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Preliminary 2018 Rate Decisions for Individual Health Benefit Plans

Background

Insurance companies offering individual health benefit plans in 2018 must file proposed rates for regulatory review and approval before plans can be sold to consumers. Rates reflect estimates of future costs, including medical and prescription drug claims costs and administrative expenses, and these estimates are based on historical data and forecasts of future trends.

Oregon law requires that premium rates be "actuarially sound." This means that rates cannot be too high or too low and may not unfairly discriminate among policyholders. Insurance companies have a responsibility to develop rates that meet these requirements, but the Department of Consumer and Business Services' Division of Financial Regulation has a responsibility to the public to ensure that the rates are actuarially sound. It is easy to understand why the division would be concerned about rates being too high, as consumers should not be overcharged for their insurance coverage. But it is just as critical that rates not be too low to ensure that claims will be paid.

Oregon's market continues to change

Oregon's traditionally competitive health insurance market has been through significant changes over the past several years. Since the Affordable Care Act (ACA) took effect in 2014 and prices became more transparent, premiums have been a large driver of consumer choice and of competition among insurance companies. However, in many instances, the actual cost of providing coverage has exceeded the rates being charged.

As we look forward to 2018, a number of factors influence health insurance rates for Oregonians:

- **The legal landscape and the future of the ACA**
  The ongoing national policy debate over the future of the ACA has created significant legal uncertainty as companies set rates for the 2018 benefit year. In May, the House of Representatives delivered on President Trump's campaign promise to repeal and replace the ACA by passing the American Health Care Act (AHCA). The Senate is currently considering its own version of the bill, known as the Better Care Reconciliation Act (BCRA). If ACA repeal legislation passes both houses, the bill would likely undo many ACA provisions that would otherwise apply in 2018. Possible changes include a complete repeal of the individual and employer mandates, and the elimination of most, if not all, ACA taxes and fees. Although these changes could significantly affect enrollment, morbidity, and carrier finances, the division bases its rate decisions on the current state of the law. Accordingly, the preliminary rate decisions do not include any adjustments for possible future changes.

  Similarly, companies participating in the Oregon Health Insurance Marketplace face the possibility that the federal cost-sharing reduction payments could stop. These payments reimburse companies for providing reduced cost sharing for low-income Marketplace enrollees. The validity of these payments is the subject of a lawsuit that is currently being held in abeyance by the District of Columbia Court of Appeals. While the ultimate outcome of this lawsuit cannot be known, the Trump Administration has continued the payments to date. As such, these rate decisions do not account for the possibility that the payments may cease.

If these or other federal changes are enacted, the division will make adjustments as necessary to ensure that Oregon premium rates remain actuarially sound.

- **Individual mandate**
  The Internal Revenue Service (IRS) announced in February 2017 that it is no longer mandatory that taxpayers indicate their coverage status on their tax forms. Coupled with the promise from the White House and the ongoing effort in Congress to repeal the individual mandate, companies are concerned that healthy individuals will opt out of coverage. This decision is not without risk to the consumer, as the individual mandate is currently still in effect. The division has concluded that the risk is measurable, and that the impact to rates is between 2.4 percent and 5.1 percent.

  There is additional risk that the individual mandate could be repealed, and individuals would be free to drop otherwise unaffordable coverage without penalty. This will create additional instability in an already volatile market.

- **Reinsurance**
  A portion of the premium tax established in HB 2391 will be used to fund a reinsurance program for the individual market. In addition to lowering rates, the program will add additional stability and predictability in the market. The Oregon Reinsurance Program will assist affected Oregonians by reducing individual market rates by an additional 6 percent while adding a 1.5 percent increase to small and large group premiums. Note that without the Oregon Reinsurance Program, the division's preliminary individual market rate decisions would be 6 percent higher and preliminary small group rate decisions would be 1.5 percent lower for all companies.

- **Trend**
  Allowed trend is the annual increase in per-member-per-month claim amounts, figured on a paid-in-full basis. The division has determined that the allowed trends filed by the carriers are acceptable, as they fall within a range of 4.1 percent to 8.0 percent for individual, and 4.0 percent to 8.2 percent for small group.

  This range is reasonable in light of support given in the filings, as well as data from other sources. Paid trends, where shown in the filings, are based on actual reimbursed amounts and are slightly higher than allowed trends, as would be expected. Trends consist primarily of two components, unit cost and utilization, and sometimes a third component, leveraging. Unit cost trend varies from 2.0 percent to 6.4 percent in these filings, and is greatly affected by the contracts insurers can make with their network providers, as well as medical costs attributed to specialized prescription drugs. Utilization trend runs from 0.9 percent to 2.8 percent and is strongly affected by aging of the population, among other factors. Leveraging, where it is included, ranges from 0.8 percent to 1.5 percent and stems from the mathematical effect of increases in costs that are subject to cost-sharing. Where not included in trend, leveraging is accounted for in plan relativities.

- **Premium spread**
  "Premium spread" is the difference in the premium charged by different companies for similar plans in the same area. The premium spread among companies will be narrower in the 2018 individual market compared to 2017. The spread between the highest and the lowest Standard Silver plan for a 40–year-old non-smoker in the Portland area is used to demonstrate the spread. As shown in the following table, with all the companies included in the comparison, the spread decreases from $130 in 2017 to $97 in 2018. To further illustrate the move, we exclude the outliers in the second scenario. The spread decreases significantly from $80 in 2017 to $40 in 2018 after eliminating the outliers. We view this as a positive move that will help stabilize the market.

Price Range for a 40-year-old Non-Smoker in the Portland Area

	2017	2018
Scenario 1 (all companies)	$130	$97
Scenario 2 (exclude outliers*)	$80	$40

*Pacific Source (highest) and Kaiser (lowest) are excluded.

- **Risk adjustment**
  The Risk Adjustment Program is a permanent program intended to protect companies against adverse selection in the individual and small group markets by redistributing funds from plans with low-risk enrollees to plans with high-risk enrollees. A plan with average risk does not pay or receive funds from this program. Oregon requires companies to set rates reflecting average risk rather than the risk of their enrollees; therefore, companies must estimate the risk of their enrollees relative to the average and demonstrate this in the rate filings.

  In June 2017, the division learned of potential discrepancies in relative risk calculations between what companies had originally filed in the individual market and emerging data with refined calculations. The division requested updated risk adjustment data from companies and determined that rates for many companies would require adjustments to avoid being excessive or inadequate. The impact of the proposed adjustments ranges from a decrease of 4.0 percent to an increase of 6.0 percent.

2018 rate filings and preliminary decisions

Insurance companies' 2016 financial statements showed that the total cost to provide coverage for individual plans was $1.05 billion, while premiums were only $997 million, creating a gap of $51 million. While 2017 rates increased significantly and some companies are beginning to see improved financial results, the factors described above continue to drive individual health insurance rates higher.

For 2018, all but one of the health insurers requested double-digit rate increases. In reviewing the rate filings, the division found that most projected an average claims cost that matched or came close to the division's estimates. Rising costs account for most of the requested increases.

- Including the impact of reinsurance, the division's preliminary rate decisions indicate individual market rate changes ranging from a decrease of 1.6 percent to an increase of 14.8 percent.
- Two Oregon companies left the market in 2017. ATRIO Health Plans, Inc. announced it was exiting the Oregon market at the end of the year, and Zoom Health Plan, Inc. has been placed in receivership.

Public hearings and final decisions

These decisions are preliminary, and are subject to continued review through public hearings being held July 10 and 11. The division has released preliminary decisions before holding public hearings in an effort to provide the public and insurance companies a better opportunity to discuss elements of the filings and the factors affecting the division's decisions. Information about public hearings, including the schedule, can be found at: http://dfr.oregon.gov/healthrates/hearings/Pages/public-hearings.aspx.

The division will discuss preliminary decisions with insurance companies during the hearing and take public comment. The division will announce final decisions on July 20.

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