Comments on the PacificSource Health Plans Proposal for Individual Health Rates Effective January 2017 Filing # PCSR-130537560

PacificSource Health Plans' members with individual health insurance plans will see rate hikes of 15.2% on average, and as high as 25%, if the premium rate hike proposed by PacificSource goes forward. At the same time, the insurer is planning to scale back its service area drastically and no longer offer its plans in many regions of Oregon.

PacificSource's reasons for the increase include a projected 8.2% increase in the cost of providing medical services,[1] 9.2% due to the end of federal and state reinsurance programs, and 7.9% due to a sicker projected customer base.

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. PacificSource projects it will spend $1.34 on health care for its Individual members for every premium dollar received in 2015, and sustain a 48.7% loss on its Individual market business.[2] In such a situation, it is not unreasonable for an insurer to seek a rate increase.

However, we are concerned about the impact of this large increase on consumers, and on the Oregon Individual market. Ongoing insurer financial losses are not sustainable for the long term, but it is also unsustainable to continue hiking rates without addressing the drivers of health care cost growth.

We urge the Oregon Department of Consumer and Business Services (DCBS) to scrutinize the filing closely. We are concerned that, in some areas, PacificSource has not provided enough information to justify elements of their case for a rate hike.

At the same time, we urge DCBS and Oregon policymakers to take stronger steps to address the underlying drivers of health care costs and instability in the Individual market. Action is urgently needed to ensure that Oregon consumers are not subjected to unreasonable and unsustainable rate increases going forward, and that they are not being asked to foot the bill for waste, estimated to represent a third or more of every dollar we spend on health care.[3]

To prepare this analysis, OSPIRG Foundation staff and consulting actuary reviewed 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.

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[1] PacificSource's filing appears to include two different medical trend projections: 8.2% in the Development of Rate Change and 8.6% in the Summary of Rate Increases. It is unclear from the filing which projection is being used in the development of the premium rate.
[2] These values are after risk adjustment. The corresponding values before risk adjustment are 187.5% and 104.6%.
[3] See, for example, Health Affairs, "Reducing Waste in Health Care"

Findings:[4]

- **It is unclear from the information provided whether PacificSource is sufficiently adjusting its cost projections to reflect reductions in costs to Oregon hospitals.** Public filings from Oregon hospitals continue to demonstrate that factors including record-low levels of uncompensated care are contributing to large hospital profit margins across the state.[5] In light of these surpluses, it seems reasonable for insurers to expect commensurate savings on hospital costs. In response to OSPIRG Foundation questions about these issues, PacificSource has stated that negotiations focused on these issues helped reduce its hospital cost trend to 4.1%, in comparison to prior years when 5-6% was more common. While this may represent progress in the right direction, it is unclear why hospitals experiencing historic profit margins would continue to raise rates faster than the rate of inflation in the broader economy, which remains well below 4.1%. It seems reasonable to expect that more savings could be realized.

- **PacificSource's cost projections for covering their current members and future enrollees may be overestimated.** The costs of providing health care services to Oregonians who signed up in 2014 and 2015 have been higher than Oregon insurers initially projected, but there are reasons to doubt whether these trends will continue. Many uninsured young Oregonians remain eligible for tax credits under the Affordable Care Act, and may be motivated to enroll by improved outreach efforts and/or increases in the ACA's tax penalty for going without insurance. This may already be taking place for PacificSource, as demonstrated by a decrease in the average age of its members from 2015 to 2016.[6] A number of PacificSource's competitors project that these factors should reduce rates.

- **PacificSource's medical cost trend projections may be excessive.** PacificSource's 8.2% medical trend projection is one of the highest in the Oregon Individual market, and insufficiently supported. Such a high medical trend projection also calls into question the value of PacificSource's efforts to contain costs, including through its service area reduction and its new partnership with Legacy Health, both of which the insurer characterizes as efforts to keep costs under control through closer working relationships with providers.[7]

- **A 15.2% increase would have a significant negative impact on affected Oregonians, representing more than $1,500 in additional premium costs per year for many PacificSource members.** Such a large increase would be disruptive for consumers. While many PacificSource members can avoid or mitigate this impact via the Affordable Care Act's tax credits, or by switching coverage, such a large increase will still be disruptive for many Oregon families.

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[4] OSPIRG Foundation's analysis is based upon the information currently available. OSPIRG Foundation reserves the right to submit further comments if additional relevant information becomes available.

[5] See, e.g., http://www.wweek.com/news/2016/04/13/the-five-things-hospitals-dont-want-you-to-know-about-obamacare/ for background on this issue.

[6] "The average age factor among individual members was 1.537 in 2015. As of March 2016, the average age factor among individual members was 1.441." PacificSource response to Individual Standard Review Question # 3

[7] In response to OSPIRG Foundation questions, PacificSource states that its new Legacy partnership network "is expected to have costs approximately 9% below where our broad PPO costs would be," and that this is reflected in their rate proposal. In the context of a large rate increase, we urge DCBS to scrutinize these projections closely to ensure that PacificSource's customers are reaping benefits from these changes.

- **PacificSource has chosen to stop offering coverage in many parts of the state.** PacificSource will no longer offer coverage in 2017 for much of Eastern and Southern Oregon, the Oregon Coast, as well as Eugene and Salem, the 2nd and 3rd largest cities in the state. This will have a disruptive effect not only for current PacificSource members living in these areas, but for the competitive landscape in these regions. With fewer insurance companies competing for members in these places, the remaining insurers will have less incentive to keep down costs going forward. While this move may cut costs for PacificSource, since these areas may be higher cost for insurers, we urge DCBS to consider the impact of this decision and develop a strategy to ensure sustainable access to reasonably-priced health coverage in all parts of the state.

- **Despite financial losses in 2015, PacificSource's financial position remains stable.** PacificSource is also proposing to add to its surplus, and is actually seeking a higher profit margin than in prior filings,[8] while also proposing a large rate increase. Although it is appropriate for PacificSource to take steps to avoid additional large losses next year, it may also be appropriate for its profit margin to be reduced or removed to provide some premium relief for PacificSource members.

- **When it comes to reducing costs and improving the quality of care, it is unclear whether PacificSource is doing all it can.** PacificSource's filing details a number of cost containment and quality improvement initiatives that appear to be worthwhile, but the cost, quality and utilization metrics supplied with the filing demonstrate a mixed bag of results.[9] With its overall projected medical cost trend significantly higher than most of its competitors, these efforts seem insufficient to protect PacificSource members from unreasonable increases in the cost of medical services.

[8] PacificSource is requesting a 3% profit margin (before-tax) in the current filing compared to 2.0% in the prior filing.
[9] E.g., inpatient hospital costs declined by $12.37 per member per month while the other categories (including pharmacy and ER) increased slightly. PacificSource's performance on the five quality metrics included in the filing varied only slightly from last year's filing. The company remains below statewide benchmarks in some quality measures, including Developmental Screening, where the company's 15.1% score is well below the statewide benchmark of 50%

Key Features & Insurer Information

Key features of the rate proposal

State tracking # for this filing	PCSR-130537560
Name of health insurance company	PacificSource Health Plans
Type of insurance	Individual

Proposed Rates*

Standard Bronze	$	348
Standard Silver	$	442
Standard Gold	$	550
% premium to be spent on medical costs		88.5%
% premium to be spent on administrative costs		8.5%
% premium to be spent on contribution to surplus		3.0%

Insurer's history of rate increases

	Requested	Approved
2012	5.00%	3.90%
2013	7.70%	7.70%
2014	N/A**	N/A**
2015	15.90%	3.90%
2016	42.70%	37.10%

Enrollment

Year	Members
2010	11,114
2011	11,398
2012	12,788
2013	15,391
2014	12,056
2015	8,216
2016	3,911

Basis for rate - Key factors

Medical cost trend	8.2%
End of state and federal reinsurance programs	9.2%
Cost due to health status of customer base	7.9%

Insurer information

Basic Information

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

Insurer's financial position

Year	2015
Surplus	$144,400,000
Investment income	$3,100,000

Surplus History

Year	Amount in Surplus
2009	$107,100,000
2010	$114,100,000
2011	$125,700,000
2012	$126,300,000
2013	$151,300,000
2014	$148,158,000

*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 for 2014 and the rates filed for previous years.

Discussion

Oregon's health insurance rate review program, administered by the Division of Financial Regulation 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 change the rates charged to small businesses or people purchasing coverage on their own, the insurer must submit a detailed proposal to DCBS laying out a justification. 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 in response to questions from DCBS and OSPIRG Foundation.

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.[10] 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 strategies to keep patients healthier.

But research continues to show that rising costs are due to unit costs as well as utilization, and that unit costs are driven by market power and provider consolidation as well as by increases in the actual cost of providing care.[11] Since health care providers have a role in rising unit costs for care as well as rising costs associated with inappropriate and wasteful health care practices, we recognize that insurers do not always have complete control to restrain overall cost increases. The broader health care industry also bears a great deal of responsibility for rising overall costs, and we urge DCBS and Oregon policymakers to consider options for broadening accountability for the industry as a whole going forward.

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.

[10] See above, and also http://resources.iom.edu/widgets/vsrt/healthcare-waste.html
[11] See, for example, http://www.catalyzepaymentreform.org/images/documents/Market_Power.pdf and http://www.commonwealthfund.org/publications/issue-briefs/2015/oct/us-health-care-from-a-global-perspective

Health Insurance Rate Watch
A Project of OSPIRG Foundation

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This publication was made possible by Grant Number IPRPR0057A from Department of Health and Human Services Center for Consumer Information and Insurance Oversight. Its contents are solely the responsibility of the authors and do not necessarily represent the official views of the Department of Health and Human Services Center for Consumer Information and Insurance Oversight.