

May 2013

**Comments on the Blue Shield of California
Proposal to Increase Small Employer Health
Insurance Rates, Effective July 1, 2013.**

State Tracking Number: HAO-2013-0031

Health Insurance Rate Watch
A Project of CALPIRG Education Fund

Authors

Jonathan Fox, California Public Interest Research Group Education Fund
Emily Rusch, California Public Interest Research Group Education Fund
Laura Etherton, U.S. Public Interest Research Group Education Fund

Expert Review

Linda Leu, Health Access

Actuarial Analysis

Donna Novak, NovaRest Actuarial Consulting

The authors bear responsibility for any remaining 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.

This publication was made possible by a grant from the California Department of Insurance. The statements and conclusions of this report are those of the CALPIRG Education Fund and not necessarily those of the California Department of Insurance, its employees, or the State of California. The State makes no warranty, express or implied, and assumes no liability for the information contained in the succeeding report.

About CALPIRG Education Fund: With public debate around important issues often dominated by special interests pursuing their own agendas, CALPIRG Education Fund offers an independent voice that works on behalf of the public interest. CALPIRG Education Fund, a 501(c)3 organization, works to protect consumers and promote good government. We investigate problems, craft solutions, educate the public, and offer Californians meaningful opportunities for civic participation.

For more about CALPIRG Education Fund or for more copies of this report, please visit:
<http://www.calpirgedfund.org>.



2013 CALPIRG Education Fund

Some Rights Reserved: CALPIRG Education Fund issues this report under a Creative Commons “some rights reserved” license. You are free to copy, distribute, or display the work for non-commercial purposes, with attribution. For more information about this Creative Commons license, visit:
<http://creativecommons.org/licenses/by-nc-nd/3.0>.

Executive Summary

Over 330,000 Californians in individual insurance plans will see average rate hikes of over 10% if the rate hike proposed by Blue Shield of California Life & Health Insurance Company goes forward as planned on July 1, 2013.¹

If approved, there will be real-life consequences for the consumers enrolled in the 23 different Blue Shield health care plans included in this proposed rate increase. Policyholders will see an average annual premium increase of \$672.21, with some members paying as much as \$6,697. Not only is Blue Shield's requested annual premium rate increase three times higher than the rate of medical inflation, it comes while the median income for Californians has declined every year for the last five years when adjusted for inflation.²

Given the magnitude of this rate hike and its impact on policyholders, the insurer should be held to a high standard of scrutiny in justifying the need for such a significant increase. Yet Blue Shield failed to provide the California Department of Insurance with the necessary information required to fully assess the reasonableness of the proposed rate increase in their initial rate filing. Only after additional supporting data was requested by the California Department of Insurance, did Blue Shield provide subsequent filings which shed more light on the predicted trends and costs for these plans.³

The California Public Interest Research Group (CALPIRG) Education Fund worked with the actuarial firm NovaRest Actuarial Consulting to analyze Blue Shield's initial and subsequent rate filings submitted by Blue Shield to the California Department of Insurance, and the analysis was reviewed by policy staff at Health Access.⁴

In addition to these comments, CALPIRG Education Fund provided the California Department of Insurance on 9 May 2013 an initial evaluation based on Blue Shield's initial rate filing and first subsequent submission (dated 30 April 2013) against the factors considered as part of the rate review process set forth in the SB 1163 Guidance. Following our initial assessment, the California Department of Insurance conferred with Blue Shield and sought additional documentation supporting their assumptions and projected costs. It is good news for California consumers that the California Department of Insurance required the insurer to thoroughly and publicly justify its significant proposed premium increase.

After analysis of the complete filing – inclusive of the three subsequent submissions – it appears that for the most part, Blue Shield provided sufficient background data for the requested rate increase. However, there are still several outstanding questions surrounding this filing, as noted below. We remain concerned

¹ Blue Shield of California Proposal to Increase Small Group policies, Effective 01 July, 2013, State Tracking Number: HAO-2013-0031. Accessed online May 2013 at: <http://interactive.web.insurance.ca.gov>

² Accessed online at: http://laist.com/2012/09/12/california_poverty_rates.php

³ Available online at:

https://interactive.web.insurance.ca.gov/apex/f?p=102:9:0::NO::P9_RATE_FILINGS_ID,P9_COMPANY_NAME,P9_REFERRING_PAGE_NUM:7327,Blue%20Shield%20of%20California%20Life%20%26amp%3B%20Health%20Insurance%20Company,4&cs=1907AD78D4E258918A041B24A8F815BBF

⁴ Blue Shield of California Proposal to Increase Small Group policies, Effective 01 July, 2013, State Tracking Number: HAO-2013-0031. Accessed online May 2013 at: <http://interactive.web.insurance.ca.gov>

that the rate increases outpace the changes in the consumer price index (CPI) more than threefold, and given Blue Shield's stated intentions to file new rate plans starting January 2014.⁵

These rising health insurance rates are not sustainable for California's small businesses and their employees. We encourage Blue Shield to pursue all available strategies to reduce the rising cost of care – not by cutting care or increasing deductibles – but by cutting waste and incentivizing prevention and care that get results. In addition, we encourage the California Department of Insurance to explore how the rate review process might, in coordination with other health reform efforts, spur such efforts by insurers to reduce costs while improving quality.

Key Findings

1. Overall, the original filing lacked sufficient information for actuarial review.

We do not believe that Blue Shield's initial filing provided information in sufficient clarity and detail such that a qualified health actuary could make an objective appraisal of the reasonableness of the rate. For example, the original filing not appear to include an appropriate actuarial memorandum, and the Milliman report included with the filing did not include much of the information on the source of assumptions that we would expect to see in a complete rate filing.

2. Blue Shield failed to provide sufficient data and explanation to fully support the factors that the rate increase is based on.

The quarterly rate increases included in this filing result in a total annual rate increase of 10.6% for the third quarter of 2013 and 11.2% for the fourth quarter of 2013. Our review of Blue Shield's initial filing found that there was insufficient evidence to support the assumptions by which the rate increases were developed. In the subsequent filings, Blue Shield did provide significant information regarding historic trends and trend development. However, while claim trends are the largest factor in the rate development, there are additional adjustments beyond the trend that were not documented in the subsequent filings.

3. CALPIRG Education Fund is concerned that the loss ratio may indicate excessive premiums.

Loss ratios are often used to determine if the premium is consistent with expected costs. The loss ratio for the product indicated as *Baja HMO 10* (70.8%) is significantly less than the other products. This may indicate that the premium rates do not appropriately correspond to the expected costs; however, it is also a low credibility plan. CALPIRG Education Fund is concerned that the loss ratio may indicate excessive premiums. This is supported by the fact that the Blue Shield's documentation indicates a premium decrease for this product. The actual premium change will be determined by Blue Cross's decision about the impact of the plan's credibility.

4. The proposed annual premium rate increases are over three times the medical care component of the CPI for 2012 of 3.2%.

In the material submitted by Blue Shield, it is clear that the proposed annual premium rate increases for the 3rd and 4th quarters of 2013 significantly exceed the rate of medical cost inflation. We are concerned that Blue Shield has not sufficiently explored alternate cost reduction strategies prior to further increasing health insurance costs for consumers.

⁵ See note in subsequent submission dated 30 April 2013, p.2.

Key Features of the Proposal⁶

Filing at a Glance

- **Company:** Blue Shield of California Life & Health Insurance Company.
- **Product Name:** Premier PPO Plans, Enhanced PPO Plans, Shield Spectrum PPO Plans, Base PPO Plans, and Simple Savings Plans.
- **Date Submitted:** 01 March 2013
- **SERFF Tracking Number:** BCCA-128923718
- **State Tracking Num:** HAO-2013-0031
- **HHS Issuer Id:** 00000
- **Implementation Date Requested:** 01 July 2013
- **Product Names:** Premier PPO 5, Premier PPO 15, Premier PPO 25, Premier PPO 35, Premier PPO 45, Enhanced PPO 15, Enhanced PPO 25, Enhanced PPO 35, Enhanced PPO 45, Shield Spectrum (SM) PPO Plan 750 Value, Shield Spectrum (SM) PPO Plan 1000 Value, Shield Spectrum (SM) PPO Plan 1500 Value, Shield Spectrum (SM) PPO Plan 2500 Value, Base PPO 30, Base PPO 40, Base PPO 50, Simple Savings 2500 / 5000, Simple Savings 3500 / 7000, Simple Savings 4500 / 9000, Simple Savings 5500 / 11000.
- **Overall medical trend Factors:** 9.4%

Prior Rate:

- **Total Earned Premium:** 580,064,050.00
- **Total Incurred Claims:** 456,964,759.00
- **Minimum Premium :** \$144.00
- **Maximum Premium:** \$6,540.00

Requested Rate

- **Projected Earned Premium:** 596,472,597.00
- **Projected Incurred Claims:** 469,945,621.00
- **Minimum Premium :** \$150.00
- **Maximum Premium :** \$6,697.00

⁶ See Blue Shield of California Proposal to Increase Small Group policies, Effective 01 July, 2013, State Tracking Number: HAO-2013-0031. Available online at: <http://interactive.web.insurance.ca.gov>

Discussion of Rate Filing

During the course of our review we found that the original filing lacked sufficient information to do an appropriate actuarial review. Specifically, we did not find an appropriate actuarial memorandum in the original rate filing provided by Blue Shield. The Milliman actuarial report enclosed in the rate filing lacked information expounding upon the source of assumptions that we would expect to see in a rate filing and one that would be necessary for a complete actuarial review on our part. For the most part, this was later corrected in the three subsequent filings.

In each of the items below, we discuss the remaining outstanding questions surrounding the rate filing and their impacts on Blue Shield of California members.

1. Overall, the original filing lacked sufficient information for actuarial.

As noted, the Milliman report in the original filing did not include much of the information on the source of assumptions that we would expect to see in a complete rate filing. We do not believe that Blue Shield's initial filing provided sufficient clarity and detail such that a qualified health actuary could make an objective appraisal of the reasonableness of the rate.

2. Blue Shield failed to provide sufficient data and explanation in support of the factors that the rate increase is based on.

The quarterly rate increases included in this filing result in a total annual rate increase of 10.6% for the third quarter of 2013 and 11.2% for the fourth quarter of 2013. Our review of Blue Shield's initial filing found that there was insufficient evidence to support the assumptions by which the rate increases were developed.

However, in the subsequent filings Blue Shield did provide significant information regarding historic trends and trend development. Yet while claim trends are the largest factor in the rate development, there are additional adjustments beyond the trend that were not documented in the subsequent filings. These include rider adjustment factors, pooling adjustment factors, core trends, seasonality factors, benefit adjustment factors, medical management expenses, administrative expenses, and risk adjustment factors.

CALPIRG Education Fund notes that the trend assumptions in Appendix C-3 generally look reasonable in that assumed values for 2013 and 2014 are lower than the experience of 2011 and 2012. However, the high cost trend cited for brand drugs (27.2% in 2013, 26.2% in 2014) may be unreasonable.

3. The Baja HMO 10 plan has a significantly low loss ratio and may have excessive premiums.

Loss ratios are often used to determine if the premium is consistent with expected costs. Overall the loss ratios among products exhibit variations that can be expected based on normal statistical fluctuation with one possible exception. The loss ratio for the product indicated as Baja HMO 10 (70.8%) is significantly less than the other products. This may indicate that the premium rates do not appropriately correspond to the expected costs; however, it is also a low credibility plan. The low credibility may result in higher statistical fluctuation and therefore the results vary significantly from year to year.

CALPIRG Education Fund is concerned that the loss ratio may indicate excessive premiums. This is supported by the fact that the Blue Shield's documentation indicates a premium decrease for this product. The actual premium change will be determined by Blue Shield's decision about the impact of the plan's credibility.

4. The proposed annual premium rate increases are over three times the medical care component of the CPI for 2012 of 3.2%.

The proposed annual premium rate increases for 3Q13 and for 4Q13 significantly exceed the rate of medical cost inflation.

In the material submitted by Blue Shield, it is evident that the proposed annual premium rate increases of 10.8% (non-HSA) and 11.5% (HSA) for 3Q13 issues are greater than the medical care component of the CPI for 2012 of 3.2%. Similarly, the proposed annual premium rate increases of 10.6% (non-HSA) and 11.2% (HSA) for 4Q13 issues are greater than the medical care component of the CPI for 2012 of 3.2%.

Because the medical component of CPI measures price inflation at the retail level, and does not factor in utilization or other factors, it is not unusual for insurance rates to rise faster than medical inflation. However, the fact that the proposed rate increase so greatly exceeds medical CPI should underscore the need for thorough support and documentation to justify this rate increase proposal. As discussed above, we are concerned that the current filing documents do not provide adequate information to justify the proposed rate increases.

5. The insurer's surplus condition and dividend history, while not excessive, are lower than what would be considered financially sound.

The RBC ratios provided in Blue Shield's rate filing are not excessive. However, the 2013 projected RBC rates stated in the subsequent submission (dated 17 May 2013) are lower (less than 500%) than what industry considers to be financially sound.

	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 ACTUAL	2013 1Q Fcst
RBC ratio	496%	517%	563%	447%	441%	392%

6. The Annual Compensation of Blue Shield's CEO and top Executive Officers surpassed \$10.6 million.

In their criteria for assessment of insurers' rate increase proposals, the California Department of Insurance considers the annual compensation of the top paid officers, executives, and employees of the insurer submitting the rate filing. Our review found that the annual compensation of Blue Shield's CEO alone was more than \$ 2.1 million and those of its top Executive Officers surpassed \$8.5 million. We are concerned that while executive salaries surpass \$10.6 million annually, the proposed rate hike may drive Blue Shield's customers to drop coverage, destabilizing the risk pool and resulting in future rate increases.

Conclusion

After analysis of the complete filing – inclusive of the three subsequent submissions – it appears that for the most part, Blue Shield provided sufficient background data for the requested rate increase. However, we note that it took repeated requests for Blue Shield to provide the information necessary to justify the rate increase.

Moreover, we remain concerned that the rate increases outpace the changes in the consumer price index (CPI) by more than threefold. Given the scale of the potential rate increase – a maximum of \$6,697 per year – which will affect roughly 330,000 consumers means and Blue Shield’s stated plans to request another rate hike in December 2013, we call on them to thoroughly explore alternate cost reduction mechanisms prior to further increasing health insurance costs for consumers.