sector-trend-report-may-2015

[21] Pacific Source used an effective income tax rate of about 26% in its 2015 filing.

[22] $179,716 (Federal taxes) / $14,886,499 (net income before taxes)

[23] -$1,874,290 (Federal tax refund) / -$18,726,682 (net loss before taxes)

[24] Actuarial Memorandum, Projection Factors, Changes In Demographics (Emphasis Supplied)

Cost impact of proposed rates

Total cost of PacificSource's plans

Taking into account premiums, deductibles, coinsurance and other forms of cost-sharing, the total cost of coverage in 2016 for PacificSource's plans as proposed in the filing would be a dramatic increase from the 2015 cost.

A 42.7% increase would be nearly 24 times the rate of inflation in the broader economy and more than 16 times the rate of inflation in the cost of medical services.[25] Although Oregon's economy appears to be improving, this increase would still take place against a backdrop of largely stagnant wage growth.

Such a large increase would be highly disruptive for consumers and does not seem consistent with PacificSource's stated intent to "maintain rate stability and prevent future excessive rate increases for this line of business." While Oregon has a highly competitive health insurance marketplace and consumers have the option of shopping around, large year-to-year premium fluctuations can be highly disruptive for consumers and for the stability of the health insurance market as a whole.

Federal tax credits will help eligible individuals and families cover some of the cost of premiums and out-of-pocket expenses.[26] 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 for 2016 have not yet been approved, it is impossible to project the impact of financial assistance precisely at this time. However, it is worth noting that PacificSource customers who rely on tax credits may face an increase even larger than 42.7% on average; if all insurers' rates were approved as filed, PacificSource's plans would be much more expensive relative to the second-cheapest Silver plan than they are today, meaning that tax credits would cover much less of the cost.

If the premium for an individual's plan goes up faster than the premium of the second-cheapest Silver plan, the percent increase in the net cost to that individual, after the tax credit, can be much larger than the proposed rate increase, as the following chart illustrates:[27]

Monthly Amount	2015 Value	Increase in 2016	2016 Value
Premium Before Tax Credit	$ 343	42.70%	$ 489
Value of Tax Credit	$ 203	5%	$ 213
Premium After Tax Credit	$ 140	97.40%	$ 276

*A tax credit increase of 5% is an assumed value for illustrative purposes. Actual tax credit increases will not be available until 2016 premium rates are approved.

[25] Source: US Department of Labor, April 2015 CPI report, http://www.bls.gov/news.release/cpi.nr0.htm
[26] For information about eligibility for these federal tax credits, see www.healthcare.gov, Oregon's health insurance marketplace.
[27] 2015 Values from "Health Insurance Marketplace 2015: Average Premiums After Advance Premium Tax Credits Through January 30 In 37 States Using The Healthcare.Gov Platform"; February 9, 2015; ASPE Research Brief.

After consideration of the impact of tax credits, the net increase in premiums can be more than twice as much as the requested rate increase—premiums would nearly double for this hypothetical tax credit recipient, going up 97.4%. Such a large increase in effective premium could be highly disruptive for consumers and underlines the importance of scrutinizing proposed premium rates closely.

Regardless of the availability of tax credits, the cost of the proposed rates should also 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 PacificSource policyholders may accrue in the event of serious illness or other medical need.

Policyholders	**Plan**	**Annual premium (Increase from 2015)**	**Out-of pocket max (deductible + coinsurance + copays)**	**Total potential cost**
Sam, 33	Oregon Standard Bronze	$3,636 ($1,308)	$6,350	$9,986
Sarah and George, 50	Oregon Standard Silver	$13,608 ($4,608)	$12,700	$26,308
Eric and Cynthia, 45, and their two children	Oregon Standard Gold	$19,083 ($6,874)	$12,700	$31,783

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.

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 (Increase from 2015)**	**Deductible + Coinsurance**	**Total cost after premium and $10,000 claim**
Sam, 32	Oregon Standard Bronze	$3,636 ($1,308)	$5,000 + $1,350	$9,986
Sarah and George, 50	Oregon Standard Silver	$13,608 ($4,608)	$5,000 + $1,500	$20,108
Eric and Cynthia, 45, and their two children	Oregon Standard Gold	$19,083 ($6,874)	$2,500 + $750	$22,333

As the chart above demonstrates, higher-value plans such as the Oregon Standard Gold[28] 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 and 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 PacificSource's insurance products is worth the proposed premium cost.

The impact of this high rate of increase should also be considered when evaluating the impact of the rate. As detailed above, a family of four could see an annual premium increase of nearly $7,000. To put this in perspective, this increase by itself is nearly 14% of Oregon median household income.[29]

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.

In this analysis, OSPIRG Foundation looks at two data sources: quantitative data reported by the insurer, which was required for the first time last year, and the insurer's qualitative description of its efforts to implement six strategies understood to be effective in reducing costs and improve quality. In future years, we hope that both types of data are integrated, and presented in detail sufficient to evaluate the effectiveness of insurers' broader cost containment strategies.

While it is difficult to evaluate insurers' progress toward cost containment when the costs of new members in 2014 proved to be higher than expected for many insurers, this only underscores the importance of tracking progress in this area on a year-to-year basis.

Now that insurers cannot discriminate against individuals with pre-existing medical conditions, insurers can no longer base their business models on managing risk and exposure to potentially unhealthy members. Instead, insurers must redouble their efforts to help their members manage their health. These efforts are especially important in light of unexpectedly high costs in 2014. PacificSource members will be expecting progress in bending the cost curve in coming years, and DCBS should take steps to hold them accountable for this.

Quantitative data on cost and quality

For the second time this year, every Oregon insurer submitted hard data on health care quality, cost and utilization as part of the rate filing process. These metrics represent a step forward for transparency and provide some helpful information to form a baseline to evaluate insurers' efforts to contain costs and improve quality of care.

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[28] 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%).
[29] $50,223, 2009-2013. Source: US Census Bureau http://quickfacts.census.gov/qfd/states/41000.html

In evaluating PacificSource's performance in these areas, comparing trend lines year-over-year will be critical. Some insurers may serve a less healthy customer base than others, and this may be reflected in their performance on some of these metrics, but if insurers implement adequate, comprehensive cost containment and quality improvement efforts, consumers should be able to expect continuous improvement on these metrics as insurers work to bend the cost curve for quality care.

The metrics initially submitted by PacificSource suggested that its members costs and utilization were relatively similar to last year. However, when OSPIRG Foundation asked for more detailed information specific to Oregon's individual market, PacificSource provided information suggesting that ER costs and utilization for 2014 were much higher than the previous year,[30] and inpatient hospital costs doubled on a per member, per month basis.[31]

The insurer's performance on some key quality metrics, including developmental screening and mental health follow-up care, has declined from last year, and remains below statewide benchmarks.

It is clear from their qualitative description of their efforts (see below) that PacificSource has many constructive initiatives underway to contain costs and improve quality of care, and worsening cost and utilization metrics are consistent with the insurer's claim that 2014 costs were higher than expected. However, for the insurer to demonstrate that it is doing all it can to contain costs for its members, it will need to redouble its efforts to make concrete progress on these metrics in coming years.

[30] ER visits climbed from 82.1 to 110.2 per 1,000 members per year, and costs per visit increased from $796.38 to $824.98

[31] Inpatient hospitalization costs went from $50.79 to $101.77 PMPM.

Qualitative reporting on cost and quality initiatives

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.	Bundled pricing program for knee and hip replacements and transplants, fixed fee pricing for hospital services, and the inclusion of budgets and quality metrics within provider contracts	Not specified
Coordinated care, including "Medical Home" initiatives	Coordinated patient-centered care that focuses on prevention and keeping patients healthy and out of the ER.	Integrated clinical pharmacy services	PacificSource states that they expect this program to have a 2.5:1 return on investment, but do not specify a savings amount.
Value based benefits	Plans with lower co-pays for treatment proven to be effective, and higher cost sharing for unnecessary procedures.	Evidence-based formulary	PacificSource estimates that this program reduces member costs for prescription drugs by ~5%
Chronic disease management	Case management and other tools to improve the health of patients with chronic disease. [32]	Utilization management; medical management and complex case management programs	Estimated $2 million savings across all of PacificSource's lines of business
Reducing hospital readmissions	Working with providers to ensure that discharged patients have adequate follow up care.	Transitions in care program	New program, no estimated savings provided
Reducing errors, hospital-acquired infections and other adverse events.	This includes not reimbursing providers for "never events," and incentives to encourage provider safety practices.	Non-payment for "never events" and other infection/error based events; grant-funded hospital initiatives around sepsis reductions and hospital acquired infections throughout Oregon	Not specified

In its initial filing, PacificSource reported taking steps to reduce health care cost in ways that improve quality for patients in four of the six key areas we track. In response to OSPIRG Foundation questions, PacificSource provided information about programs in two additional areas.

There do appear to be a number of encouraging efforts underway at PacificSource. However, the steps PacificSource reports to reduce health care cost in ways that improve quality for patients are not described in detail and their effectiveness is not demonstrated with data. Without more detailed savings and effectiveness data, it is difficult to evaluate the adequacy of the insurer's strategy, especially in a

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

context in which the insurer’s costs and utilization climbed steeply in 2014. For PacificSource to demonstrate success, the insurer will need to demonstrate that these initiatives are having an impact in cost, utilization and quality of care for PacificSource members.

Rate review provides an opportunity to hold insurers accountable for doing everything they can to contain costs; if an insurer is not first doing all it can to bring down costs for its members, a premium increase cannot be justified. We urge PacificSource to redouble their efforts, and we urge DCBS to continue taking steps to advance transparency and accountability in this critical area.