
A Glimpse into Arizona's Health Insurance Rate Review Program **July 1, 2013**

Executive Summary

The purpose of *A Glimpse into Arizona's Health Insurance Rate Review Program* is to provide an initial analysis on how effectively Arizona is reviewing health insurance rate filings for the individual market since being awarded status as a State with an Effective Rate Review Program.

Working with an actuary in Arizona, the Arizona PIRG Education Fund assessed four different rate filings that were chosen in part to provide a sampling of well-known and lesser known insurers; rate increases about to occur in either the individual or small group market; and to highlight any positive or negative trends that may impact the cost of health care for Arizonans.

Through our assessment, the Arizona PIRG Education Fund sought to determine whether each insurer had adequately justified their proposed rate increase; and, whether the Arizona Department of Insurance's (ADOI) process was transparent, information was easily accessible, and the rate proposal was well-scrutinized to determine if it was reasonable.

In addition to considering the range of factors identified as part of an effective rate review program, we also evaluated additional information we deemed as critical to protecting consumers from excessive rate hikes.

Key findings include:

1. ADOI deserves credit for encouraging stakeholders to offer suggestions to improve transparency of the filings and the rate review process, alerting interested parties when an applicable rate increase is filed and has been determined, and being responsive to inquiries on the rate process and on specific filings.
2. Information about proposed health insurance rate increases is difficult to find on the ADOI website; in particular, it is challenging to access the actual rate filing.
3. The complete rate filing does not appear to be transparent. For example, supplemental information, such as documents from the insurer in response to a question from ADOI, does not appear to be publicly available.
4. Insurers appear to have not provided the public with sufficient information to justify their proposed rate increase and the underlying assumptions, particularly in the case of the insurers' projected medical costs.

5. Affordable Care Act's (ACA) Medical Loss Ratios are sometimes only narrowly surpassing the 80% standard and may require insurers' to issue rebates if their medical costs come in under projections.
6. Insurers are currently not required to show that proposed rate increases are based on reasonable administrative costs and are not required to explain what they are doing to reduce rising medical costs in ways that improve quality.
7. ADOI can determine a rate increase to be unjustified; however, they do not have the authority to protect consumers from an unreasonable rate increase.

Based on our assessment of the rate filings, the Arizona PIRG Education Fund recommends that ADOI conducts the following to strengthen the effectiveness of our state's health insurance rate review process:

1. Further expand transparency. Make the filings easier to locate on the ADOI website and make supplemental filing documents publicly available;
2. Require insurers to thoroughly justify rate increase proposals. The justification should include the data and calculations necessary to evaluate their proposal as well as reasonable administrative costs and a strategy to lower health care costs. ADOI should then carefully scrutinize each of the insurers' justifications; and,
3. Request and advocate for authority to deny rate increases that are unjustified or unreasonable to better protect individual consumers and small businesses from excessive rate increases.

Background on Health Insurance Rate Review

Rate review offers a way for Arizona and other states to oversee health insurers' proposed premium increases and provide better consumer protections.

Under the Patient Protection and Affordable Care Act (ACA), any proposed premium health insurance rate increase of 10 percent or greater needs to be reviewed. Under the law, insurers must file information with the federal government and make that information public. Recently, Arizona was granted status as a state with an effective rate review program for the individual health insurance market.

What is an Effective Rate Review Program?

The U.S. Department of Health and Human Services (HHS) established a set of requirements in order for a state to be considered to have an effective rate review program (see full requirements at: http://www.cms.gov/CCIIO/Resources/Fact-Sheets-and-FAQs/rate_review_fact_sheet.html).

State insurance regulators must:

1. Receive sufficient data and documentation from the health insurance company to enable them to evaluate whether the proposed rate increase is reasonable.
2. Consider a wide range of factors as they apply to the review, including:
 - Medical cost trend changes by major service categories

- Changes in utilization of services (e.g., hospital care, pharmaceuticals, doctors' office visits) by major service categories
- Cost-sharing changes by major service categories
- Changes in benefits
- Changes in enrollee risk profile
- Impact of over- or under-estimate of medical trend in previous years on the current rate
- Reserve needs
- Administrative costs related to programs that improve health care quality
- Other administrative costs
- Applicable taxes and licensing or regulatory fees
- Medical loss ratio
- The issuer's capital and surplus
- The impacts of geographic factors and variations
- The impact of changes within a single risk pool to all products or plans within the risk pool; and
- The impact of reinsurance and risk adjustment payments and charges under sections 1341 and 1343 of the Affordable Care Act

3. Determine whether the rate increase is reasonable under a standard set forth in state statute or regulation.

4. Post either rate filings under review or preliminary justifications on their websites or post a link to the preliminary justifications that appear on the CMS website.

5. Provide a way for the public to comment on proposed rate increases.

How Effective is the Effective Rate Review Program in Arizona?

While the Arizona Department of Insurance (ADOI) is required through the effective rate review program to provide transparency for applicable rate increases, require justification from insurers, scrutinize rate increase proposals, and determine if a proposed rate increase is reasonable or unreasonable; ADOI lacks the authority from the state to deny an unjustified or unreasonable rate increase.

Although Arizona only recently adopted the effective rate review program for the individual market, ADOI deserves credit for encouraging stakeholders to offer suggestions to improve transparency, alerting interested parties when an applicable rate increase is filed, and being responsive to inquiries on the rate process and on specific filings.

Ultimately, Arizona should make its rate review process more effective in protecting consumers by strengthening ADOI's authority to prevent unreasonable rate increases from going into effect. Over thirty other states already have prior approval authority for at least some insurance products, including New Mexico, Nevada and Colorado.

Assessment of Arizona Health Insurance Rate Filings

Working with an actuary in Arizona, the Arizona PIRG Education Fund assessed four different rate filings that were chosen in part to provide a sampling of well-known and lesser known insurers; rate increases about to occur in either the individual or small group market; and to highlight any positive or negative trends that may impact the cost of health care for Arizonans. Through our assessment, the Arizona PIRG Education Fund sought to determine whether each insurer had adequately justified their proposed rate increase; and, whether ADOI's process was transparent, information was easily accessible, and the rate proposal was well-scrutinized to determine if it was reasonable.

In addition to considering the range of factors identified as part of an effective rate review program, the following information (if available in the rate filing) was also evaluated:

- Was the average rate increase proposed based on clear methodology, data and calculations?
- Are certain individuals expected to receive a significantly higher or lower increase than the proposed average, and if so, what factors contribute to this calculation?
- Was the projected medical costs and assumptions adequately supported by data and calculations?
- Has the insurer demonstrated an effort to control the underlying rise in medical costs while improving quality? For example, does the insurer pay providers in a manner that encourages better coordination, improved safety, evidence-based medicine and preventive care?
- Were specific administrative costs and the rise in these costs included? Was there evidence of the insurer making efforts to cut waste?
- What is the impact on the stability of the insurer's risk pool if the rate increase is approved? Is that likely to lead to steeper or less-steep rate increases in the future?

Findings on Select Arizona Health Insurance Rate Filings

1). Blue Cross Blue Shield of Arizona – SERFF Filing # BCAZ-128913249 - Individual PPO
Effective 7/1/2013

10.9% average annual rate increase impacting 67,248 individuals which includes a 14.8% rate increase on 12,829 individuals renewing during July 1-September 30, 2013

The Arizona PIRG Education Fund has concerns, including the following, with this filing:

- The filing appears to lack sufficient information necessary to determine the reasonableness of the rate increase. According to the publicly available filing, it appears the insurer failed to supply detail on non-claims costs including administrative costs and margin and contribution to surplus. The filing also appears to provide inadequate support for the projected medical trend of 7.5% over 25.1 months.

- The insurer is cutting benefits *and* increasing out-of-pocket costs. At the same time the insurer is raising premiums, it is limiting coverage for services such as Hospice respite care and nutritional counseling and increasing out-of-pocket costs for a set of plans.
- The insurer’s proposed medical trend may include a hidden profit margin. The insurer included a contingency of 1.0% for “volatility” which adds 2.1% to the rate increase. It is not necessarily industry practice to include this type of margin for fluctuation.
- The filing appears to lack sufficient information necessary to justify the medical loss ratio. The insurer listed a “needed” medical loss ratio (MLR) of 75.4% but in the initial publicly available filing did not include a justification. From a review of subsequent correspondence, we found that ADOI had requested further information and that the insurer provided this information; however, the document was not made publicly available.
- The insurer’s “ACA” MLR is listed as 80.4%, which only narrowly surpasses the 80% minimum required to be spent on medical care. If the insurer over-estimated the projected medical costs in the filing, it is likely that the MLR will fall below 80%, which would trigger a rebate to consumers. The Arizona PIRG Education Fund thinks it is better to avoid overcharging consumers in the first place underscoring the importance of ensuring the medical cost projections are adequately justified.
- The insurer’s surplus levels are at 1223% of the minimum required amount which may be considered excessive.

2). Blue Cross Blue Shield of Arizona – SERFF Filing # BCAZ-128962553 - Individual Effective 10/1/2013

13.3% average annual rate increase including a 15.7% rate increase on individuals renewing during October 1-December 31, 2013

The Arizona PIRG Education Fund has concerns that largely mirror the previous Blue Cross Blue Shield filing including:

- The publicly available information appears to lack adequate justification for the medical trend projection, “needed” MLR, or provide sufficient information about the level of administrative costs and contribution to surplus.
- The insurer’s proposed medical trend may include a hidden profit margin. The unjustified “contingency” factor of 1.6% may serve as a hidden profit margin, adding 3.2% to the rate increase.
- The filing appears to lack sufficient information necessary to justify the MLR. The insurer listed a “needed” MLR of 75.1% but in the initial publicly available filing did not include a justification.
- The insurer’s “ACA” MLR is listed as 81%, which only narrowly surpasses the 80% minimum required to be spent on medical care. If the insurer over-estimated the projected medical costs in the filing, it is likely that the MLR will fall below 80%, which would trigger a rebate to consumers. As noted above, the Arizona PIRG Education Fund thinks it is better to avoid overcharging consumers underscoring the importance of ensuring the medical cost projections are adequately justified.
- The insurer’s surplus levels are at 1223% of the minimum required amount which may be considered excessive.

- 3) Golden Rule Insurance Company – SERFF Filing #AMMS-128904537 – Individual PPO
Approved 4/13; Effective 7/1/2013
18.5% average weighted rate increase proposed (10.4% over the previously filed rate increase)
impacting 31,946 individuals

The Arizona PIRG Education Fund has concerns, including the following, with this filing:

- The publicly available filing did not appear to include the information necessary to scrutinize the reasonableness of the rate increase. For example, the filing lacked sufficient data and calculations to support trend and trend factors.
- The comment on the rate filing by ADOI’s consulting actuary refers to calculations used to test the insurer’s assumptions and underlying data to develop trends, but these calculations were not made publicly available for review.
- The administrative trend is not quantified or detailed into categories such as general administrative costs, taxes, salaries and commissions.

- 4). Aetna AZ-2013-07-01 - Small Group (small group filings are reviewed by HHS, not ADOI)
Effective 7/1/2013
14.1% rate increase impacting 46,916 individuals

Since HHS, not ADOI, currently reviews small group filings, the rate filing itself was not available for public review. Therefore, the following key information was not available:

- Support for the development of the medical trend projection, rate development and loss ratio projections.
- Summary definition of the benefits provided, development of the ACA taxes and fees, description of and any impact of large claims pooling, range of rate increases that small groups will experience, description of any anticipated changes in the demographics of the insured population, and description of how the insurer is working to control costs.

Conclusion and Recommendations

As mentioned above, ADOI deserves credit for encouraging stakeholders to offer suggestions to improve transparency, alerting interested parties when an applicable rate increase is filed, and being responsive to inquiries on the rate process and on specific filings.

However, while ADOI is making strides, due to a lack of information, the Arizona PIRG Education Fund often could not reach conclusions when attempting to determine medical and administrative cost trends. Whether the lack of documentation on assumptions, methodology, trends or other information should be attributed to insurance companies, ADOI or a combination of the two, Arizonans deserve to know how health insurance rates were proposed and how they were deemed to be reasonable or unreasonable.

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