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Comments on the Regence BlueCross BlueShield Proposal for Individual Health Rates Effective January 2017

Filing # RGOR-130534498

Health Insurance Rate Watch
A Project of OSPIRG Foundation

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The author bears responsibility for any factual errors. The views expressed in this report are those of the author, and do not necessarily reflect the views of our funders, advisory committee, or those who provided analysis and review.

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Executive Summary[1]

Regence BlueCross BlueShield's 14,811 members with individual health insurance plans will see rate hikes of 17.9% on average, and as high as 36.1%, if the premium rate hike proposed by Regence goes forward.

Regence's reasons for the increase include a projected 8.4% annual increase in the cost of providing medical services and 6.5% due to the end of federal and state reinsurance programs. In addition, Regence is proposing to increase the target profit included in the rates, from 2% to 3%.[2]

After analysis of Regence's initial filing and the supplemental information provided, we acknowledge some of the factors that concern Regence and that prompted the rate hike proposal. Regence projects it will sustain a 12.2% loss on its Individual market business for 2015. 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 increase on Oregon consumers, and on the Oregon Individual market. While ongoing insurer financial losses are not sustainable for the long term, 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, Regence has not provided enough information to justify some 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]

Key Findings:

- **Regence's medical cost trend projection appears to be excessive.** An 8.4% medical cost trend is higher than any of Regence's competitors, and insufficiently supported in its filing. Regence's own data suggests that their medical costs have increased 5.5% in the past year, and it is unclear why they are projecting that costs will increase much faster next year.

- **Despite financial losses in 2015, Regence's financial position remains strong.** Regence is seeking a higher profit margin than in prior filings, while also proposing a large rate increase. While it is appropriate for Regence to take steps to avoid additional large losses next year, it may also be appropriate for its margin to be reduced or removed to provide some premium relief for Regence members.

[1] 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.
[2] Regence characterizes this 3% figure as a "risk and contingency margin" instead of identifying the value as a profit provision.
[3] See, for example, Health Affairs, "Reducing Waste in Health Care"

- **A 17.9% increase would have a significant negative impact on affected Oregonians, representing more than $1,500 in additional premium costs per year for many Regence members.** While some Regence members can avoid or mitigate this impact by switching plans and enrolling through the Health Insurance Marketplace at healthcare.gov , where they can access tax credits to help pay for coverage, such a large increase will still be disruptive for many Oregon families.[4]

- **It is unclear from the information provided whether Regence 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. Regence claims that savings from reductions in uncompensated care are incorporated into its medical cost trend projections, and that the impact is "less than 0.5%," but it seems unlikely that this is sufficient to the scale of the impact on Oregon hospital margins.

- **When it comes to reducing costs and improving the quality of care, it is unclear whether Regence is doing all it can.** Regence claims that its cost containment and quality improvement efforts have led to a reduction of 0.2% in medical cost trends and an unspecified reduction in member out-of-pocket costs. But with its overall projected medical cost trend significantly higher than its competitors, these reductions seem insufficient to protect Regence members from unreasonable increases in the cost of medical services.

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[4] Since Regence does not offer its plans through the Marketplace, this option would also require its members to switch to another carrier. Regence's "sister company" BridgeSpan, which is available through the Marketplace, offers similar plans and networks, but is seeking an even larger rate hike for next year.

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

Key Features & Insurer Information

Key features of the rate proposal

State tracking # for this filing	RGOR-130534498
Name of health insurance company	Regence BlueCross BlueShield of Oregon
Type of insurance	Individual

Proposed Rate	
Standard Bronze	$272
Standard Silver	$334
Standard Gold	N/A
% premium to be spent on medical costs	87.6%
% premium to be spent on administrative costs	9.4%
% premium to be spent on contribution to surplus	3.0%

Insurer's history of rate increases	**Requested**	**Approved**
2012	22.1%	12.8%
2013	9.6%	8.9%
2014	N/A**	N/A**
2015	3.2%	1.4%
2016	12.3%	12.3%

Basis for rate - key factors	
Medical and Rx cost trend	8.40%
End of state and federal reinsurance programs	6.50%

Enrollment

Year	**Members**
2011	59,447
2012	52,516
2013	47,741
2014	31,661
2015	16,183
2016	14,811

Insurer information

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

Insurer's financial position	
Year	2015
Surplus	$639,241,327
Investment earnings	$37,801,254

Surplus History

Year	**Amount in Surplus**
2009	$565,197,607
2010	$544,200,000
2011	$522,000,538
2012	$564,960,398
2013	$627,309,807
2014	$635,259,622

*"Proposed rates" are for a benchmark population--a 40-year old nonsmoker in the Portland area
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 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 Regence'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 Regence 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.[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 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.[7] 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.

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

[6] See above, and also http://resources.iom.edu/widgets/vsrt/healthcare-waste.html
[7] 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

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

Hospital Costs

Many Oregon hospitals are currently enjoying unusually wide profit margins and growing operating surpluses. As has been widely reported,[8] this is due in large part to record-low levels of uncompensated care, thanks to the ACA's expansion of health coverage.[9] In light of these surpluses, it seems reasonable for insurers to expect commensurate savings on hospital costs, and to pass those savings along to consumers in the form of lower premiums.

Regence claims that savings from reductions in uncompensated care are incorporated into its medical cost trend projections, and estimates that the impact amounts to "0-0.5%" of total medical costs. The insurer states that it has engaged in modeling to identify areas that are particularly impacted by uncompensated care. In response to OSPIRG Foundation's request for elaboration and substantiation of these points, and for more information about its efforts to ensure that its members benefit from the savings that should come from reduced hospital costs, the insurer stated that

> "Financial profitability, relative efficiency, and presence of uncompensated care within a provider market are routinely considered when negotiating provider reimbursement rates. The impact to premium is realized in lower unit cost increases in the projected rating trend. The negotiations and contracts are provider-specific and cover a broad range of topics, and Regence does not allocate specific savings to each separate negotiation lever."

Based solely on this statement and the information available in the filing, it is impossible to evaluate whether Regence is doing enough to ensure that its members realize savings instead of paying more than necessary for costs that no longer exist in our health care system. However, since the trend toward higher hospital margins appears to be continuing, not abating, it seems likely that the high annual medical cost trend rate of 8.4% proposed by Regence does not adequately incorporate the potential savings.

We urge DCBS to look into this matter closely, and to take action if necessary to ensure that Oregon consumers are not being overcharged due to unjustified and excessive hospital costs.

Medical cost trends

Regence's projection of an 8.4% increase in medical costs is larger than any of their competitors, is insufficiently supported in the filing, and would likely to result in overcharging its consumers if approved.

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[8] E.g., http://www.oregonlive.com/business/index.ssf/2016/03/insurers_lose_hospitals_win_in.html; http://www.wweek.com/news/2016/04/13/the-five-things-hospitals-dont-want-you-to-know-about-obamacare/

[9] Uncompensated care occurs because the uninsured are rarely in a position to pay for their own care out of pocket, and underinsured individuals are frequently unable to cover all of their out-of-pocket costs. The cost of providing needed care to these individuals is often shifted onto the rest of us, but as the uninsured and underinsured rates in Oregon have declined, these costs have declined dramatically.

Regence's filing states that the "underlying claims cost trend for the experience period has been estimated at 5.5%," which is supported by the Historical Observed and Underlying Trends document provided in Exhibit 4. This means that the company experienced a 5.5% increase in medical and prescription drug costs in 2015.

It is unclear from the information provided in the filing why Regence chose to assume a higher medical cost trend level going forward. In response to OSPIRG Foundation questions, Regence emphasized that the 5.5% value is only "one data point" and that "the projected trend is Regence's best estimate of the annual claims cost increase from the end of the experience period to the 2017 rating period," but did not provide additional data to provide support for their estimate. Since Regence believes its claims data is fully credible, it is unclear why Regence discounts that "one data point." However, many other data points including the trends filed by other insurance companies suggest that Regence's 8.4% annual trend is too high.

A difficulty in evaluating the proposed trend is that Regence declined to provide support for significant components of its projections on the basis that the information was confidential or proprietary.[10] OSPIRG Foundation understands that in some circumstances it may be appropriate for certain information to be considered confidential or proprietary. However, since the burden of proof is on the insurance company to justify the proposed rate increase, and considering the very high trends proposed by Regence, this merits close scrutiny. While there is always some degree of judgment involved in predicting future cost trends, Regence's projection is more than twice that of some of their competitors and seems likely to be overstated.

Insurer's financial position

Regence's financial position has improved each year since 2011, as reflected by increasing surplus, and remains strong despite underwriting losses for the Individual market in 2015. The insurer's surplus is more than large enough to ensure financial stability without the need for major contributions to surplus.

Regence includes a 3% "risk and contingency margin" in the filing, an increase from 2% in last year's filing. While the company characterizes this margin as a hedge against downside financial risk and claims that the filing does not include a contribution to surplus, DCBS has determined in the past that this kind of risk margin is not distinct from a profit margin, and it should clearly be treated as a profit margin.

We urge DCBS to consider whether it is appropriate for Regence to propose increasing its profit margin at this time. Even in the absence of a 3% margin from underwriting, Regence could still expect surplus to increase from investment gains. During 2014 and 2015, Regence had investment earnings of $68 million and $37.8 million, respectively.

Ensuring the financial health of insurers is a key consumer protection role of insurance regulators, and Regence's many customers are counting on them to have enough money to pay claims and ensure their access to needed services. But a contribution to the surplus from underwriting profits is not necessary to protect consumers at this time, and we believe it would be appropriate for DCBS to consider reducing Regence's contribution to surplus to provide some premium relief for members facing another year of large double-digit rate increases.

[10] For example, Regence responses to OSPIRG Foundation questions # 19 and 20.

Cost impact of proposed rates

Total cost of Regence's plans

Taking into account premiums, deductibles, coinsurance and other forms of cost-sharing, the total cost of coverage in 2017 for Regence's plans as proposed in the filing would be a substantial increase from the 2016 cost.

A 17.9% increase would be more than 8 times the rate of inflation in the broader economy and nearly 6 times the rate of inflation in the cost of medical services.[11] Although Oregon's economy appears to be improving, this increase would still take place against a backdrop of largely stagnant wage growth.

Such an increase would be disruptive for many consumers. While most Oregonians have access to a 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.

Since Regence does not participate in Oregon's Health Insurance Marketplace, members that choose to renew coverage will pay the entire cost of their premiums. Federal tax credits will be available through the exchange to help eligible consumers who wish to switch coverage, and consumers will have a number of other options available. [12] Regence customers eligible for tax credits on the Marketplace have the option of switching to Regence's affiliate BridgeSpan, which offers similar plans and provider networks, but BridgeSpan is proposing an even larger rate hike for 2017.[13]

Regardless, if approved, Regence's double-digit increase will be disruptive and burdensome for thousands of Oregonians. The following case studies illustrate the total potential costs that Regence policyholders may accrue in the event of serious illness or other medical need.

[11] Total CPI less food and energy, 2.1%; CPI for Medical Services, 3.1%. Source: US Department of Labor, April 2016 CPI report, available at http://www.bls.gov/cpi/cpid1604.pdf
[12] For information about eligibility for these federal tax credits, see www.healthcare.gov, Oregon's health insurance marketplace.
[13] BridgeSpan is proposing an 18.9% average increase. If approved, the rate for a 40-year-old Portlander purchasing the Oregon Standard Silver plan would be $347, or 3.8% more than the comparable rate for Regence.

Policyholders	Plan	Annual premium (Increase from 2016)	Out-of pocket max (deductible + coinsurance + copays)	Total potential cost
Sam, 33	Oregon Standard Bronze (MyChoice Northwest)	$3,061 ($427)	$7,150	$10,211
Sarah and George, 50	Oregon Standard Silver (MyChoice Northwest)	$11,189 ($1,714)	$13,700	$24,889
Eric and Cynthia, 45, and their two children	Oregon Standard Silver (MyChoice Northwest)[14]	$12,891 ($1,862)	$13,700	$26,591

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 2016)	Deductible + Coinsurance	Total cost after premium and $10,000 claim
Sam, 32	Oregon Standard Bronze (MyChoice Northwest)	$3,061 ($427)	$7,150 + $0	$10,211
Sarah and George, 50	Oregon Standard Silver (MyChoice Northwest)	$11,189 ($1,714)	$5,000 + $1,500	$17,689
Eric and Cynthia, 45, and their two children	Oregon Standard Silver (MyChoice Northwest)	$12,891 ($1,862)	$5000 + $1,500	$19,391

As the chart above demonstrates, total costs for Regence's plans under their current proposal will be quite high and will be burdensome on Oregon families. Out-of-pocket maximums 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 Regence's insurance products is worth the proposed premium cost.

[14] Regence does not offer the Oregon Standard Gold plan, which is only required of insurers operating on Oregon's Health Insurance Marketplace.

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, and the insurer's qualitative description of its efforts to implement strategies 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.

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 and 2015. Regence members will be expecting progress in bending the cost curve in coming years, and DCBS should take steps to hold them accountable for this.

For the third 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.

In evaluating Regence's performance in these areas, comparing trend lines year-over-year is 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.

Regence's scores on the metrics reported in the rate filing have fluctuated, with some increasing and some decreasing since last year's filing. Inpatient hospital costs reportedly declined from $79.69 to $75.73 per member per month, while emergency room costs increased from $8.16 to $9.42 PMPM and pharmacy costs increased from $56.65 to $65.95 PMPM (both representing increases of about 16%). The company's performance on the key quality measures varied only slightly from last year's filing.

In response to OSPIRG Foundation's questions about which metrics were disproportionately associated with rising costs, Regence identified ER costs and prescription drug costs as key areas of concern, and cited programs designed to contain costs in these key areas, but did not provide detailed information about the design or anticipated cost impact of these programs.

It is clear from their qualitative description of their efforts that Regence has some constructive initiatives underway to contain costs and improve quality of care. However, by the insurer's own estimate, the savings from these initiatives represents only about $1-2 per member per month, which seems insufficient to protect Regence members from unreasonable increases in medical costs, especially in light of Regence's medical trend projection, which is the highest of any insurer in Oregon's Individual market.

For Regence to demonstrate success and fully meet the needs of its members, the insurer will need to do more to demonstrate that these initiatives are having a real impact in cost, utilization and quality of care—and, just as importantly, they are being shared with consumers in the form of lower rates.

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 Regence to redouble their efforts, and we urge DCBS to continue taking steps to advance transparency and accountability in this critical area.