Request of:

Excellus Health Plan, Inc. doing business as

- Excellus BlueCross BlueShield
- Univera Healthcare

To:

The Department of Financial Services of the State of New York

For approval of Medicare Supplemental rate increases in 2016

Filed: on or about July 31, 2015
NARRATIVE SUMMARY

Excellus Health Plan, Inc. (NAIC code number 55107) has applied to the Superintendent of the Department of Financial Services to adjust premium rates for its Medicare Supplemental community-rated products.

I. OVERVIEW

The proposed rate adjustment is based on anticipated increases in medical costs along with the need to make and keep the product self-supporting. The rates being sought for 2016 contain a small operating margin, intended for the health plan to maintain sufficient reserves and to support a risk based capital ratio within a reasonable target range. The health plan reported operating losses in 2013 and 2014.

Excellus Health Plan and related companies (“EHP”) provide health insurance and administrative services for about 1.6 million upstate New Yorkers in 39 counties. The proposed premium rates affect about 13,000 members or 0.8 percent of the health plan’s total membership. Its proposed rates are subject to review by the New York Department of Financial Services pursuant to section 4308 (c) of the New York Insurance Law. The Department may approve the proposed rate increase as requested, modify the proposed rate increase, or disapprove the proposed rate increase in its entirety. The determination by the Department shall be supported by sound actuarial assumptions and methods.

The rate application will be filed with the Department on or about July 31, 2015. The actual rate increases approved by the Department will be communicated to the impacted parties at least 60 days prior to the date the new rate is implemented for the subscriber. EHP policyholders with renewal dates during 2016 would, if approved, receive the indicated rate adjustments on their next anniversary date on or after January 1, 2016.

Excellus Health Plan is required by New York State law to develop rates that assume that the loss ratio testing requirement is met, are actuarially sound, cover all claim costs, and provide a contribution to ensure adequate reserves. EHP's 2015 Medicare Supplemental experience is expected to exceed an 80% medical loss ratio.

As explained further in this narrative, the requested rate increases are due primarily to the annual increases in the cost of medical care. Excellus Health Plan has attempted to limit the rate increases to the lowest amounts possible and exceed the minimum threshold of medical benefit payments as a percent of premium, while also preserving the financial integrity of the Plan.

Periodic rate adjustments are necessary to secure the ability of Excellus Health Plan, or any insurer, to produce sufficient revenue and surplus for reserves to assure continued coverage and claim payments both for current health care needs, and potential catastrophic cost situations. Excellus Health Plan's reserves vary from year to year based on actual health care costs incurred. As of Dec. 31, 2014, the health plan had reserves equivalent to 68 days of claims and operating expense -- more than the minimum required by New York State law. These reserves are the "insurance" that assures payment even when costs run higher than anticipated, or emergencies or disasters occur, and should not be used as an alternative fund to temporarily reduce rate adjustments.

Seeking to achieve the minimum level of reserves permitted or a minimum risk-based capital ratio is not a sound financial practice for any health plan. On the other hand, the health plan does not seek to accumulate industry benchmark levels of reserves or reach top risk-based capital scores that have been achieved by some health plans. Rather, the community rate increases proposed are designed to achieve a small operating margin for the business to continue offering competitive and affordable access to health coverage in our communities.
It is clear that an increase in premiums is necessary to assure the continued operations of the Plan and the viability of its product offerings. Because EHP already has a high MLR, failure to approve these rates would only lead to the need for even greater rate increases in the future.

II. FACTORS CONTRIBUTING TO THE PROPOSED RATE INCREASE

Escalating utilization and health care costs

“Trend” is a very important consideration in determining the need for a premium rate adjustment. Upstate New York is not immune to national trends in health care costs given our state’s population and demographics. Industry experts such as Buck and Oliver Wyman Consultants are forecasting an 8.1-8.9% medical benefit trend nationwide for 2015 in their National Trend Surveys. EHP is forecasting an overall medical benefit trend factor for its commercial fully insured business of 8.2% for 2015-2016.

For Medicare Supplemental products, EHP’s anticipated two-year annualized allowed trend for 2016 is 3.9%. Medicare Supplemental rates are based on only the member portion from Part A and Part B and increased utilization of medical goods, services and therapies. A major driver within that allowed trend is an increase in hospital inpatient expense due in part to a serious flu outbreak in 2015.

Compounding effects of price and utilization

Health care costs take into account the compounding effects of both the price of the goods or services provided as well as the quantity of the goods and services consumed.

For example, if the price of a service was $100 in 2014 and the number of services provided was 100, the total amount spent in 2014 related to that service would be $10,000. If the price of the service rose 10 percent in 2015 and the number of identical services rendered rose by 10 percent, the impact of both the price change and utilization increase is compounded for an overall increase in spending of 21 percent. (110 services x $110 new price = $12,100 spending, or a 21 percent increase over the prior year’s spending of $10,000.) The same impact on spending occurs if the intensity of services rises for treating patients.

The figures presented above of trend factors forecasted for each of the benefit components takes into account that compounding effect. And, the impact that each trend has to the overall cost of coverage is related to proportionate size of the benefit component. For example, overall spending would rise faster as a result of a 5 percent increase in professional services versus a 5 percent increase in drug costs because professional services represents a larger share of medical benefit spending.

V. OPERATING EXPENSE AND QUALITY IMPROVEMENTS

A portion of what is reported to the state as “administrative expenses” is attributed to what Federal Health Reform considers “quality improvement expenses,” meaning the federal government recognizes that these represent costs that lead to overall improvements in health care versus simply a routine business expense, and as a result will be considered a medical benefit expense for purposes of federal MLR calculations.

Those quality improvement expenses include such items as:

- Improvements in health outcomes brought about by case management and disease management programs,
- Actions taken to help prevent hospital readmissions through such things as discharge planning and
counseling,

- Wellness and community health promotional activities, and
- Health information technology that is used to help measure clinical effectiveness and predictive modeling.

CONCLUSION

Based on all of the reasons explained above, EHP is requesting the Superintendent of DF S to grant it a premium rate adjustment averaging 4.8% for its Medicare Supplemental plans to take effect on January 1, 2016. The majority of the increase being sought is attributable to the 3.9% trend and administrative expense.