# Health Insurance Premium Rates

# February 5, 2020

Gorman Actuarial, Inc.

# AGENDA

- Health Insurance Data
- Health Insurance Premiums
- Health Insurance Base Rates
- Risk Pools for Rating
- Merging Individual and Small Group Risk Pools
- Risk Adjustment in the Merged market
- Membership

# Health Insurance Data

# The data that will be presented throughout this project will come from multiple data sources.

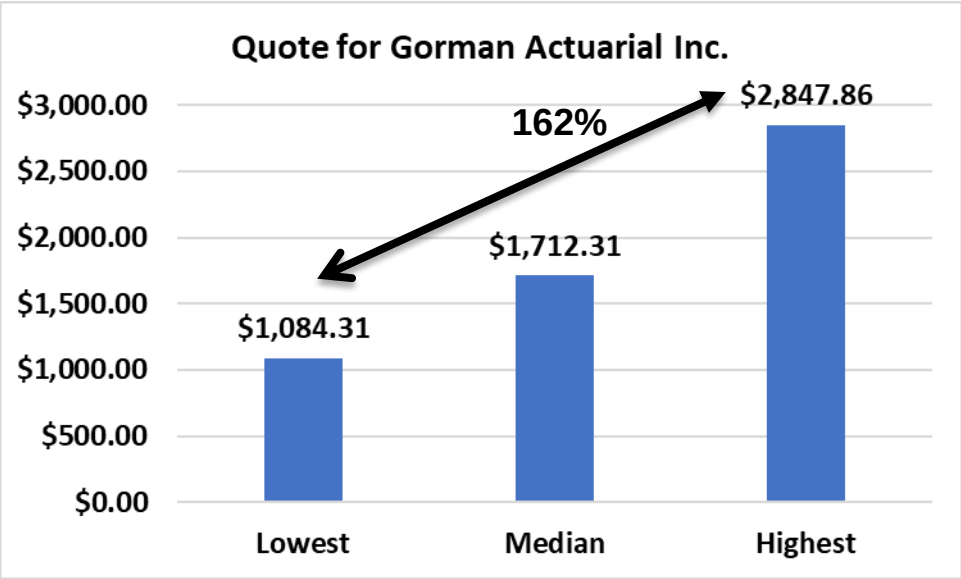
- Data by insurance carrier
  - Publicly available collected by CHIA or MA DOI
  - May not be the most up to date – but it will provide directional information

- More recent data will not be shown by insurance carrier
  - Data collected through MA DOI special examination authority and will be kept confidential
  - Data shown will be aggregated by subsegments of the market

# Health Insurance Premiums

# There is a range of choices in the market for individuals and small employers in the market.

***Gorman Actuarial: Sole Proprietor, Family of 4***




- Website requested age and zip code of each family member.
- Approximately 130 health insurance quotes were provided
- Monthly Quotes
- Insurers represented:
  - Health New England (HNE)
  - Fallon
  - Tufts Health Plan
  - AllWays
  - Harvard Pilgrim Health Care

**Quotes from Small Business Service Bureau, Inc. Website**

# The rates will vary based on the plan design(product) chosen.

| | | |
|---|---|---|
| fallon community health plan<br>Direct Care Bronze Deductible 3000 2020 | ▪ OV Copay- Deductible then $60/$75<br>▪ Inpatient/Day Surgery Copay- Deductible then $1,000<br>▪ Deductible- $3,000/$6,000<br>▪ Annual Out of Pocket Max- $8,150/$16,300<br>▪ Rx Copay- $5/$40/$100/$250 | **$1,084.31** |
| Harvard Pilgrim Health Care<br>Standard Platinum - Flex with pedi-dental 2020 | ▪ OV Copay- $20/$40<br>▪ Inpatient/Day Surgery Copay- Inpatient $500/Day Surgery Flex Provider $100, others $250<br>▪ Deductible- N/A<br>▪ Annual Out of Pocket Max- $3,000/$6,000<br>▪ Rx Copay- $10/$25/$50 | **$2,847.86** |

Monthly rates vary based on the health insurer chosen and the plan benefits (i.e., member cost sharing)

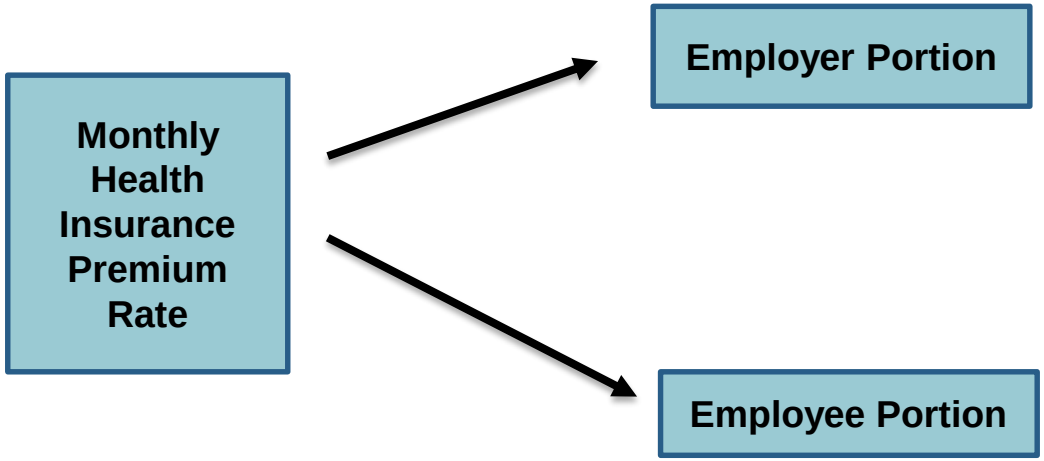
**Quotes from Small Business Service Bureau, Inc. Website**

# The choices individuals and employers make impact the premium they pay.

- Individual Choices (Individual Market or Sole Proprietor)
  - Health Insurer
  - Plan Design (e.g., Deductible vs. No Deductible)
  - Number of family members covered

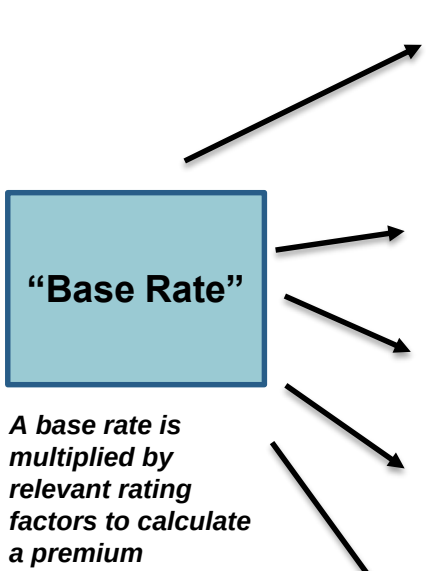
- Employer Group
  - Employer chooses health insurer and plan design for employees
  - Employee is typically expected to contribute to cost of premium
  - Health Connector for Business, through the “horizontal employee choice” model, allows each employee to choose an insurer within the metallic tier selected by the employer

# The employer pays a portion of the premium rate on behalf of the employee: employer contribution.




- Employers contribute some portion of the monthly premium
- The contribution can be a fixed monthly dollar amount or a percent

# Insurers are allowed to adjust each customer's rate for allowable rating factors .




| | |
|---|---|
| Benefit Factor | Adjustment varies based on plan choice by the consumer |
| Age | MA prescribes a 2 to 1 band<br>The ACA prescribes a 3 to 1 band |
| Geography | Defined regions: Each insurer establishes their own surcharges and discounts: MA prescribes a 1.5 to 1 |
| Group Size | Allowed in MA only. Each insurer establishes surcharges and discounts. Used to be 0.95 to 1.10 but phasing out over time |
| Group Purchasing Cooperative | Allowed in MA only. Each insurer establishes discount up to 3% |

ACA= Affordable Care Act

# Insurers are allowed to vary rates for the geography of the employer or individual policyholder in the MA Merged Market.

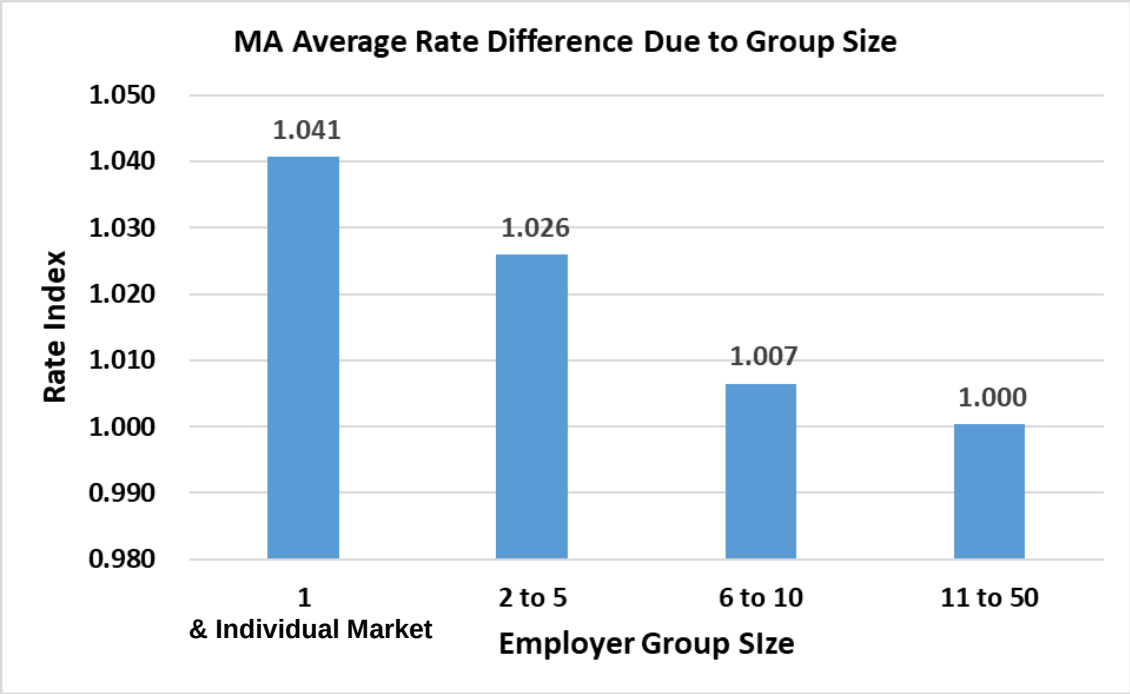
| Region # | Region | 3-Digit Zip Code | Discount/ Surcharge |
|---|---|---|---|
| 1 | West | 010-013 | -6.9% |
| 2 | Worcester/Central | 014-016 | -0.2% |
| 3 | Metro West | 017, 020 | 6.5% |
| 4 | Northeast | 018-019 | -3.3% |
| 5 | Metro/Boston | 021-022, 024 | 4.7% |
| 6 | Southeast | 023, 027 | -8.8% |
| 7 | Cape Cod | 025, 026 | 5.1% |

**Surcharges and Discounts in this table are calculated by CMS for risk adjustment purposes and can be used for directional information.**

CMS = Centers for Medicare and Medicaid Services

- Regions are prescribed by state law
- Discounts & surcharges vary by insurer
- Each state defines its own regions
- Each insurer's rating adjustments vary
- Must be based on price and provider practice differences between regions
- Limited to a rating band of 1:5 to 1 (MA only)

# Insurers are allowed to vary rates for the group size of the employer or individual policyholder in the MA Merged Market.

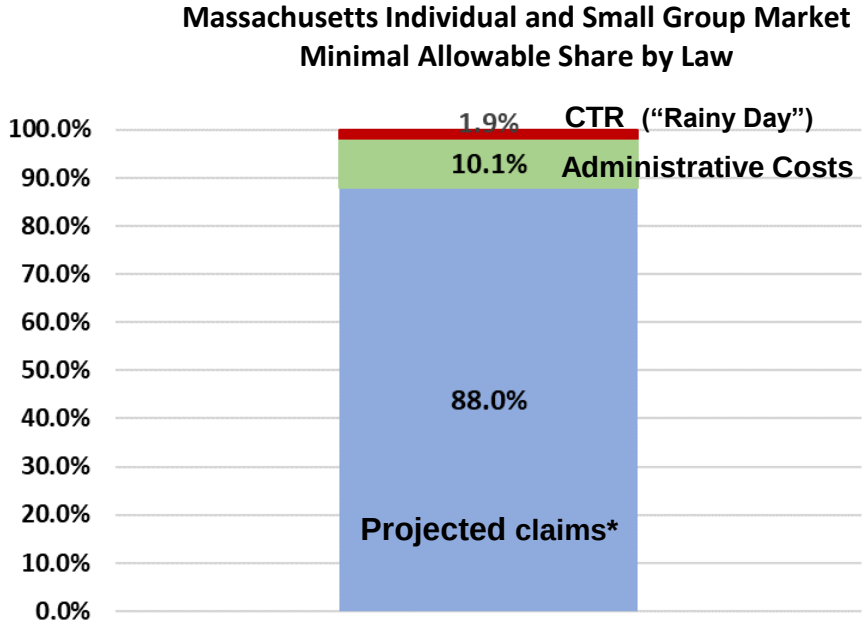


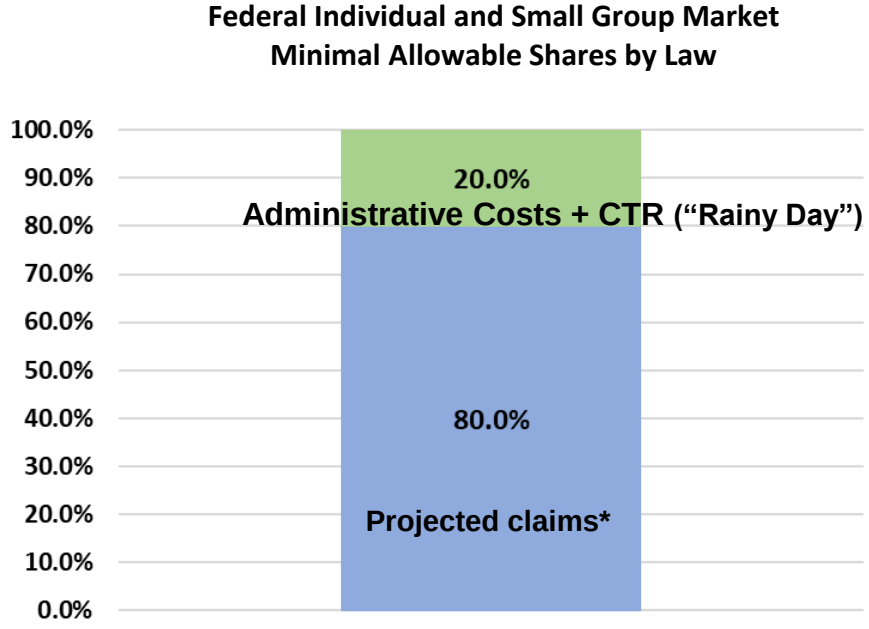

- Prior to the ACA, rating band was 0.95 to 1.10, meaning highest rate can be ~15% higher than lowest rate due to group size.
- The ACA does not allow group size rating and these adjustments are being phased out over time
- As they are phased out, smaller groups will experience a decrease in rates and larger groups will experience an increase

Source: MA DOI/Connector Information Request

# Health Insurance Base Rates

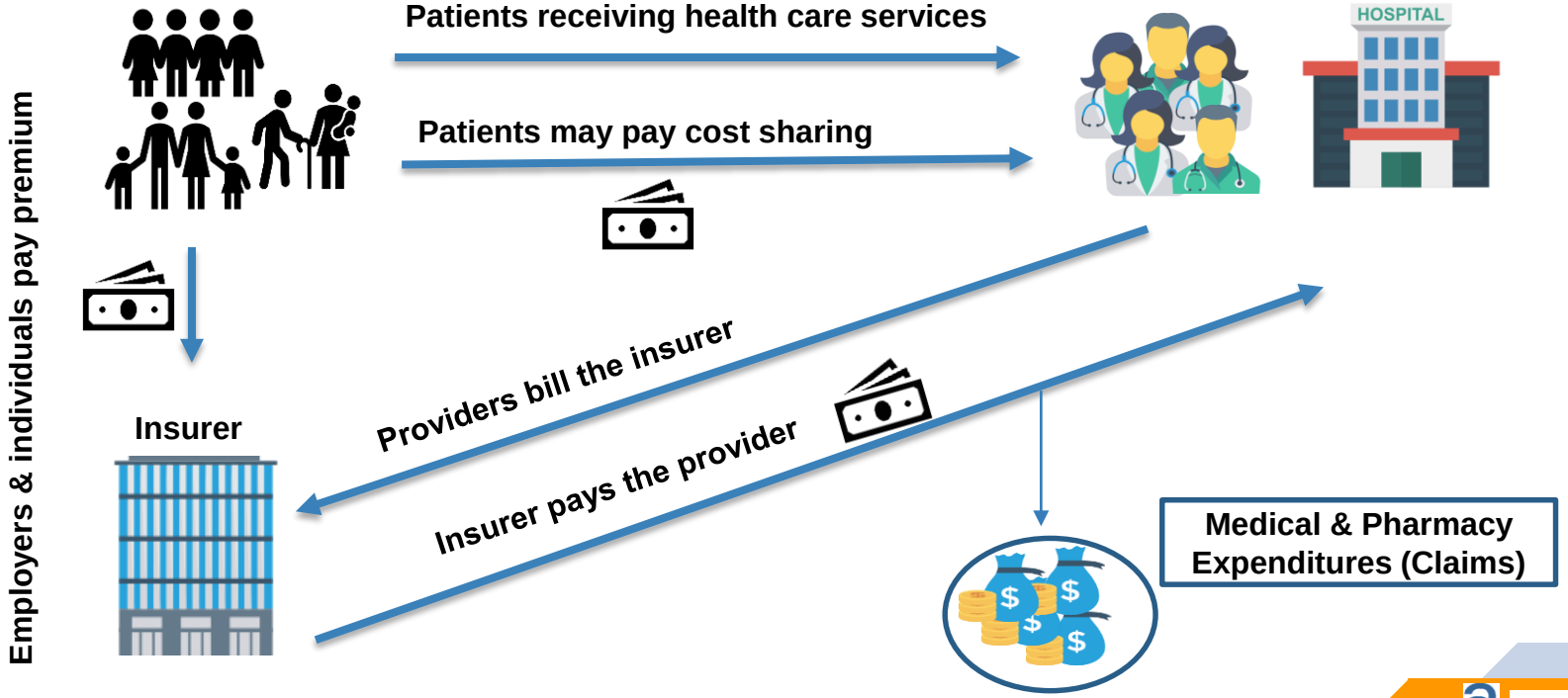
# Health insurance base rates are made up of projected claims, administrative costs and contribution to reserve ("CTR").




* *Projected claims include other adjustments allowed in the medical loss ratio (MLR) calculation*

# Base rates are developed by analyzing and projecting health care expenditures.

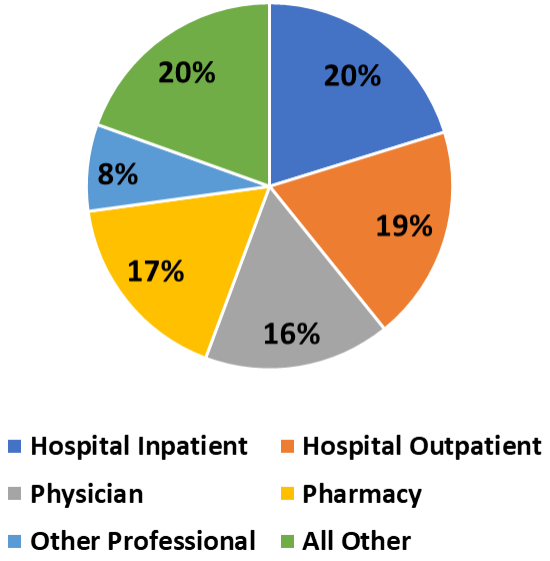


# Claims expenditures can be grouped into various medical services.

**Insurance Company XYZ insures 100,000 members**

*Illustrative*

| Service Category | CY 2019 Claims | Claims Per Member Per Month (PMPM) |
|---|---|---|
| Hospital Inpatient | $101,111,727 | $84.26 |
| Hospital Outpatient | $94,881,191 | $79.07 |
| Physician | $82,430,495 | $68.69 |
| Pharmacy | $85,682,803 | $71.40 |
| Other Professional | $38,251,082 | $31.88 |
| All Other | $97,642,702 | $81.37 |
| Total | $500,000,000 | $416.67 |
| | | |
| Member Months | 1,200,000 | |

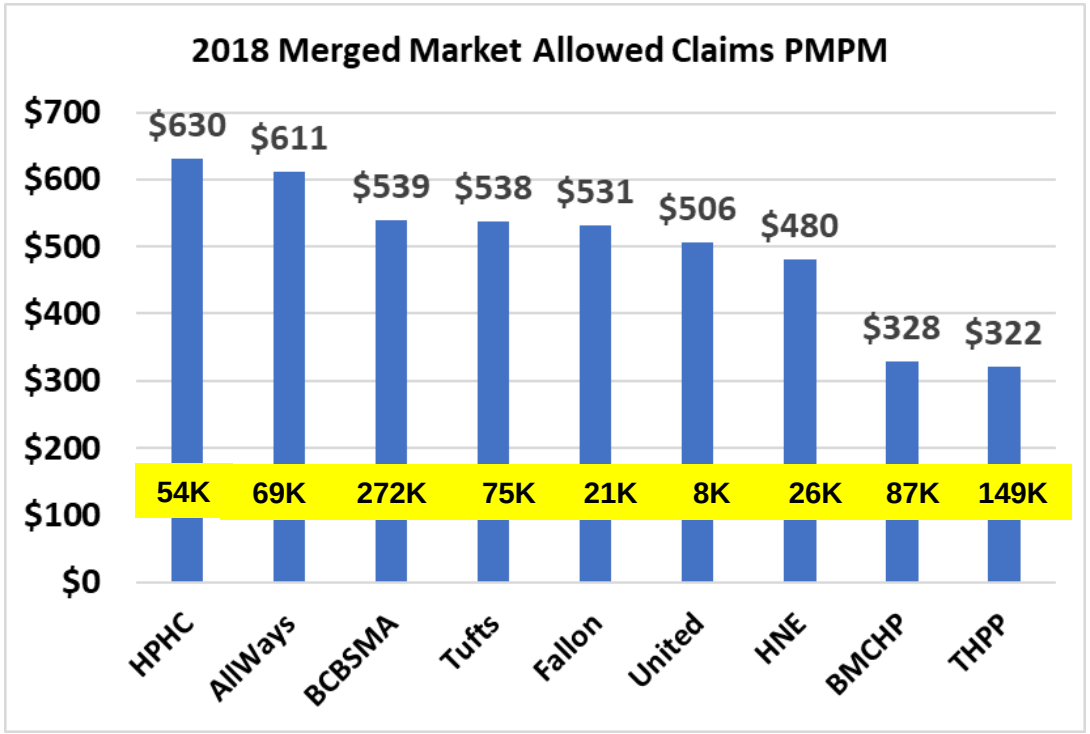



Source: CHIA's 2019 Annual Report Coverage Dataset

# There are many different measurements of financial data.

| | | |
|---|---|---|
| Total Medical Expense (TME)<br>Allowed Claims PMPM | $500.00 | This represents total health care benefit expenditures. It will include health care benefits paid for by the insurer and health care benefits paid for by the member in the form of member cost sharing. It will not include out-of-pocket expenses that the insurer does not know about. For example, OTC drugs spending. |
| Member Cost Sharing PMPM | $100.00 | This represents what the member pays in copays, deductibles, and coinsurance amounts. Generally the higher the cost sharing PMPM, the higher the member cost sharing (higher deductible plans). |
| Incurred & Paid Claims PMPM | $400.00 | This is equal to Allowed Claims - Cost Sharing and is the insurer liability and insurer costs. When insurers analyze profits and their financial standing, they will look at this number. When insurers want to understand health care cost trends, or compare one population to another on an apples to apples basis, they will analyze allowed claims. |
| Paid to Allowed Ratio | 80% | This is the ratio of incurred & Paid Claims to Allowed Claims and represents what percent of health care benefits are paid for by the insurer. The higher the ratio, the "richer" the benefits. |

# Each insurers' claims PMPMs are different as their insured populations, products, and provider networks are diverse.

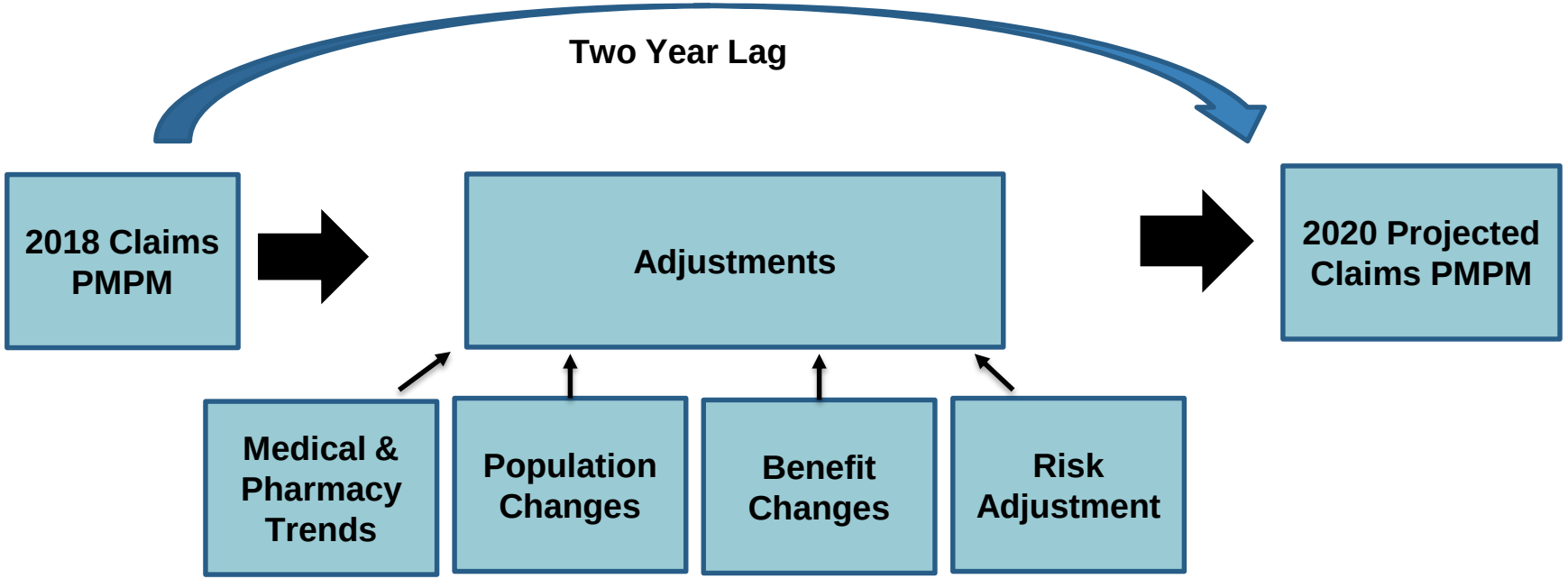



HPHC: Harvard Pilgrim Health Care
AllWays: (formerly Neighborhood Health Plan)
BCBSMA: Blue Cross & Blue Shield of MA
Tufts: Tufts Health Plan
Fallon
United
HNE: Health New England
BMCHP: Boston Medical Center Health Plan
THPP: Tuft Health Public Plan (formerly Network Health)

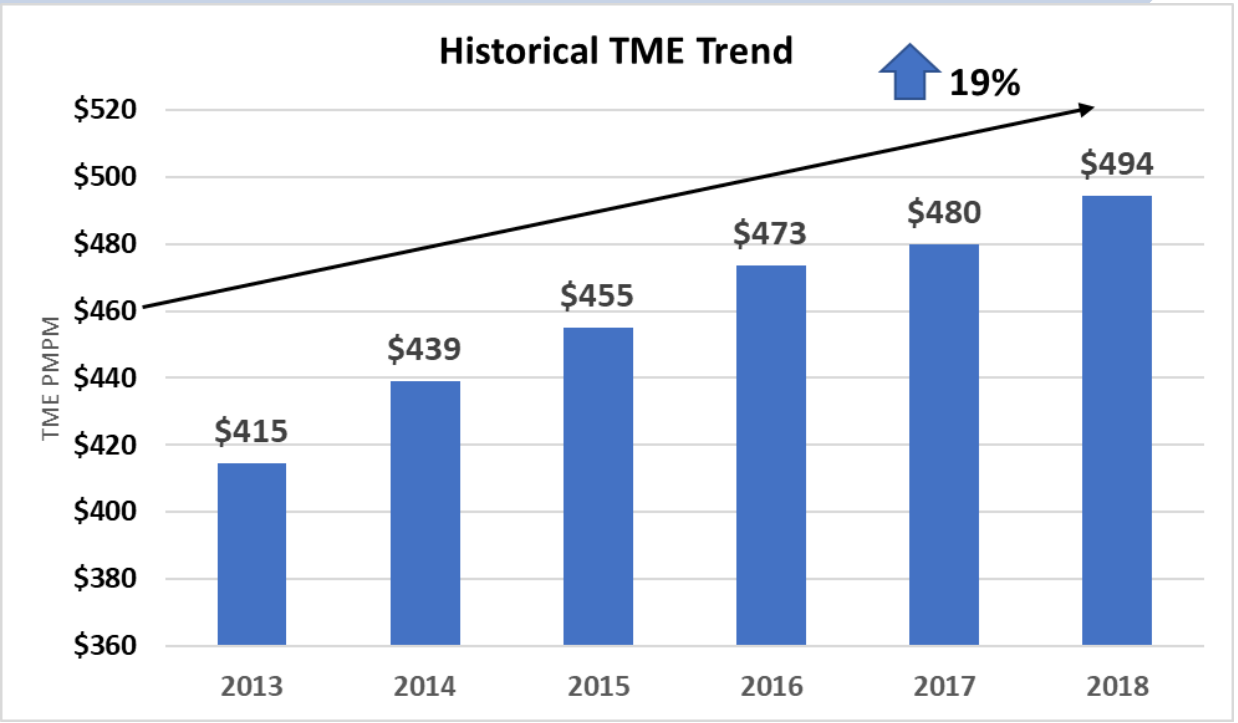
Average 2018 Membership

Source: CHIA's 2019 Annual Report Coverage Dataset: Excludes Connecticare

# Many factors are considered when projecting future medical claims.



# Since 2013, average annual health claims trends for ~2.6 M Massachusetts residents have increased 3.6% annually.




- Claims trend has 4 major categories:
  - Unit Price Trend
  - Utilization Trend
  - Provider Mix Trend
  - Mix of Services

**TME PMPM = Total Medical Expenditures (TME) Per Member Per Month: Also known as Allowed Claims PMPM**

Source: CHIA Annual Report TME Databook
TME trend for Full Claims Population including all market segments

# There are many market dynamics that influence the composition of the Individual and Small Group Markets.

- Repeal of the Individual Mandate (outside of MA)
- Increasing popularity of self-insured products among the small group market
- Increasing visibility of emerging products
  - Association Health Plans (AHPs)
  - Professional Employment Organizations (PEOs)
  - Short Term Duration Products
  - Health Sharing Ministries
- Insurers that enter or exit the market

# There are many other considerations when insurers are setting their health insurance premiums.

- When individuals have the ability to make choices about their health care coverage, *selection* occurs.
  - Individual Market: the individual makes the choice
  - Group Market:
    - Small employers: Typically the business owner makes the choice – the smaller the employer the greater potential for anti-selection
    - Larger employers – HR makes the choice

- Higher risk individuals and higher utilizers of health care will choose insurers and products that best suit their needs.

- Limited Network vs. Full Network

- High Deductible Plan (“Bronze”)  vs. Low Deductible Plan (“Platinum”)

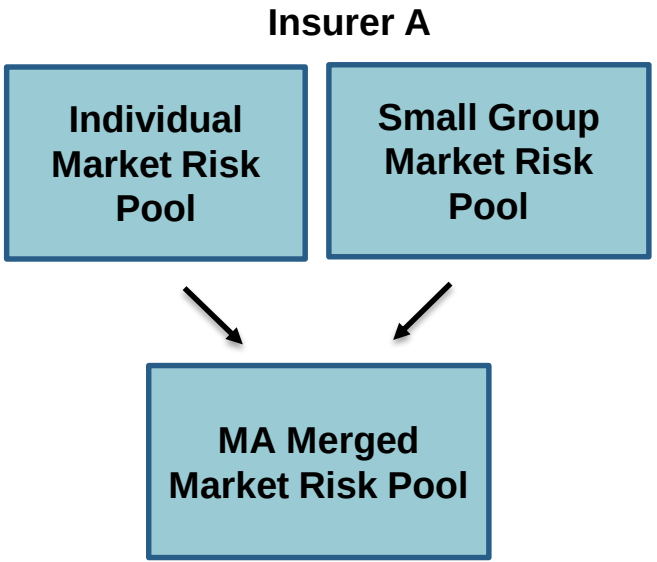
# Risk Pools for Rating

# Insurance companies' book of business can be separated into different rating risk pools.

***What is a risk pool?***

***It is how insurers segregate their business when establishing premium rates.***

***Merged market base rates are based on each carrier's combined individual/small group pool***




**Jumbo Group Risk Pool**

**Large Group Risk Pool**

**Mid Size Group Risk Pool**

# Insurer claims costs by risk pool may vary significantly.

- ***Morbidity:*** If one risk pool has a higher concentration of high risk patients compared to another, the premium rates will be higher

- ***Utilization:*** If one risk pool uses more health care services compared to another, the premium rates will be higher

- ***Providers:*** If one risk pool uses more expensive providers compared to another, the premium rates will be higher

# Merging Individual and Small Group Risk Pools

# Massachusetts has historically implemented policies to focus on the individual and small group markets.

- Chapter 58 of the Acts of 2006
  - Merged IND and SG markets into a single risk pool - 2007
  - Individual Mandate
  - Goals
    - Broaden risk pool & strengthen stability
    - Improve affordability in the individual market

- Many changes since Chapter 58, including:
  - Establishment of annual open enrollment period for individuals
  - Enhanced eligibility verification requirements for individuals
  - Implementation of Affordable Care Act (ACA)

# The definition and composition of the Individual Market was very different from 2006 to 2014 vs. 2014 and beyond.

**~2006 to 2014**

- Separate rating pool
- Enrollment only open to MCOs: BMCHP, Network Health, Fallon, NHP
- Subsequently CeltiCare and HNE
- Provider reimbursement ~Medicaid +
- Premiums were subsidized by the state and benefits were comprehensive (AVs high 90s)

**Commonwealth Care**
**0 to 300 FPL**

**~2014 and beyond**

- Due to the ACA, ConnectorCare combined with the rest of the Merged Market
- Risk Adjustment applies across the entire Merged Market
- ConnectorCare premiums and benefits subsidized by state and federal government (APTC & CSR)

**ConnectorCare**
**0 to 300 FPL**

- BMCHP
- THPP (Network Health)
- AllWays (NHP)
- Fallon
- HNE

**Individual Market 300 to 400 FPL**

**Individual Market 400+ FPL**

**Small Group Market**

- BCBSMA
- HPHC
- THP
- United
- BMCHP
- THPP (Network Health)
- AllWays (NHP)
- Fallon
- HNE
- ConnectiCare

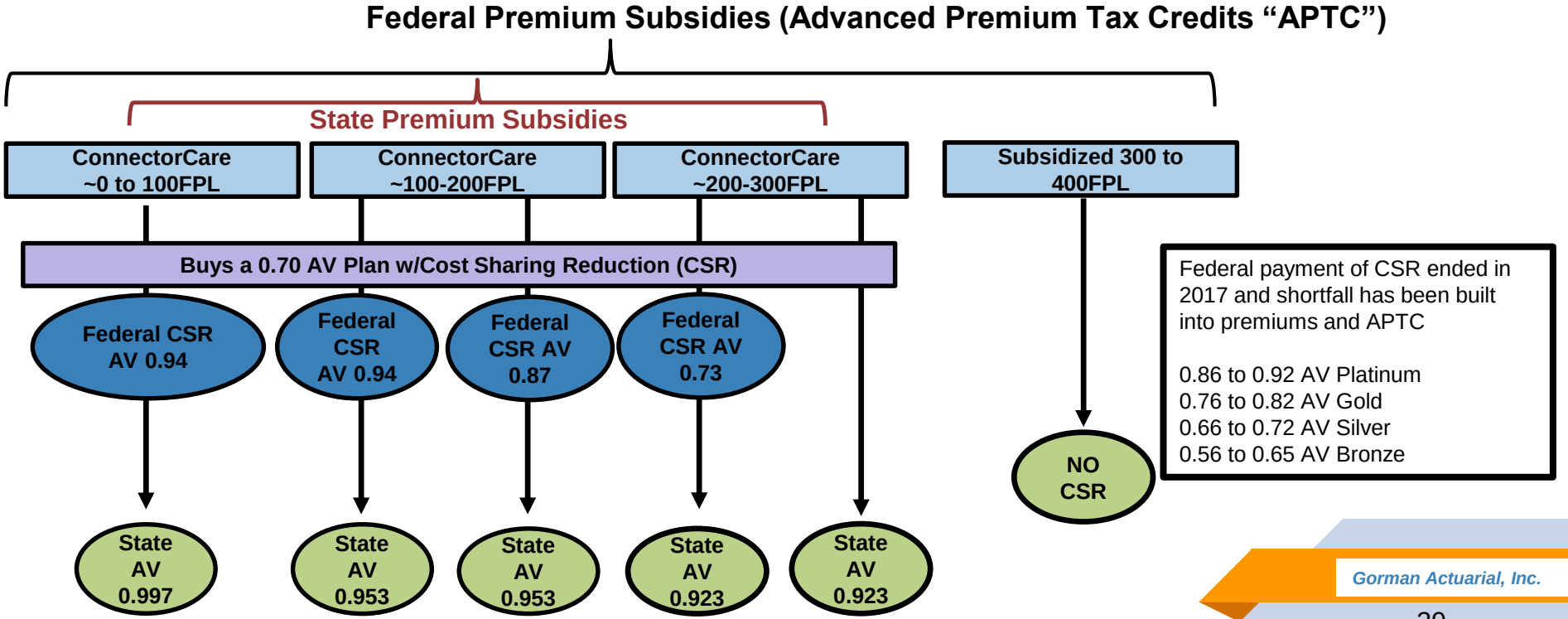
***FPL= federal poverty level***
***$12,490***

# The Connector serves all segments within the merged market.

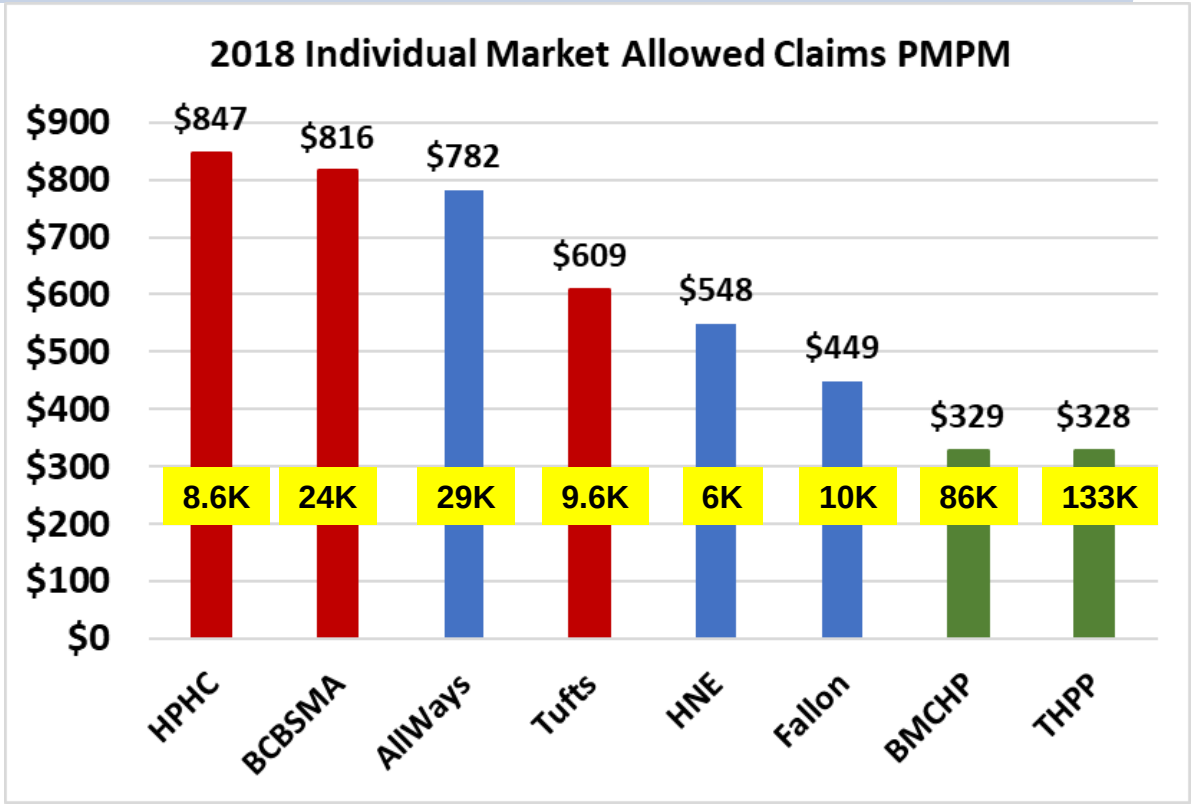
- Individual Market
  - ConnectorCare up to 300% FPL
    - Federal premium tax subsidies and state subsidies
    - Cost sharing reduction subsidies
    - Many plan options have a narrower or regional network that does not include all Academic Medical Centers
  - 300% to 400% FPL
  - Non-Subsidized Individual Market

- Small Group Market

# The subsidized individual market consists of many subpopulations with different premiums and benefits.



# There is a wide spread in claims PMPMs within the Individual Market with the highest 2.6 times the lowest

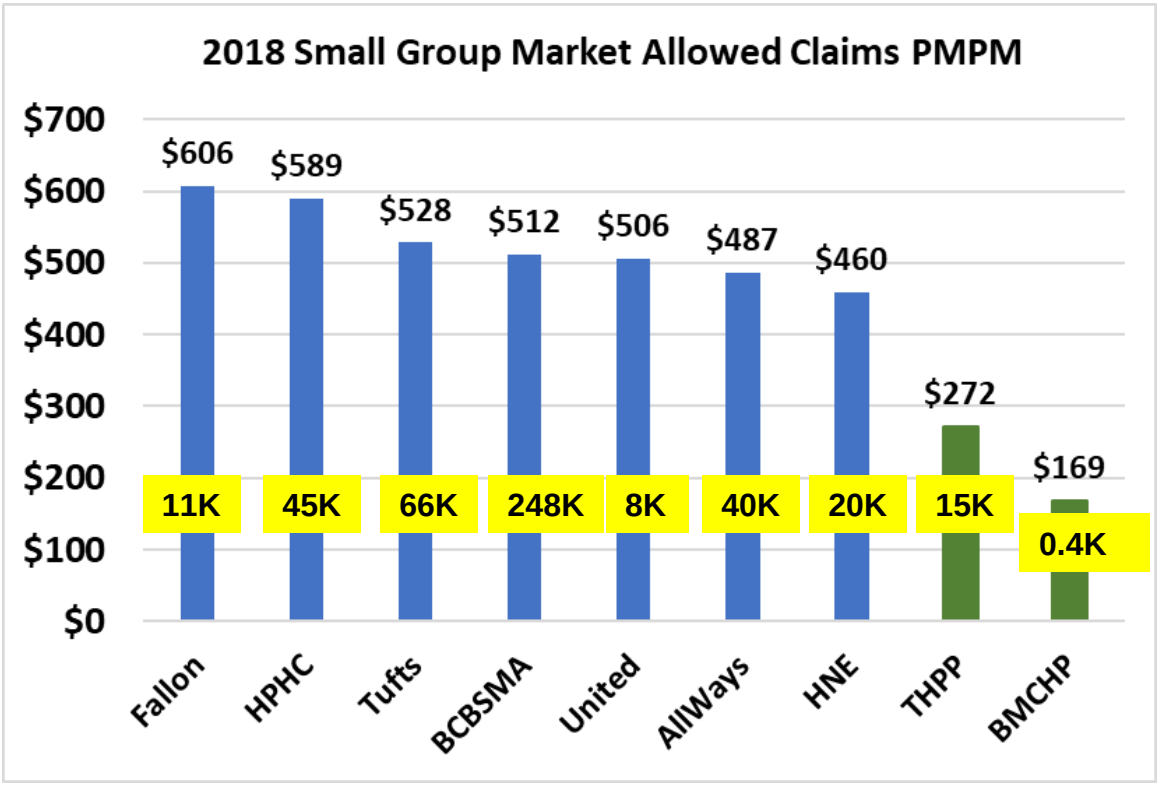



Doesn't participate in ConnectorCare

Predominantly select network

Source: CHIA's 2019 Annual Report Coverage Dataset

# The Small Group Market has less variation than the Individual Market.



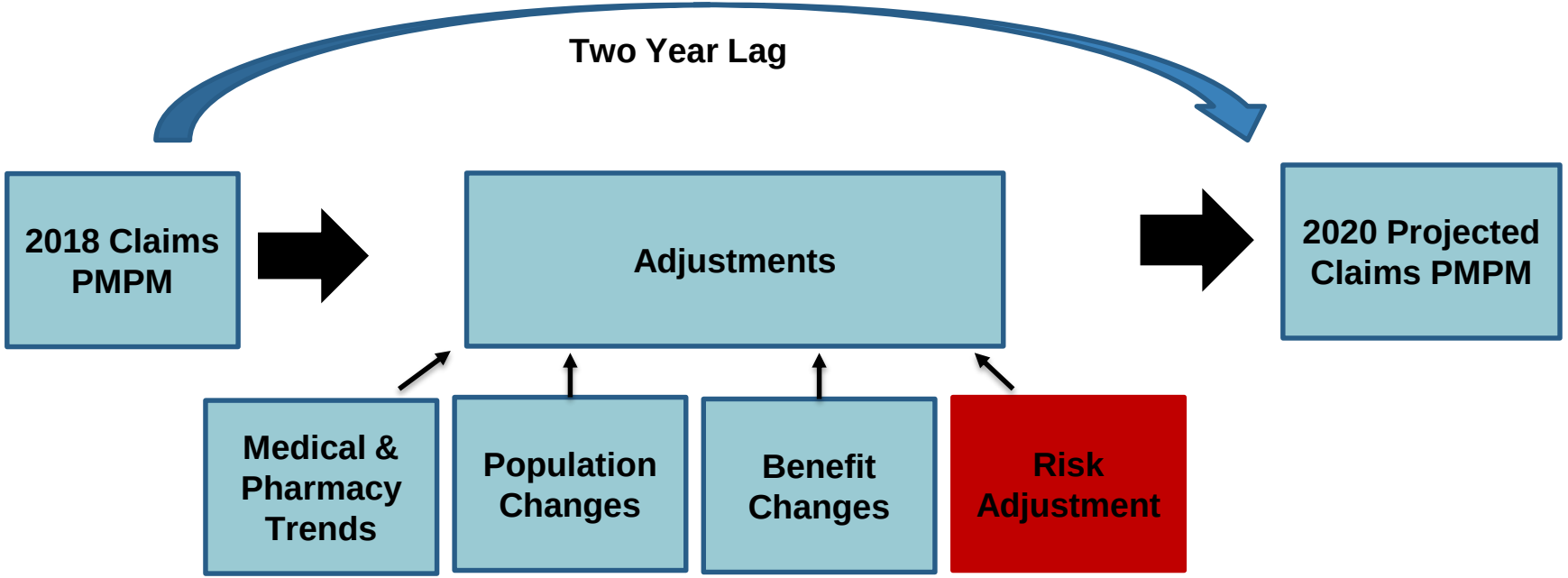

Predominantly select network

Source: CHIA's 2019 Annual Report Coverage Dataset

# Risk Adjustment in the Merged Market:

## Spreading Risk Among Insurance Carriers

# Many factors are considered when projecting future medical claims.



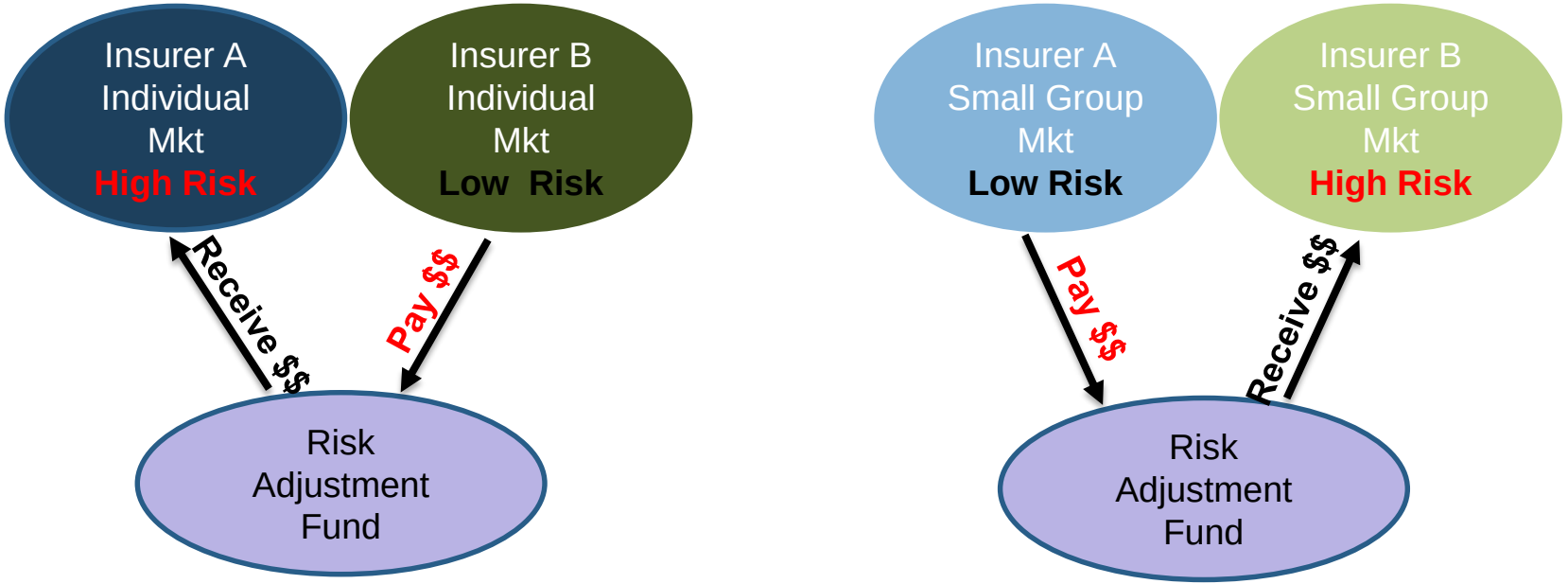
## Risk adjustment tries to create equity in the market by shifting funds from insurers with lower risk members to insurers with higher risk members.

- The ACA introduced the risk adjustment program to the individual and small group markets. Massachusetts applies this program to the merged market.

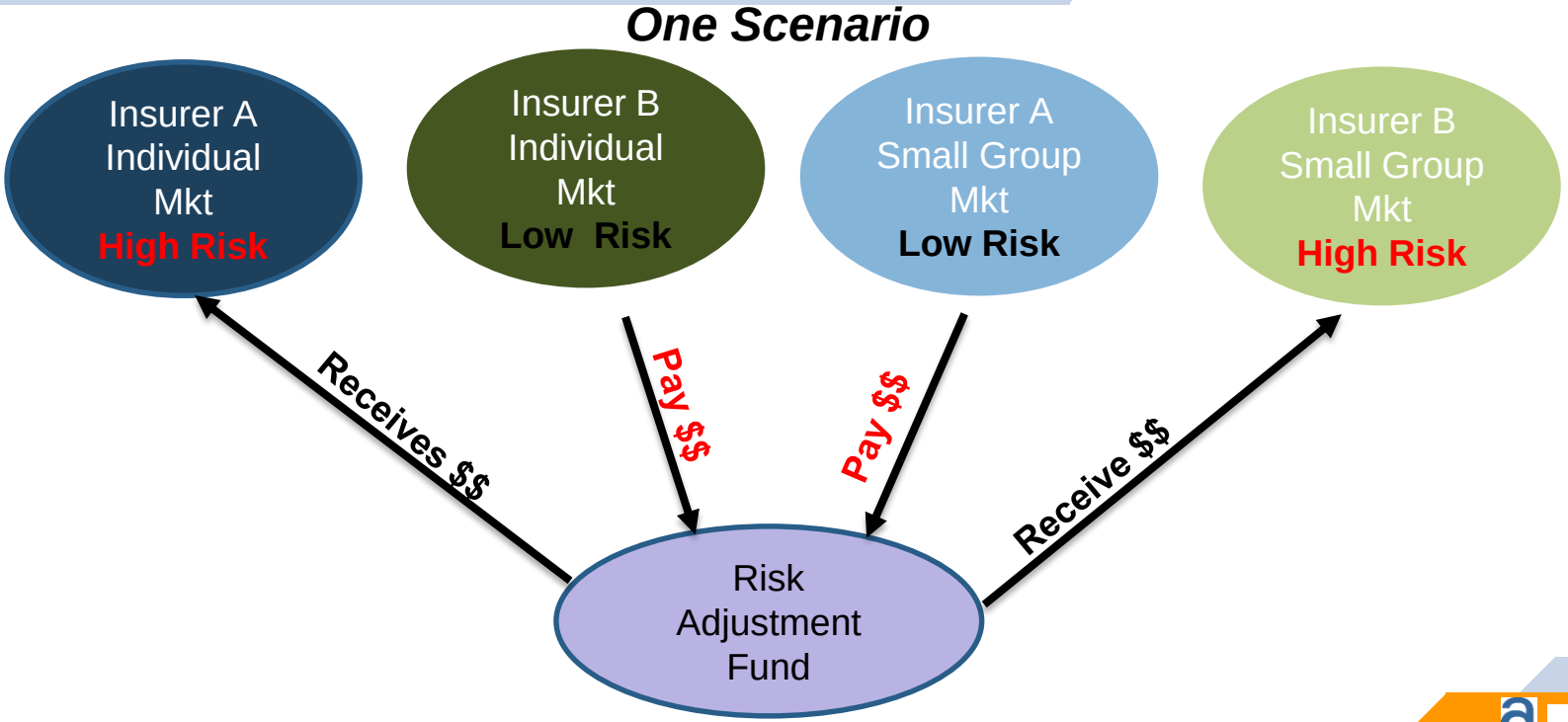
- Risk adjustment shifts funds from insurers that enroll healthier members to insurers that enroll less healthy members.

- Examples of insurance practices that may result in attracting better risk:
  - Insurers that offer only narrow network plans
  - Insurers that only offer high deductible/high cost-sharing plans
  - Insurers that only market to larger employer groups

# Risk adjustment is applied to each risk pool, in states where the individual and small group risk pools are separate.



# Risk adjustment is applied across the MA merged market.



# 2018 risk adjustment resulted in large transfers for some insurers in the Merged Market.

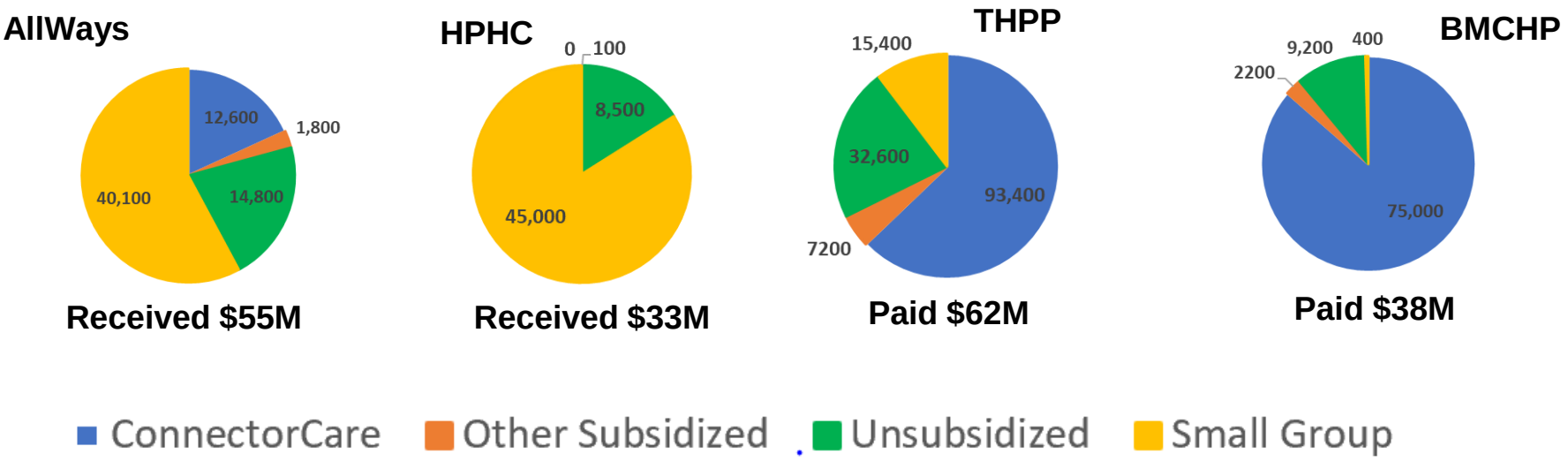
| Insurer | RA Transfer |
|---|---|
| AllWays | $55,007,378 |
| BCBSMA | $12,500,608 |
| BMCHP | ($37,948,809) |
| Connecticare | $527,550 |
| Fallon | $1,236,839 |
| HNE | ($3,348,914) |
| HPHC | $33,116,998 |
| THP | $5,187,094 |
| THPP | ($62,005,322) |
| United | ($4,273,421) |

- 2018 Risk Adjustment results released summer of 2019
- Insurers must predict risk adjustment transfers in summer of 2017 when developing 2018 rates.
- Volatile transfer payments can make predictions challenging
- An expected payment would increase the insurer's proposed rates and an expected receivable would decrease the proposed rates

Negative red indicates payment, positive black indicates receivable

# In 2018, the largest payers of risk adjustment funds were health plans with large ConnectorCare enrollment.

## 2018 Merged Market Membership



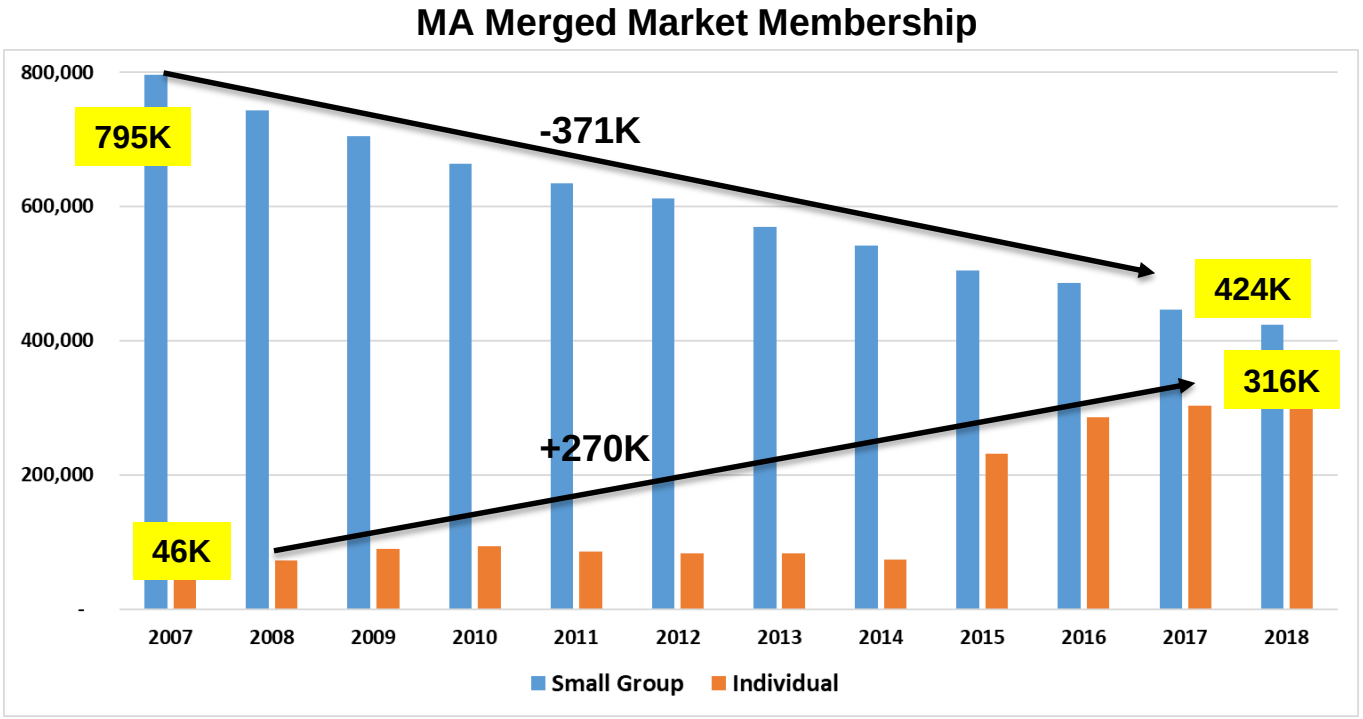
# There has been considerable volatility in risk adjustment transfers over the past 5 years.

| | PY 2018[1] | PY 2017[1] | PY 2016[2] | PY 2015[2] | PY 2014[5] |
|---|---|---|---|---|---|
| AllWays | $55,007,378 | $56,321,259 | $54,771,043 | $5,353,042 | $27,858,047 |
| BCBSMA | $12,500,608 | $3,284,539 | $33,826,090 | $81,741,193 | $50,714,401 |
| BMCHP | $37,948,809 | $35,993,129 | $18,139,498 | $18,620,484 | $5,152,402 |
| Celticare | $0 | $199,701 | $1,880,633 | $2,366,108 | $481,601 |
| Connecticare | $527,550 | $664,697 | $306,568 | $249,965 | $1,246,444 |
| Fallon | $1,236,839 | $4,441,782 | $369,941 | $3,890,227 | $11,107,357 |
| HNE | $3,348,914 | $423,603 | $6,552,130 | $3,206,399 | $2,692,451 |
| HPHC | $33,116,998 | $28,012,262 | $16,497,354 | $10,852,737 | $2,182,465 |
| Minuteman | $0 | $10,888,138 | $9,619,224 | $5,976,150 | $2,857,045 |
| THP | $5,187,094 | $16,623,471 | $21,203,852 | $1,277,729 | $8,201,309 |
| THPP | $62,005,322 | $61,974,969 | $55,423,070 | $39,440,273 | $3,696,957 |
| United | $4,273,421 | $1,115,078 | $1,752,449 | $1,214,162 | $1,640,940 |
| Total | $0 | $0 | $0 | $0 | $0 |

Notes:
1 - From CMS Risk Adjustment Summary Reports (PY 2017 and PY 2018)
2 - From Funds Transfer Summary Reports for Non-Catastrophic Plans
1 - From CMS Risk Adjustment Summary Reports (PY 2017 and PY 2018)
4 - From Funds Transfer Summary Reports for Catastrophic Plans
5 - Funds Transfer Summary - Reissued October 2015

# Membership

# Since 2007, small group membership has declined and individual membership has increased.




- Many policy changes over the years
- ConnectorCare joined the Individual Market in 2015
- Sole Prop reporting has been shifting to Individual from SG
- Total Merged Market Dropped 103K



Source: DOI Annual Merged Market Membership Reports

# Over the past 3 years, small group membership continues to decline and individual membership is increasing.

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Small Group | 485,699 | 446,056 | 423,562 |
| Individual Market | 285,377 | 302,623 | 315,534 |
| Total | 771,076 | 748,679 | 739,096 |

- From 2016 – 2018, small group membership declined by 62,000 while individual market increased by 30,000
- Overall, merged market declined by 32,000 members

**Source: DOI Annual Merged Market Membership Reports**