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July 22, 2014

Ms. Debra Judy
Policy Director
Colorado Consumer Health Initiative
1536 Wynkoop Street, Ste 101
Denver, Colorado 80202

Re: Rocky Mountain Health Care Options, Inc.
Small Group Rate Filing Submitted on June 6, 2014
Proposed Rate Increase of 12.02%
SERFF Tracking No. LEIF-129536172

Dear Ms. Judy:

In accordance with your request, we have reviewed the above captioned small group rate filing by Rocky Mountain Health Care Options (RMHCO) submitted to the Colorado Department of Regulatory Agencies, Division of Insurance (CODOI) on June 6, 2014. The purpose of this document is to assist the Colorado Consumer Health Initiative (CCHI) in submitting comments on the RMHCO filing to the CODOI.[1] It should not be used for any other purpose. Our comments are based upon the information contained in the SERFF filing available from the CODOI website, as well as other publicly available documents.[2]

The RMHCO filing proposed an average rate increase of 12.02% with an implementation date requested of January 1, 2015.[3,4] The total annual premium increase being requested is about $6.466 million.[5] The average annual premium increase per policyholder is about $1,183.[6]

Our overall opinion is that the RMHCO filing was not adequately documented and can be expected to result in excessive rates being charged to Colorado policyholders.

[1] This would include CCHI submitting this letter to CODOI.

[2] These types of documents are commonly relied upon by actuaries and are generally considered reliable. However, we have not verified that the information contained in the filing or documents are accurate.

[3] RMHCO filing, Filing at a Glance and General Information Page

[4] The filing also proposes changing: (i) plan rating factors and (ii) geographical rating area factors. Reflecting these other changes, the range of rate changes by policyholder is from a minimum of -17.4% to a maximum of 30.8%.

[5] RMHCO filing; Rate Information Page

[6] $6,465,616 / 5,464 (number of policyholders), RMHCO filing; Rate Information Page

Various concerns we have with the rate filing are:[7,8]

- Lack of Documentation of Ratemaking Factors
- Lack of Information Regarding Risk Adjustment
- Excessive Loss Trends
- Unsupported Increase in Profit Provision Between Filings
- Unsupported Other Provisions
- Failure to Account for Reduction in Uncompensated / Charity Care

These items are discussed in more detail in the remainder of this letter.

1. Lack of Documentation of Ratemaking Factors

The rate filing by RMHCO that was made publicly available did not contain the derivation of the rate change. While an actuarial memorandum was included, it provided only vague statements about the methods and some of the factors used in the analysis. RMHCO requested that two documents involved in deriving the price to be charged to Colorado policyholders be kept secret. The documents that RMHCO wants hidden from policyholders were the following[9]:

i. Exhibit C1 – Rate Development Methodology

ii. Exhibit C2 – Rate Development

While a first impression could be that requesting two documents be confidential may not be unreasonable, that thought would be contradicted when considering the vast amount of relevant information that is included in those documents.

According to RMHCO, the following information is contained within those documents:

[7] If an issue in the rate filing is not discussed, that should not be taken to mean that we agree with the procedures used in the rate filing.

[8] Our analysis is based upon the information available to us. If additional information becomes available, that could impact our analysis.

[9] RMHCO filing, Vaughn Index

> Exhibit C1 – Rate Development Methodology:
> This exhibit is a narrative of the premium rate build-up that is presented in the tables and formulas included in subsequent exhibits of this filing. … items contained in this exhibit include medical and pharmacy cost and utilization trends; hospital and physician reimbursement trends; the impact of demographic changes; details of medical expense components; and actual PMPM dollar amounts used in determining premium adequacy and the need for a rate change. …
> While Expense Loading on a Percent-of- Premium basis is being made public elsewhere in this filing, this exhibit contains the actual PMPM dollars underlying that percentage. …
>
> Exhibit C2 – Rate Development:
> This exhibit contains claim projection formulas and detailed claims and cost-sharing dollars, medical and Rx trend assumptions and Rx rebate information …
> This exhibit contains the actual rating formula used to determine rate adequacy and calculate required rate changes. … The detailed inputs to the formula include projected claims, demographic adjustments and retention components (in factor and dollar format) …

Hence, those two documents that RMHCO does not want to be made public contain a vast amount of information that would be useful in evaluating whether or not the proposed rate increase is reasonable.

The lack of information in the filing appears to be contrary to the intent of CODOI Regulation 4-2-11 which states in part:

> Section 6 Actuarial Memorandum
>
> K. Complete Explanation as to How the Proposed Rates were Determined: The memorandum must contain a section with a complete explanation as to how the proposed rates were determined, including all underlying rating assumptions, with detailed support for each assumption.

Given the huge number of pricing assumptions for which information was not provided in the public filing, as well as the lack of the actual rate calculation, it is quite clear that the ability of Colorado policyholders to evaluate how the proposed rates were determined is seriously obstructed.

Actuarial Standards of Practice also address the issue of disclosure as follows[10]:

> 3.2 Actuarial Report
> …
> In the actuarial report, the actuary should state the actuarial findings, and identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report.

The lack of information contained in the rate filing impedes the ability of another actuary to evaluate the RMHCO filing.

Furthermore, the lack of information in the RMHCO Colorado filing is inconsistent with the practices regarding rate filings in other states, where this type of information is routinely provided.[11]

In summary, we believe that adequate documentation and support for many of the specific numerical ratemaking values and calculations used in the filing were not provided. We believe the CODOI should carefully consider whether this information should continue to be hidden from Colorado policyholders.

2. Lack of Information Regarding Risk Adjustment

RMHCO did not include a numerical value for the risk adjustment program. The basis given for this is[12]:

> Rocky Mountain HCO participated in the Wakely Consulting Risk Adjustment Reporting Project. The Project covered 98% of the Colorado Small Group Market and is designed to provide issuers estimated risk adjustment factors under the Affordable Care Act's (ACA) risk adjustment program. The information supplemented by an internal risk score analysis is used to develop estimated risk adjustment transfers. Based on the reported information we did not assume any risk adjustment transfers in the pricing for Rocky Mountain HCO.

[10] Actuarial Standard Of Practice No. 41, "Actuarial Communications", http://www.actuarialstandardsboard.org/asops.asp

[11] For example, rate filings submitted to the Oregon Division of Insurance contain comparable information to what RMHCO wants to keep confidential in Colorado

[12] Actuarial Memorandum and Certification - Risk Adjustment and Reinsurance

However, neither the Wakely results nor internal risk score analysis were provided. Hence, an open question is whether a specific risk adjustment value was not included because the indicated value was actually 0%, or whether instead the indication was for a downward (negative) adjustment to rates which RMHCO just did not report and simply used a value of 0%.

The later possibility concerns a possible bias when insurance companies are given the option of whether or not to supply the results of risk adjustment studies. As a simplified example, if ½ the companies have a +4% risk adjustment and ½ the companies have a -4% risk adjustment, then on average across the entire population the risk adjustment will be 0%, which is the appropriate result. However, if the companies for which the indicated adjustment is -4% simply to do not report that and instead use a 0% value, then the average will be +2% (= ½ X 4% + ½ X 0%). This will result in an unbalanced situation where on average policyholders will be paying excessive premiums related to the risk adjustment program.

In summary, the CODOI should confirm that when an insurance company uses a 0% risk adjustment that it is actually the indicated value, as opposed to the company having a downward (negative) indicated risk adjustment. Also, the CODOI should check to determine if the average risk adjustment included in rate filings across all insurance companies is 0%.

3. Excessive Loss Trends

RMHCO used an overall annual loss trend of 8.1%. The filing states "Annual trend of 8.1% is assumed. A blend of medical trend of 6.9% and pharmacy trend of 17.1% were assumed in the development of the rates."[13] This trend is inconsistent with the actual experience for RMHCO, overall industry trends and the prior filing of RMHCO.

With regard to RMHCO's own historical experience, during the four year period from 2010 to 2013, the average annual historical trend PMPM for medical was 4.2%, for pharmacy was 14.3% and combined was 5.4%.[14]

With regard to overall industry trends, there are many sources showing much lower trends than those used in the RMHCO filing as the following demonstrates:

The study *National trends in prescription drug expenditures and projections for 2014* gives a range for "a projected 3–5% increase in total drug expenditures across all settings".[15]

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[13] Rate Review Detail

[14] Exhibit A6 – Small Group Trend. These values reflect "Normalized Trends for changes in demographics, benefit changes, and other factors impacting the true underlying trends."

[15] www.ashpmedia.org/AJHP/DrugExpenditures-2014.pdf

According to CMS "Projected prescription drug spending growth for 2014 is 5.2 percent" and "For 2015 through 2022 … 6.5 percent per year".[16]

Express Scripts (a pharmacy benefit manager) publishes a drug trend report[17] that contains much lower values than those used by RMHCO. That report shows annual trends for 2014 and 2015 for traditional drugs of about 2% a year and for specialty drugs of about 17-18% a year. This gives an overall drug trend of about 7% a year.[18]

Altarum Institute has reported "Health care prices in May 2014 were 1.8% higher than in May 2013, compared with 1.6% in April, year-over-year. The May 2014 12-month moving average rose to 1.3% from 1.2% in April. Year over year, hospital prices – a key price index driver – grew 2.1% in May, equal to the April rate. Physician and clinical services prices grew 0.6%, again equal to the April rate, and home health care prices continued a two-month rebound from a yearlong negative growth trend, recording a 0.5% rate in May. Prescription drug prices rose 3.6%, jumping from the April 2.4% rate."[19]

Milliman stated the following regarding the 2014 Milliman Medical Index (MMI) "the 5.4% growth rate from 2013 to 2014 is the lowest annual change since the MMI was first calculated in 2002."[20]

The prior filing by RMHCO used the following trends "Annual Health Cost Trends: 7.1%. This is medical trend of 7.3% and Rx trend of 5.8%".[21] The current filing by RMHCO used a pharmacy trend about 3 times as high as the previous filing. RMHCO has not provided any explanation or discussion for the extreme increase in the Rx trend used.

The trend used by RMHCO is excessive in relation to its own experience, overall industry trends as well as the value used in the prior filing; and will result in inflated rates being charged to Colorado policyholders.

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[16] National Health Expenditure Projections 2012-2022

[17] "The 2013 Drug Trend Report", April 2014; http://lab.express-scripts.com/drug-trend-report/introduction/year-in-review

[18] It should be noted that PBMs could have incentives to publish inflated drug trend projections. This could be used up-front as a marketing device to sell services to control drug costs, as well as afterwards to show that the actual costs using the PBM services was less than the projected value.

[19] Price Brief, July 10, 2014; http://altarum.org/our-work/cshs-health-sector-economic-indicators-briefs

[20] 2014 Milliman Medical Index report, http://us.milliman.com/uploadedFiles/insight/Periodicals/mmi/pdfs/2014-mmi.pdf; Milliman is an actuarial firm often relied upon by health insurance companies

[21] SERFF Tracking #: LEIF-129012662, State Tracking #: 278015, Company Tracking #: LEIF-129012662; Final Disposition Letter

4. Unsupported Increase in Profit Provision Between Filings

The current filing states "The rate development assumes 3.0% for margin and contingencies, which includes both profit and risk margin and is net of investment income."[22]

RMHCO's prior filing stated "The rate development assumes 0.5% for margin and contingencies, which includes both profit and risk margin."[23]

No explanation or discussion was included in the filing to explain the significant increase in the profit provision. This is an especially important issue given the large rate increase of 12.02% being proposed by RMHCO which will likely be a significant financial hardship for many policyholders. If the profit provision had remained the same between filings, the indicated rate increase would have been around 9.0% instead of 12.0%.[24]

We believe the CODOI should carefully examine the unsupported undocumented increase in the profit provision used by RMHCO to determine if it is reasonable, especially in light of the large rate increase being requested.

5. Unsupported Other Provisions

RMHCO, in its projections, has increased the historical losses by benefit category from 0.3% for hospitals to 513.9% for capitation.[25] The overall impact was to increase the projected losses by 4.3%. While the filing gave a vague explanation for some of these components[26], the actual calculation, support and documentation for the specific numerical values was not provided.

We believe the CODOI should carefully examine the precise numerical values for the other provisions used by RMHCO in projecting losses to determine if those values are reasonable, or if those result in excessive charges being imposed on Colorado policyholders.

[22] Actuarial Memorandum and Certification - Profit and Risk Margin

[23] Actuarial Memorandum and Certification - Profit and Risk Margin, SERFF Tracking #: LEIF-129012662

[24] A 2.5% reduction in the profit provision, from 3.0% to 0.5%, has a larger impact than 2.5% on the rate indication because the profit provision is a variable factor which impacts other items in a multiplicative fashion.

[25] URRT

[26] "… Capitation was adjusted by 6.070 for new capitated dental services and to convert the paid capitation amounts to comparative 'allowed' dollars". Actuarial Memorandum and Certification - Index Rate

6. <u>Failure to Account for Reduction in Uncompensated / Charity Care</u>

RMHCO does not appear to have adjusted its cost projections to reflect a reduction in uncompensated care and charity care (i.e., "bad debt") from the Affordable Care Act's expansion of coverage. The savings associated with these reductions could be substantial, and should be passed along to consumers in the form of lower rates.

Among the outcomes of this expansion has been a reduction in uncompensated hospital care for uninsured individuals. Since the uninsured often cannot pay for their own care out of pocket, the cost of providing needed care in emergency situations is frequently shifted onto the insured population and is reflected in the reimbursement rates insurers pay hospitals and doctors for various services. This is the so-called "bad debt" factor, and the anticipated reduction in bad debt should exert substantial downward pressure on hospital rates.

RMHCO's filing is silent on this issue, and hence it is not possible to know what, if any, consideration RMHCO gave to this issue in developing the rates it proposed to charge to Colorado policyholders.

The evidence is clear that the ACA has resulted in an increase in Medicaid enrollment and a decrease in charity care. A Colorado Hospital Association study confirms this stating in part[27]:

> - The Medicaid proportion of patient volume at hospitals in states that expanded Medicaid increased substantially in the first quarter of 2014. At the same time, the proportion of self-pay and overall charity care declined in expansion-state hospitals.
> - Medicaid, self-pay and charity care showed no change outside normal variation for hospitals in non-expansion states in 2014.
> - The increase in Medicaid volume, which occurred only in expansion states, is due to Medicaid expansion. The parallel decrease in self-pay and charity care shows that previously uninsured patients are now enrolled in Medicaid.
>
> …
>
> The changes reported by hospitals in expansion states nationally are also seen locally across Colorado. Urban, rural and critical access hospitals (CAHs) all demonstrate similar increases in Medicaid volume and decreases in self-pay volume and charity care. The magnitude of the changes in Colorado hospitals is greater than the national trend, as seen in Table 1. Furthermore, the values are outside the range of normal variation, indicating an influence beyond the typical month-to-month change. The proportion of Medicaid charges jumped almost five percentage points for

[27] Impact of Medicaid Expansion on Hospital Volumes, June 2014, http://www.cha.com/Documents/Press-Releases/CHA-Medicaid-Expansion-Study-June-2014.aspx

> urban hospitals and over three percentage points for CAHs and rural hospitals. Across the state, total Medicaid charges for Colorado grew 37 percent, while total self-pay charges dropped by 27 percent from first quarter 2013 to first quarter 2014.

The decrease in the Average Charity Care Per Hospital for Colorado was -36.2%.

A reduction in uninsured patients along with a beneficial financial impact on uncompensated care is also discussed by the rating agency Fitch which has stated "Relative to the early muted influence of insurance expansion on volume growth, expansion of state Medicaid programs had an immediate and dramatic influence on payor mix. In expansion states, hospitals are experiencing strong growth in Medicaid patient volumes and a drop in uninsured patient volumes. Based on only one-quarter of experience under insurance expansion, it is difficult to determine the longer term effect of the payor mix shift, but these early results show the industry could experience a meaningful and durable reduction in the financial headwind created by uncompensated care."[28]

The amount of cost savings from the reduction in bad debt can be expected to become more precise -- and to grow -- over time. However, it is abundantly clear that uncompensated care costs are already going down. Furthermore, it is reasonable to believe that some health care providers will accept lower fees because of the reduction in bad debt. This position is supported by Milliman, an actuarial firm commonly relied upon by health insurance companies, which stated that "some providers may be willing to accept lower rates than in the past, perhaps due to a reduction in uncompensated care for the uninsured."[29]

The pattern of reduced bad debt is already clear, and the impact of that can be expected to be even more important in the coming year. If insurance rates are not adjusted to reflect this reality, consumers will be paying premiums for unjustified costs. We believe the CODOI should carefully consider this issue before making a decision on RMHCO's rate proposal.

7. Conclusion

The rate increase requested by RMHCO is based upon a filing that is not adequately documented with respect to a multitude of different items. Furthermore, it appears that many of the assumptions used by RMHCO are excessive and will result in inflated unreasonable rates being charged to Colorado policyholders.

[28] https://www.fitchratings.com/gws/en/fitchwire/fitchwirearticle/For-Profit-Hospitals-Potentially?pr_id=837194

[29] 2014 Milliman Medical Index, http://us.milliman.com/uploadedFiles/insight/Periodicals/mmi/pdfs/2014-mmi.pdf

Please contact me if there is anything you would care to discuss.

Sincerely,

Allan I. Schwartz
FCAS,ASA,MAAA,FCA,ARE,AIC
APA,AU,AIAF,ARM,API,ACS,CRRA
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