HEALTH INSURANCE PREMIUMS

What are you paying for?

May 2013

Maryland Hospital Association

Health insurance companies have been making headlines because of the skyrocketing prices consumers are paying for coverage. The national organization representing health insurance companies, America's Health Insurance Plans, issued a study saying that increases in hospital prices and the price of health care services overall are "the major driver of overall health care cost growth." But just this month, the federal Centers for Medicare & Medicaid Services released data showing Maryland has among the lowest hospital prices in the nation.* So, what justifies the double-digit increases insurance companies are asking for in Maryland?

This report examines the available data on health insurance premiums in Maryland. Unfortunately, there is little public transparency in Maryland's health insurance premium setting process. This report compiles data from publicly available sources, and tells an important story.

KEY FINDINGS

Key findings of this study include:

- There is little public transparency in Maryland's health insurance premium setting process. The public has access only to the premium increases requested by insurance companies and to the final amounts approved by the Maryland Insurance Administration. No documentation is available to explain the difference, or the rationale for changes.
- Premium increases requested by Maryland insurance companies so far in 2013 have ranged from 5.3 percent to 16.8 percent. Premium increases actually approved by the Maryland Insurance Administration for those same requests were significantly lower – from 1.8 percent to 5.8 percent. In several cases, the approved premium amounts were less than a third of the premium hike requested.
- Proposed premium increases recently filed under the new health care reform-created insurance exchange known as the Maryland Health Connection are even higher, from the 2.8 percent to 4.3 percent increases requested by Kaiser Foundation Health Plan, to the 6.4 percent to 87.5 percent increases requested by CareFirst BlueCross BlueShield, and the 29.4 to 120.4 percent increases requested by Aetna.
- Based on new rules in the federal health care reform law, the Affordable Care Act, health insurers overcharged Marylanders $22 million in 2012, and were required to return those funds to consumers. Maryland health insurers ranked 11th largest in overcharge amounts among the 50 states with an average rebate of $340 per covered family.
- Data on hospital utilization presented by insurance companies in their requests to the Maryland Insurance Administration to justify premium hikes is contrary to hospital utilization data that is publicly available from the state hospital rate-setting commission.

*http://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/medicare-provider-charge-data/index.html

INSURERS REQUEST PREMIUM INCREASES **FAR BEYOND** WHAT REGULATORS APPROVE

Insurance companies are required to submit their requests for premium increases to the Maryland Insurance Administration. The Insurance Administration is the state agency responsible for regulating the Maryland insurance market. The Administration investigates insurance fraud and consumer complaints about insurance policies covering life, health, automobile, and homeowners insurance. It also licenses insurance companies in Maryland. Most important, the Administration reviews and approves insurance companies' requests for premium increases.

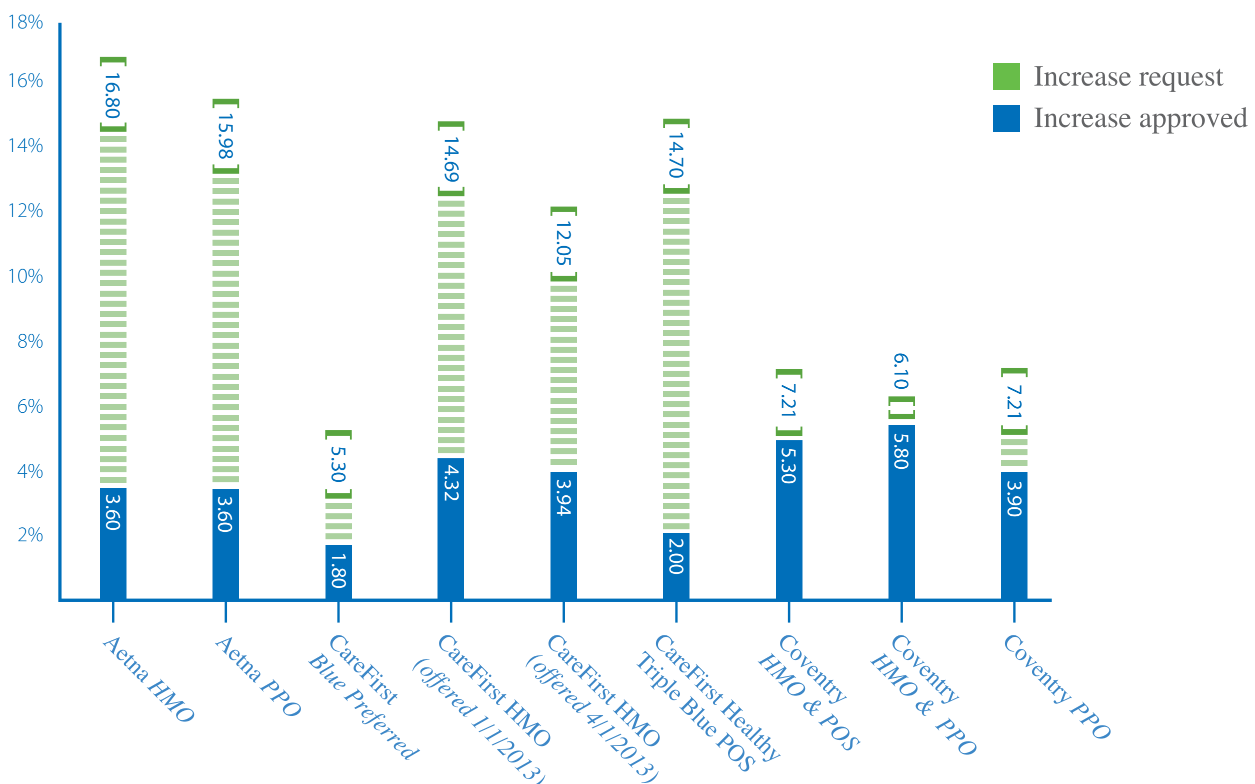
Insurance companies can request premium increases as often as every quarter, or every three months. The public has access, through the Administration's Web site, to the premium increases that an insurance company requests and to a one-page summary document of the justification for the increase. However, there is no public hearing process to review the premiums that insurance companies charge their customers, and no readily available way to allow the public to gain a better understanding of the differences between what insurance companies submit for rate increases, and what the Insurance Administration subsequently approves. The public has little insight into the information provided by insurance companies to justify rate increases, what information might be missing from those filings, and what process the Maryland Insurance Administration uses to approve or disapprove rate increases.

Insurer-requested health insurance premium increases in many instances far exceed what is ultimately approved. Figure 1 shows some examples of health insurance premium increase requests so far in 2013 for the largest plans (5,000 covered lives or more) in Maryland. These requests were submitted before implementation of the Maryland Health Connection, the state's new health insurance exchange. The information shows that:

- The insurer-requested increases were often double-digit, ranging from a 5.3% increase to a 16.8% increase.
- But the actual increase approved was significantly lower, ranging from an approved increase of 1.8% to 5.8%.
- In several cases, the premium increases actually approved were less than a third of the premium hike requested by the insurance company.

Figure 1

INSURANCE COMPANY PREMIUM INCREASE REQUESTS VS. AMOUNTS APPROVED



Source: Maryland Insurance Administration

PREMIUM INCREASE REQUESTS FOR INSURANCE EXCHANGE PLANS DRAW **CONCERN** FROM THE STATE

Insurance companies in Maryland were required to file by April 1, 2013 their proposed health insurance premium increases for plans to be offered on the state's new health insurance exchange, known as the Maryland Health Connection. The health insurance exchange was created as part of federal health care reform law, and intended to provide one-stop-shopping for individuals and small businesses looking for coverage. Insurance companies have warned of health insurance premium "rate shock" for plans offered on the exchange, noting new rules that require them to provide coverage to all who apply, and that the currently uninsured and the unhealthy now eligible for coverage may prove more costly to insure.

But many of the insurance changes that cause some to predict "rate shock" have already been in place in Maryland for some time. Small group health insurance market reform laws have been in place in Maryland since 1993. Since that time, insurers in Maryland have been required to provide coverage to all who apply without limits due to pre-existing conditions, and provide a standard "plan" or benefit package. The Maryland General Assembly passed a law in 2001 to assess the performance of these small group health insurance market reforms. That assessment was performed by Health Management Associates and completed in 2002. The report notes:

> "*we need to recall that the research evidence suggests that rating reforms have not had a major impact on premium prices or on the number of people who are covered. The predictions of the early opponents of rate reform that premiums would rise drastically and that large numbers of young, healthy workers would drop coverage proved unfounded.*"

With insurance companies requesting premiums much higher than that approved before the exchange was created, the task for the Maryland Insurance Administration will be to determine how much of these new, very large premium increase requests for insurance exchange plans are justified.

Figure 2 shows the recently proposed health insurance premium rate increases for plans to be offered through Maryland's health insurance exchange. The Maryland Insurance Administration specifically requested that insurers estimate the average requested rate change based on existing experience, but rate increase requests are quite high. Among these requests:

- The lowest health insurance premium increases, requested by Kaiser Foundation Health Plan, ranged from a 2.8 percent to a 4.3 percent increase.
- Among the highest health insurance premium increases were those requested by CareFirst (from a 6.43 percent to an 87.5 percent increase) and by Aetna (ranging from a 29.4 percent increase to a 120.4 percent increase).

Shortly after the rate requests were received in April, the Governor's Office of Health Care Reform issued a notice informing the public that the proposed increases will be subject to rigorous review and approval, anticipating that many insurers would request higher rates than might be necessary. That notice stated:

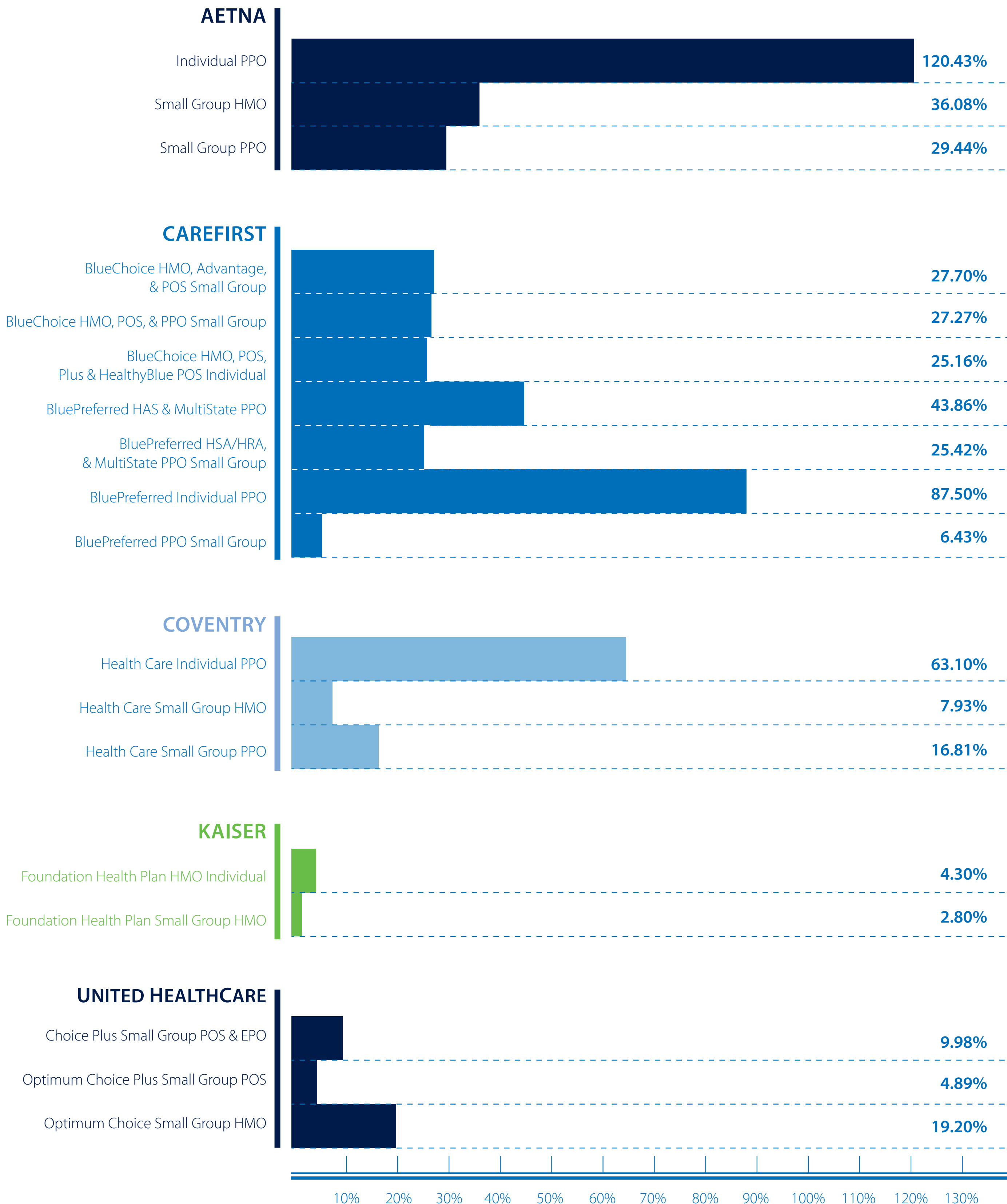
> “*Exercising her strong, expansive authority to review and modify proposed rates, the Insurance Commissioner will now begin a comprehensive review of those rate requests. This process, during which plans will be subject to close scrutiny and thorough review, is expected to take several months. The Commissioner and her staff will conduct actuarial analyses, test assumptions and projections, and work with carriers to arrive at the appropriate rates. So regardless of the rates requested, the important point now is the following:* **the proposed rates are just that – proposed. It is premature to reach any judgment or conclusion based on the rates as proposed.**”

Source: April 19 email to stakeholders from Carolyn Quattrocki, Executive Director, Maryland Office of Health Care Reform

Below is a summary of the health insurance premium increases proposed by insurance companies in those April 2013 rate request documents.

Figure 2

REQUESTED HEALTH INSURANCE PREMIUM INCREASES FOR PLANS IN MARYLAND'S HEALTH BENEFIT EXCHANGE



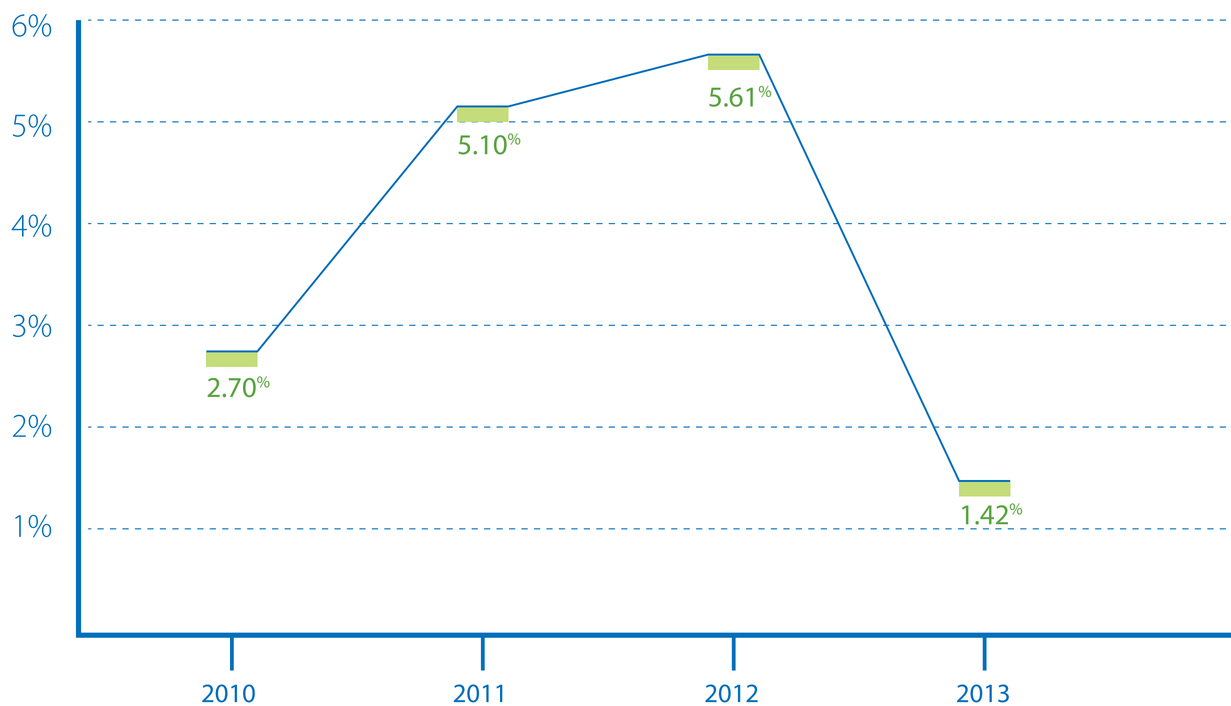
Source: Maryland Insurance Administration

INSURER-REQUESTED PREMIUM INCREASES HAVE **NO RELATION** TO HOSPITAL SPENDING

Insurance company claims that health insurance premium increases are due to rising hospital prices simply do not add up. Increases in health insurance premiums requested by insurance companies have no relation to total hospital revenue growth over the past several years. As seen in Figure 3, hospital revenues for all services, including both the price increases approved by the state's hospital rate-setting commission — the Health Services Cost Review Commission — as well as increases in the use, or volume, of hospital services, have been growing annually at low, single-digit rates for a number of years. If hospital spending makes up approximately 40 percent of insurers' costs, but hospital revenues are growing only at rates of five percent or less, insurance premium increases as high as 16 percent are difficult to explain.

Figure 3

HOSPITAL REVENUE GROWTH (2010 - 2013)



Source: February 2013 Monitoring Maryland Performance Report, 2013 data projected based on first eight months of the fiscal year.

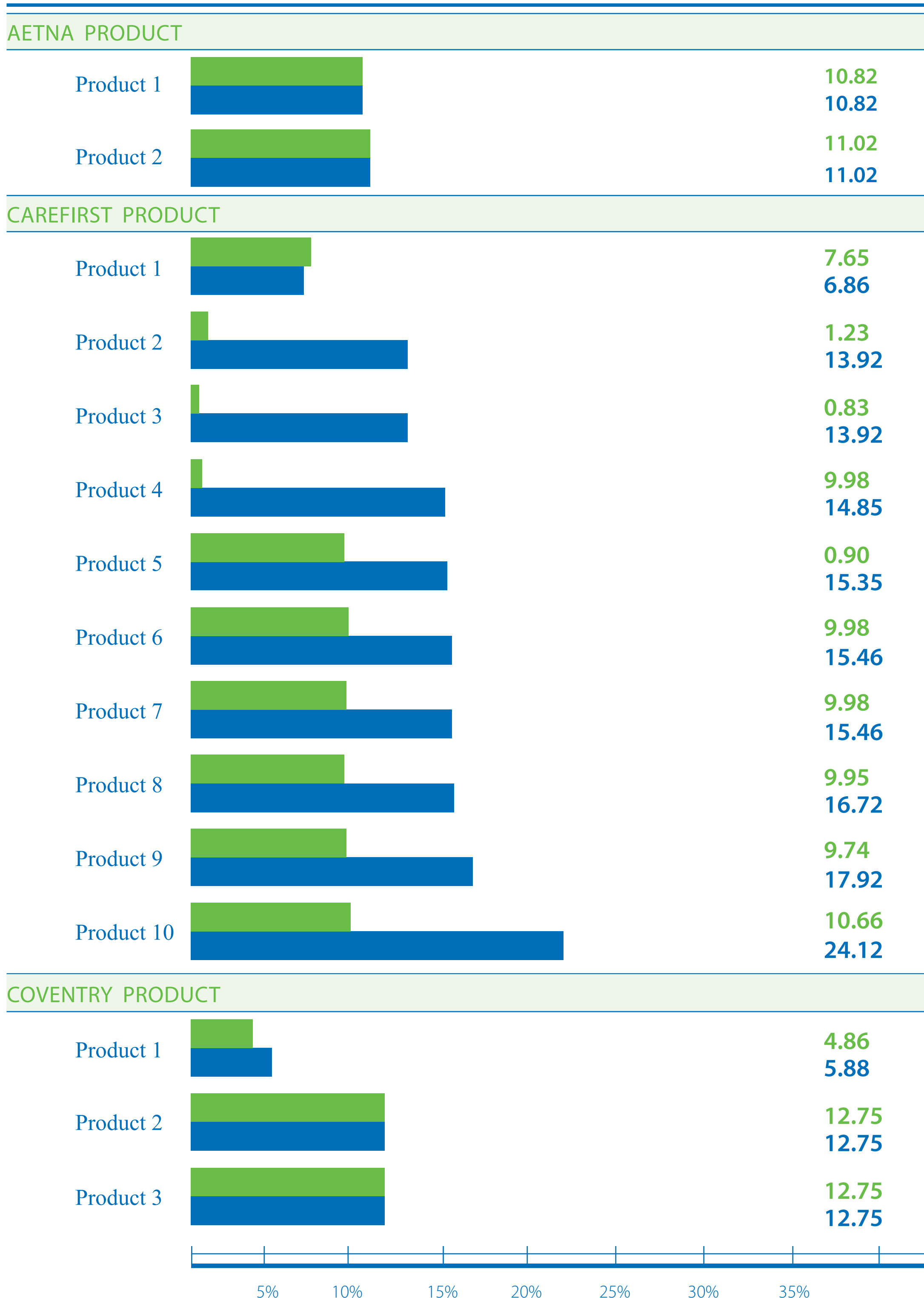
INSURERS ARE JUSTIFYING PREMIUM INCREASES USING WIDELY **VARYING ASSUMPTIONS**

As part of the justification behind high insurance premiums, insurers have assumed that hospital spending trends will increase significantly. In some of the public filings with the Maryland Insurance Administration, insurance companies have included their assumptions about "medical use trends" — the expected rates of growth, or trend, in both the price and use of medical services. Figure 4 shows the wide range of insurance companies' assumptions about both outpatient and inpatient hospital spending trends included in backup documentation to their premium increase requests. Insurance companies assumed that the spending

trend for hospital outpatient services would increase anywhere from 5.88 percent to 24.12 percent. They also assumed that the spending trend for inpatient hospital services would increase anywhere from 0.83 percent to 12.75 percent.

Figure 4

INSURANCE COMPANY ASSUMPTIONS ABOUT HOSPITAL INPATIENT AND OUTPATIENT SPENDING

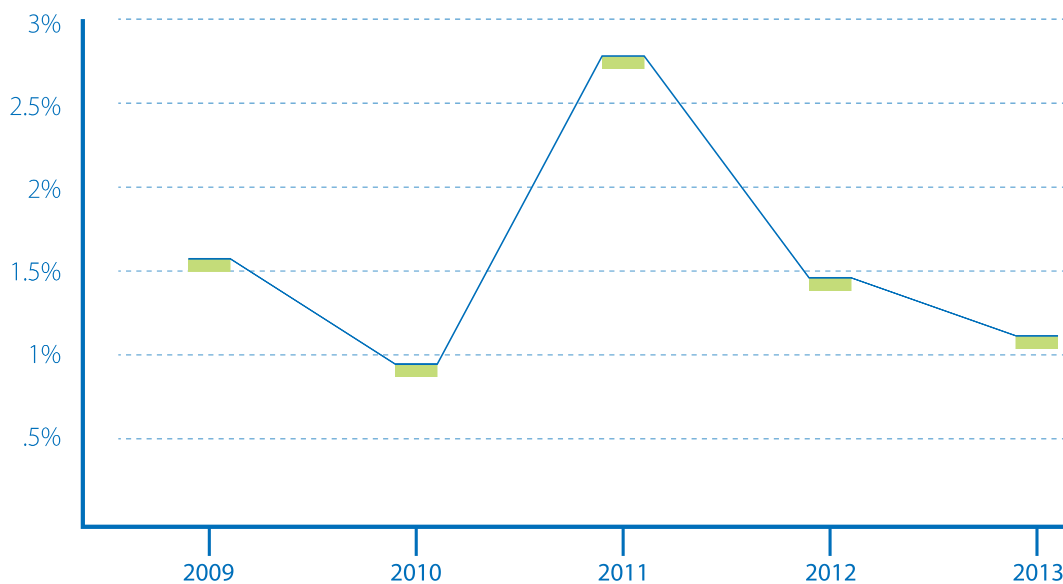


Source: Maryland Insurance Administration; Appendix A

These assumptions vary widely and are, in part, contrary to trends indicated in publicly reported data included in the most recent Monitoring Maryland Performance reports from Maryland's hospital rate-setting commission, the Health Services Cost Review Commission. While insurance companies all assumed that the hospital inpatient spending trend was on the rise (in some applications significantly higher) the state rate-setting commission's data show an actual decline in part of that calculation -- the use of inpatient hospital services. The commission shows a 3.59 percent decline in inpatient admissions from the year ending February 2012 to February 2013, and only slight overall total hospital use increases for the past few years averaging only about 1.5 percent a year. Figure 5 depicts hospital total use increases (inpatient and outpatient) from 2009 through 2013. Low hospital use trends in Maryland, combined with the regulation of hospital prices by the state runs counter to the trends being publicly ascribed to hospitals by the insurance industry. If too high, insurance companies' assumptions act to overinflate their premium calculations and requests. This suggests that the Maryland Insurance Administration's rate review process may benefit from linking or benchmarking to state hospital rate setting commission trend data.

Figure 5

HOSPITAL VOLUME DATA



Source: Maryland Monitoring Performance Reports

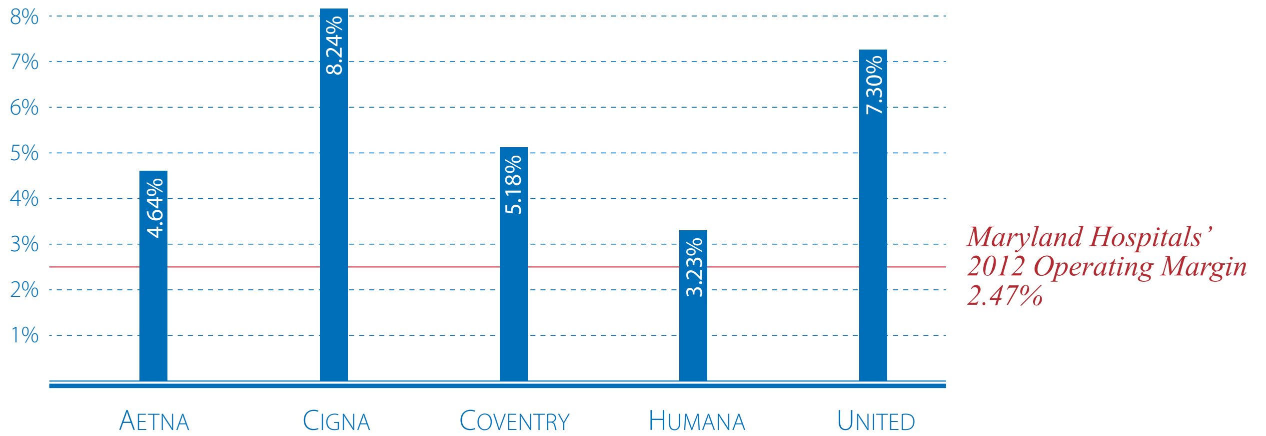
INSURANCE COMPANY **PROFITABILITY**

National data show health insurance companies with operating margins from 3.23 percent to 8.24 percent in 2012 (Figure 6). These trends are up, while profits as a percentage of shareholder equity have remained consistently high for the last several years (Figure 7). This has raised concerns about whether premiums are used to invest in the provision of health care services in Maryland or to pay dividends to shareholders who don't live in the state. The operating margins of insurance companies are more than double the operating margins of Maryland hospitals in 2012.

"Health insurers are talking out of both sides of their mouths when they preach austerity to their customers in order to raise premiums, then turn around and announce another banner year to shareholders. As federal health reform requires health insurance companies to disclose more and more information online, it will be harder for insurers to say one thing to customers and the opposite to Wall Street," said Carmen Balber, executive director of Consumer Watchdog, in response to a January announcement of Wellpoint profit increases.

Figure 6

INSURANCE COMPANY 2012 OPERATING MARGINS COMPARED TO HOSPITALS'

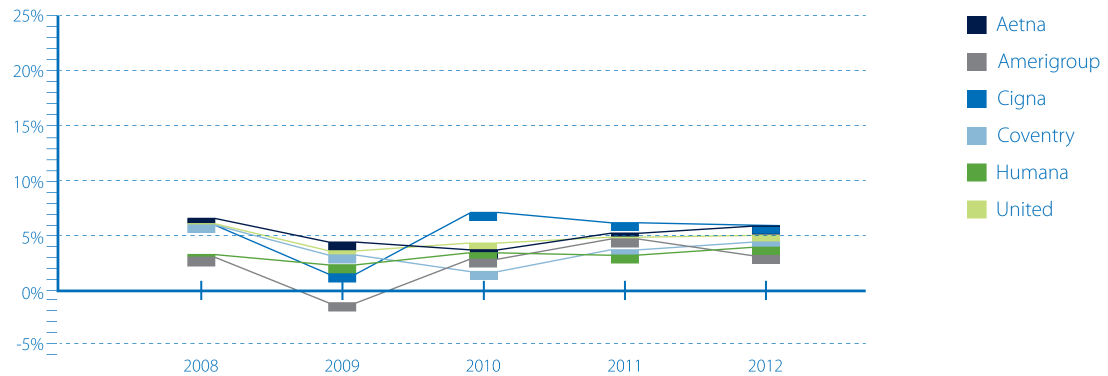


Source: CSIMarket.com

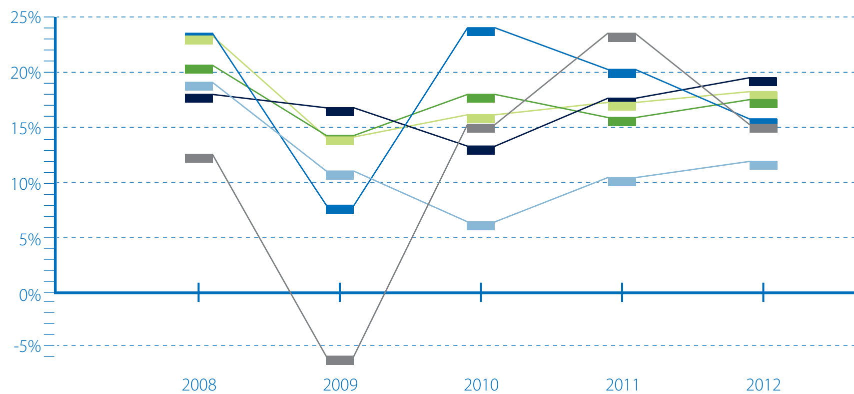
Figure 7

MEASURES OF INSURANCE COMPANY PROFITS

Profits as a Percentage of Revenues



Profits as a Percentage of Shareholders' Equity



Source: CNNMoney A Service of CNN, Fortune & Money money.cnn.com

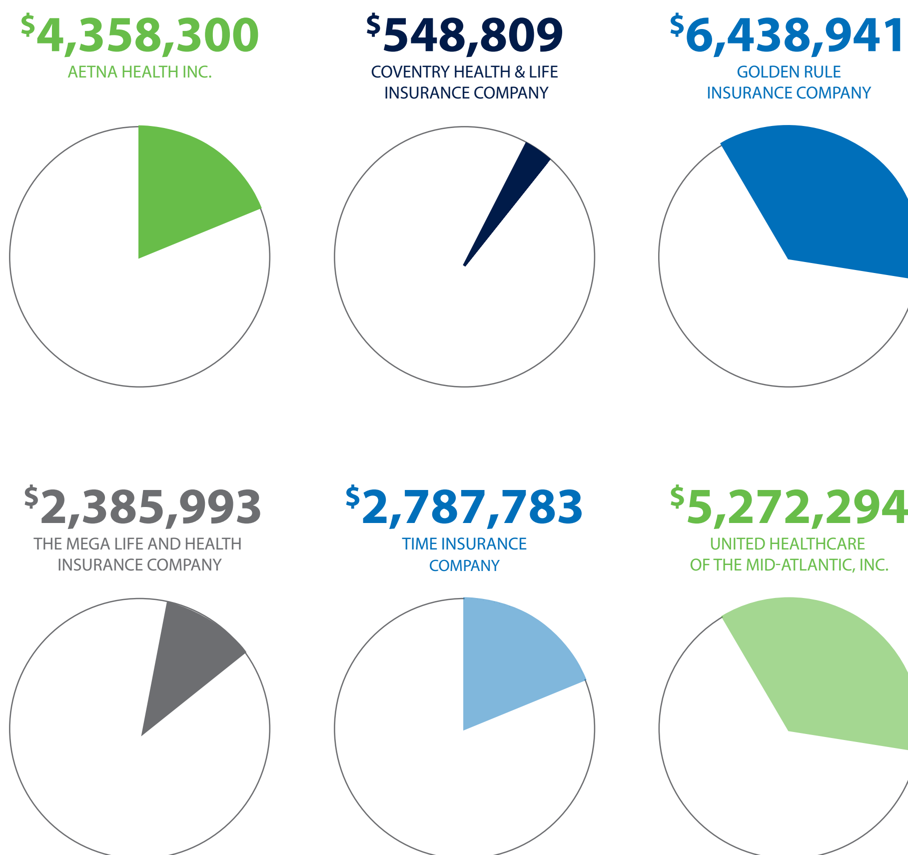
INSURANCE COMPANIES ARE **OVERCHARGING** MARYLANDERS

The federal health care reform law requires health insurance companies to spend at least 80 percent (for individual and small group plans) or 85 percent (for large group plans) of the premiums they collect on actual medical care for customers and quality improvement activities, instead of administrative overhead or profit-taking. Insurance companies are now required to submit data on the share of premiums spent on medical care and quality improvement, also known as the Medical Loss Ratio. The new federal law also requires insurance companies to issue rebates to customers if the percentage spent on health care services falls short of the standard.

In 2012, Maryland health insurance companies were required to return $22 million to customers as a result of this new law (Figure 8). This was the 11th largest overcharge of all 50 states and the District of Columbia in terms of the amount of revenue returned to customers. This translated into an average rebate of $340 per covered family.*

Figure 8

MARYLAND HEALTH INSURANCE COMPANIES OVERCHARGED CUSTOMERS BY $22 MILLION IN 2012



Source: CMS Center for Consumer Information and Insurance Oversight

Insurance companies are having difficulty finding ways to spend the required 80 to 85 percent of premium dollars on actual medical care, rather than administrative costs and profit. A recent application for a health insurance premium rate hike by CareFirst requests a 9.22 percent insurance premium increase, but predicts that its medical loss ratio will be just 80.5 percent. In other words, even while asking for a more than 9 percent increase, CareFirst says it will barely meet the requirement that 80 percent of that premium dollar be spent on actual

*CMS Center for Consumer Information and Insurance Oversight Report on Issuer Rebates http://www.cciio.cms.gov/resources/files/mlr-issuer-rebates1.pdf

medical services. Below is the CareFirst-submitted chart, depicting the CareFirst medical loss ratio for the past three years for their combined non-consumer driven health products showing medical loss ratios at or below the 80 percent standard:

YEAR	PREMIUM COLLECTED	AMOUNT SPENT ON MEDICAL CARE	AMOUNT SPENT ON ADMINISTRATIVE COST AND PROFIT	SHARE OF PREMIUM DOLLAR SPENT ON MEDICAL CARE *(Medical Loss Ratio)*
2010	$384 million	$280 million	$104 million	**73%**
2011	$360 million	$278 million	$82 million	**77%**
2012	$350 million	$283 million	$67 million	**81%**

Source: Maryland Insurance Administration

*CareFirst BlueChoice, Inc HMO Non-Consumer Driven Health Product effective 7/1/13, www.mdinsurance.md.state.us

IMPLICATIONS

Health care is undergoing dramatic change. This is particularly true in Maryland where one of the largest segments of health care spending – hospital care – is regulated by the state and the where the state is considering reform of its unique 40-year-old system of paying for hospital care. As state insurance regulators at the Maryland Insurance Administration and rate setters at the Health Services Cost Review Commission evaluate the affordability of health coverage in Maryland, important questions should be asked about health insurance premiums:

- Are recent requests for premium hikes reasonable?
- Are the assumptions underlying those requests reasonable?
- What caused the Maryland Insurance Administration enough concern in insurance company premium increase requests that the Administration approved significantly lower increases?
- How can even greater public transparency be introduced into the insurance premium review process?
- Are insurance companies simply managing to the minimum amount required by law to be spent on actual medical care?
- What are the expected productivity improvements on the part of large local and national insurance companies?
- How can consumers be best protected from excessive insurance premiums?

APPENDIX A

INSURANCE COMPANY ASSUMPTIONS ABOUT HOSPITAL OUTPATIENT AND INPATIENT SPENDING

	INPATIENT TREND (%)	OUTPATIENT TREND (%)
AETNA PRODUCT		
1 - Aetna Health Maintenance Organization – Small Group - HMO	10.82	10.82
2 - Aetna Preferred Provider Organization – Small Group – PPO and Aetna Fee For Service – Small Group – Indemnity	11.02	11.02
CAREFIRST PRODUCT		
1 - Healthy Blue Triple Option POS	7.65	6.86
2 - Blue Preferred, BP HSA, BP Saver, Comprehensive Major Medical, and BP HIPAA	1.23	13.92
3 - BP Small Group PPO, BP HSA Small Group, BP HRA Small Group, Select Preffered HDHP Small Group PPO & Blue Preferred HDHP Small Group PPO	0.83	13.92
4 - BlueChoice HMO Open Access Small Group HMO & BC HMO Small Group HMO	9.98	14.85
5 - BC HMO HRA Open Access Small Group, BC Opt-Out Plus Open Access HDHP Small Group POS, BC HMO Open Access HDHP Small Group POS, HealthyBlue 2.0 HRA Small Group POS, HealthyBlue 2.0 HSA Small Group POS, BC Opt-Out Plus HSA Open Access Small Group POS, and BlueChoice HMO HSA Open Access Small Group	0.90	15.35
6 - Healthy Blue 2.0 Small Group POS, HB Advantage Small Group POS, HB Advantage HSA Small Group POS, HB Advantage HRA Small Group POS, and BC Advantage HAS Small Group POS	9.98	15.46
7 - BlueChoice Opt-Out Open Access Small Group POS	9.98	15.46
8 - HMO, HMO Open Access, HMO Opt Out Open Access, HMO Health Savings Account Open Access, Point of Service Health Savings Account Open Access, HMO Health Reimbursement Account Open Access, HealthBlue 2.0, HealthyBlue Advantage, BlueChoice Advantage, and Low Cost Health Savings Account	9.95	16.72
9 - Blue Preferred, Comprehensive Major Medical, Blue Preferred Saver, Blue Preferred HSA, Blue Preferred HIPAA	9.74	17.92
10 - HMO, HMO Open Access, Opt Out Open Access, HMO Health Savings Account Open Access, Opt Out Plus HSA Open Access, HMO Health Reimbursement Account Open Access, HealthBlue 2.0, HealthyBlue Advantage, BlueChoice Advantage, HMO Open Access HDHP, and Opt Out Plus Open Access HDHP	10.66	24.12
COVENTRY PRODUCT		
1 - Qualified High Deductible, Super Joe HMO and Standard PPO	4.86	5.88
2 - Standard HMO, Super Joe HMO, Qualified High Deductible, Qualified High Deductible POS, and Standard POS Small	12.75	12.75
3 - Qualified High Deductible PPO, Super Joe PPO and Standard PPO Small Group	12.75	12.75

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