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**Comments on the Providence Health Plan Proposal
for Individual Health Rates
Effective January 2019**

Filing # PROV-131494726

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 others who provided analysis and review.

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Executive Summary

Providence Health Plan's 91,425 members with individual health insurance plans will see rate hikes of 13.6% on average, and as high as 24.1%, if the premium increase proposed by Providence goes forward. If this rate hike is approved as filed, Providence's rates will have nearly doubled for many families since 2015.

Providence's reasons for the rate hike include an 8% increase due to the rising cost of health care—including an increase of nearly 20% in prescription drug costs. The insurer also predicts that federal policy changes including the elimination of the Affordable Care Act's (ACA) individual mandate and proposed policies to loosen regulation of non-ACA compliant plans will increase costs across the market.

After analysis of Providence's filing, we acknowledge some of the factors that prompted the rate hike proposal. Oregon consumers are deeply concerned about the rising cost of prescription drugs, and we hope that recent efforts to create transparency and accountability for the pharmaceutical industry will be a first step toward containing these costs. Providence's concerns about disruptive federal changes are also understandable, and we urge Oregon policymakers to take all necessary proactive steps to keep the state's health insurance markets stable and competitive.

We are deeply concerned about the impact of this large increase on Oregon consumers, and on the Oregon Individual market—especially coming as it does after multiple years of double-digit rate hikes from Providence and other Oregon insurers. We urge the Oregon Department of Consumer and Business Services (DCBS) to scrutinize this filing closely. We are especially concerned that Providence may be inflating the impact of actual and possible federal changes, and may wind up overcharging Oregon consumers as a result.

At the same time, we urge DCBS and Oregon policymakers to take stronger steps to address the underlying drivers of health care and prescription drug costs. For too long, Oregon consumers have been asked to foot the bill for waste, estimated to represent a third or more of every dollar we spend on health care.¹

Key Findings:

- **Providence's estimate of a 10% increase due to federal policy changes will likely result in inappropriately overcharging consumers.** Although the repeal of the Affordable Care Act's (ACA) individual mandate and the ongoing uncertainty about the future of the ACA are disruptive for consumers as well as health insurers, we are concerned that this rate hike proposal may be overstating the impact. Providence also appears to be incorporating an increase due to a new federal rule expanding so-called association health plans that was just finalized, despite the fact that Oregon policymakers have the opportunity to take action to protect consumers from the potential negative effects.
- **Providence's financial position is improving.** Providence was able to add to its surplus last year, which grew by \$33 million to reach nearly half a billion dollars. In this context, we question the justification for Providence's proposal to add a 4% margin to its surplus while also proposing a

¹ See, for example, Health Affairs, "[Reducing Waste in Health Care](#)"

double-digit rate hike for the third year in a row. While it is not inappropriate for Providence to seek to maintain a healthy financial position, it may also be appropriate for its margin to be reduced or removed to provide some premium relief for Providence members.

- **Providence’s large medical and prescription drug cost trend projections may be excessive.** Providence projects an 8% increase in the cost of health care services and prescription drugs, which is larger than many of their competitors and may be overstated. Providence’s projected 19.4% prescription drug cost trend is by far the highest in the market. While rising prescription drug costs are legitimately troubling, we are concerned that this may be significantly higher than necessary.
- **A 13.6% increase would have a significant negative impact on affected Oregonians.** Yet another double-digit rate increase for Providence members would be disruptive and does not seem consistent with Providence’s stated intent to “maintain reasonable rate stability”—a goal the company has reiterated in its filings despite nearly doubling its rates since 2015. While many Providence members will be able to avoid paying the full premium price by taking advantage of the Affordable Care Act’s tax credits, or may find a lower-cost option by switching coverage, such a large increase will still be disruptive for many Oregon families.

Key Features & Insurer Information

Key features of the rate proposal

State tracking # for this filing	PROV-131494726
Name of health insurance company	Providence Health Plan
Type of insurance	Individual

Proposed Rates*

Standard Bronze	\$349
Standard Silver	\$453
Standard Gold	\$517
% premium to be spent on medical costs	82.9%
% premium to be spent on administrative costs	13.1%
% premium to be spent on profits	4.0%

Factors contributing to rate hike proposal

Medical trend	8.0%
Rx trend	19.4%
Federal policy changes	10.0%
Taxes and fees	1.0%

Insurer's history of rate increases

	Requested	Approved
2015	-16.3%	-14.0%
2016	7.2%	13.8%
2017	29.7%	29.7%
2018	20.7%	15.7%

Enrollment

Year	Members
2012	12,162
2013	13,438
2014	8,205
2015	24,132
2016	105,406
2017	104,747
2018	91,425

Insurer information

Basic Information

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

Insurer's financial position

Year	2017
Surplus	\$499,000,000
Investment gain	\$10,000,000

Surplus History

Year	Amount in Surplus
2013	\$506,881,809
2014	\$530,393,114
2015	\$464,000,000
2016	\$466,000,000
2017	\$499,000,000

**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%. The Oregon Standard plans are currently being revised for 2019, but information about the 2018 plans can be found at http://dfr.oregon.gov/healthrates/Documents/plan_summary.pdf

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, families and small businesses 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 served as the contracted organization under that program from 2011-2016. In 2016, the program was repurposed by the federal government. OSPIRG Foundation's Health Insurance Rate Watch program continues as an independent effort via the generous support of our members and grant funders including Community Catalyst's Health Justice Fund.

As part of this ongoing project, OSPIRG Foundation 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 also reviewed additional information made available by Providence in response to questions from DCBS.

Consumers in Oregon and across the country are facing a period of unprecedented uncertainty in health care markets. The future of the key protections in the federal Affordable Care Act, including protections for patients with pre-existing conditions and financial help to purchase health coverage, continues to be debated in Washington and challenged in the courts.

In this climate of uncertainty, with the health and financial security of Oregonians across the state on the line, it is more critical than ever to ensure that health insurance premium rates are justified, and that the state's health insurance market remains viable and competitive.

Regardless of the uncertain future of the ACA and the federal government's role in ensuring access to affordable health coverage, 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.² With rising costs making health care unaffordable for many, 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.³ Since health care providers and prescription drug manufacturers 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 continue to 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.

² See above.

³ 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>

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. All of this information is a matter of public record and is or will be available on the DCBS rate review website, www.oregonhealthrates.org.

Examining the justification for the proposed premium rates

Cost of federal policy changes

Providence's rate proposal includes an estimated 10% increase due to the impact of federal changes that the insurer believes will shrink overall enrollment in the individual health insurance market.⁴

There is ample reason to be very concerned about federal policy changes that could destabilize the health insurance market and lead to rate increases—as we discuss below. However, we are concerned that Providence could be dramatically overstating the impact of the federal changes so far, which could lead to overcharging consumers.

As a general rule, when a health insurance market shrinks, it is likely that the people who remain in the risk pool will tend to be in worse health, since people with greater health care needs are more likely to try to keep their coverage. The question is whether there is sufficient evidence that Oregon's Individual health insurance market will shrink at all, let alone as much as Providence projects for the coming year.

Providence attributes this 10% increase to two federal policy changes: The repeal of the tax penalty for individuals who go without health insurance (also known as the individual mandate) and proposed federal rules to expand association health plans (AHPs), a form of insurance that is not subject to most of the ACA's consumer protections. In response to questions from DCBS, Providence has clarified that they are projecting a 2.3% increase due to the AHP issue, 5.2% due to weakened enforcement of the individual mandate for 2018, and 2.5% due to the repeal of the mandate for 2019.

- Individual mandate repeal

The Tax Cuts and Jobs Act of 2017, passed by the US Congress last December, included a provision reducing the ACA's penalty for going without health insurance to \$0. To the extent that this penalty was a key driver of consumer purchasing choices, especially for healthy people who may feel less urgency to enroll in health coverage, this change clearly could have an impact on overall enrollment and lead to higher costs for insurers.

⁴ This is a 10% increase from 2017, not just from 2018-2019, but as detailed below we are concerned that this effect may be overstated even if it is spread out over two years.

Earlier in 2017, the federal government had previously taken some steps to weaken enforcement of the penalty by cancelling plans to institute stronger health insurance enrollment verification, and an increase was incorporated into Oregon health plan rates for 2018 to account for this.

It is likely that some consumers' health insurance purchasing behavior will be influenced by the mandate's repeal, or by (understandable) confusion about the status and future of the ACA. But public awareness of the details of the ACA and its implementation and enforcement has long been quite low, and it is far from clear how consumers will respond to the new legal framework.

The potential impact of the repeal of the individual mandate on enrollment and the costs facing insurers is uncertain. Given that Oregon's individual marketplace enrollment actually [grew slightly](#) from 2017 to 2018, any negative impact of changes to the mandate remains hypothetical at this point. Given the lack of clear shifts in enrollment trends, it is possible that even the 2018 increase for weakened mandate enforcement was excessive.

Especially in light of the years of double-digit rate hikes from Providence, we believe that their members should receive the benefit of any doubt about the possible impact of changes to the individual mandate.

- Association health plans (AHPs)

The Trump Administration has recently finalized [major changes](#) to federal rules governing association health plans and has proposed changes for short-term health plans that could have major implications for the stability of the individual market in many states. Oregon already has state-level laws and rules largely protecting the market from the potential destabilizing impact of short-term health plans, but there is a risk that the association health plan rules will adversely affect Oregon's market.

Providence estimates that the instability caused by the AHP rules will raise costs by 2.3%. While we are seriously concerned about the potential impact of these rules, we are also concerned that Providence may be overstating the impact, and may be underestimating the state's ability to protect consumers from these potentially destabilizing changes.

AHPs are a form of health insurance provided by voluntary associations of people or businesses, such as a state or local trade association. AHPs are regulated as large employer health plans and are not subject to most of the ACA's consumer protections, allowing them to offer less comprehensive coverage and discriminate against individuals with pre-existing conditions. Starting in 2011, federal rules implementing the ACA curtailed the availability of these plans by applying these consumer protections to AHPs that sold policies directly to individuals and individual small businesses, but left open the option for groups of small businesses to band together to form an association plan.

The new Trump administration rules would weaken these requirements and make AHPs more widely available, including, potentially, to self-employed individuals, a key demographic in the individual health insurance market. Under these new rules, AHPs will likely be able to offer lower premiums than comprehensive individual health plans because they can provide skimpier benefits and charge sicker members more. But these lower premiums come at a cost, both in high out-of-pocket costs for AHP members and, by shrinking the size of the individual market risk pool, higher premiums for the rest of us.

However, this is not the end of the story, which is why none of Providence's competitors have included this factor in their rate proposals.

Oregon likely has a range of options to protect consumers from the potential downsides of the proposed AHP rules. The state may be able to take legislative and regulatory action such as applying additional consumer protections to AHPs, requiring them to contribute toward reinsurance or other market stabilization mechanisms, and/or preventing them from siphoning members away from the individual market. The final AHP rule does not appear to pre-empt state authority, leaving Oregon with a range of options to regulate these plans.⁵ We do not think it is appropriate for insurers to pre-judge whether the state will be successful in protecting consumers from the potentially destabilizing impact of these changes.

Insurer's financial position

Providence's financial position improved substantially last year, with its surplus rising from \$466 million to \$499 million. At the same time, the company is proposing to increase its contribution to surplus to 4%, from the 3% contribution it proposed last year.

Providence did experience substantial losses in 2015 and 2016, and experienced an underwriting loss on its individual market business last year, but large rate hikes for the past few years, plus investment earnings, appear to have returned the company to profitability. Plus, Providence's 7% underwriting loss in 2017 should already be more than compensated for by their rate increase of 15.7% for 2018.

Providence's surplus is more than large enough to ensure financial stability without the need for major additional contributions. This is especially true in the context of the decline in membership that the insurer expects in the coming year, from 91,425 to 80,874—an 11.5% decrease. With a smaller membership, less surplus is necessary to provide a margin for unexpectedly high costs.

We urge DCBS to consider whether it is appropriate for Providence to contribute 4% of premium to growing its surplus at this time. Even with a smaller or nonexistent margin from underwriting, Providence could still expect surplus to continue to increase from investment gains.

Ensuring the financial health of insurers is a key consumer protection role of insurance regulators, and Providence's many customers are counting on them to have enough money to pay claims and ensure their access to needed services. But a sizable contribution to 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 Providence's contribution to surplus to provide some premium relief for members facing another year of double-digit rate increases.

⁵ See, e.g., "State Options to Protect Consumers and Stabilize the Market: Responding to President Trump's Executive Order on Association Health Plans," Georgetown University Health Policy Institute Center on Health Insurance Reforms, December 2017. Available at https://www.rwjf.org/content/dam/farm/reports/issue_briefs/2017/rwjf442346

Medical cost trends

Providence's projection of an 8% increase in medical costs is out of step with their competitors, and with publicly available data about marketwide trends. We are concerned that it may be overstating health care cost growth trends, and may overcharge consumers as a result.

Providence's competitors have an average medical trend projection of about 5%, significantly lower than Providence's proposed trend. This is especially concerning inasmuch as Providence Health Plan, through its close relationship with its health care delivery system Providence Health and Services, ought to be more effective at containing costs than less integrated health insurers.

By far the fastest-rising portion of Providence's medical trend is prescription drug costs, which the insurer estimates will skyrocket by 19.4% from 2018 to 2019. Given the widespread reports of rapidly rising prescription drug costs, it is hard to argue that Providence's concern is misplaced, but such a high projection is out of step with the rest of the market and may be overstated. Providence's competitors have an average prescription drug trend projection of 10.18%⁶—still an alarmingly high increase for one year, but only about half of Providence's projection.

Providence helpfully breaks down its prescription drug trend projection into cost (7.1%) and utilization (11.4%) components. While the cost projection does not seem out of line with marketwide trends, it is not clear from the filing why Providence is projecting such a large increase in prescription drug utilization in a single year. The company's cost and quality metrics documentation suggest an increase of less than 0.1% in Rx utilization (from 10,945 to 10,955 scripts per 1,000 members) in the two most recent years available.

In response to questions from DCBS, Providence provided some additional context, stating that their projection is based on trends for brand and specialty drugs, especially "anti-neoplastic, anti-psoriatic and anti-rheumatoid medications," as well as greater utilization of drugs for diabetes and Hepatitis C. Although concern about these trends seems legitimate, it remains unclear why Providence's projection is so much higher than their competitors, which are equally vulnerable to the high cost of prescriptions.

In the absence of additional information, we would urge DCBS to consider reducing the insurer's rate to reflect a trend that would be less likely to result in overcharging consumers.

Impact of proposed rates

Total cost of Providence's plans

Taking into account premiums, deductibles, coinsurance and other forms of cost-sharing, the total cost of coverage in 2019 for Providence's plans as proposed in the filing would be a big increase from the 2018 cost for many members.

⁶ This excludes Kaiser's 4% trend, which does not disaggregate prescription drug costs. Including Kaiser, the average is 9.15%.

A 13.6% increase would be more than 6 times the rate of inflation in the broader economy (2.1%, less food and energy) and the rate of inflation in the cost of medical services (2.2%).⁷ Although Oregon's economy has been improving in recent years, this increase would still take place against a backdrop of relatively slow wage growth.

If approved, this rate hike would also represent nearly a doubling of the insurer's individual market rate since 2015. In 2015, a 40 year old nonsmoking Portland-area resident on Providence's Oregon Standard Silver plan would have paid \$233. If this rate request is approved, a similarly-situated Oregonian would pay \$453—a 94% increase.

Such a rapid rate increase in just a few years is highly disruptive for consumers and does not seem consistent with Providence's stated intent to "maintain reasonable rate stability."⁸ 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.

Federal tax credits will help eligible individuals and families cover some of the cost of premiums and out-of-pocket expenses.⁹ 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 2019 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 Providence customers who rely on tax credits may face an increase even larger than 13.6% on average; if all insurers' rates were approved as filed, Providence's plans would likely be more expensive relative to the second-cheapest Silver plan in many parts of the state than they are today, meaning that tax credits would cover 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. Such a large increase in effective premium can 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 Providence policyholders may accrue in the event of serious illness or other medical need. These hypothetical policyholders are all Portland area nonsmokers. Providence will apply a 20% surcharge to tobacco users in 2019, and applies higher premiums in some other parts of the state—ranging from 7% more in Linn, Lane and Benton counties to as much as 25% more in parts of Southern Oregon.

⁷ Source: US Department of Labor, April 2018 CPI report, available at https://www.bls.gov/news.release/archives/cpi_05102018.htm

⁸ See Appendix 1: Insurer's Financial Position

⁹ For information about eligibility for these federal tax credits, see www.healthcare.gov, Oregon's health insurance marketplace.

Policyholders	Plan	Annual premium	Out-of pocket max (deductible + coinsurance + copays)	Total potential cost
Sam, 33	Oregon Standard Bronze	\$4,053	\$6,550	\$10,603
Sarah and George, 50	Oregon Standard Silver	\$15,657	\$15,800	\$31,457
Eric and Cynthia, 45, and their two children	Oregon Standard Gold	\$20,487	\$13,700	\$34,187

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	Deductible + Coinsurance	Total cost after premium and \$10,000 claim
Sam, 32	Oregon Standard Bronze	\$4,053	\$6,550	\$10,603
Sarah and George, 50	Oregon Standard Silver	\$15,657	\$5,700 + \$1,290	\$22,647
Eric and Cynthia, 45, and their two children	Oregon Standard Gold	\$20,487	\$2000 + \$1,600	\$24,087

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 Providence’s insurance products is worth the proposed premium cost.