

Medical Expense Trend Targets: Continued Discussion of Methodology Options

Presentation Outline

1. Placing our work in context: the need to build political will and anticipate and address unintended consequences
2. Reviewing insurer feedback from the 3-27-12 meeting
3. Resolving medical expense trend target methodological questions

Political Will to Make Change

- The 3/27/12 meeting with insurers made clear that the Council's recommendations may not be embraced by all.
- Efforts to make health insurance more affordable through regulation of medical expense trend will generate a negative response from those who believe they might be harmed by such action.
- Change can prove successful, however, if:
 - there is a diverse base of strong support for the change within and outside of government
 - those who believe they might be adversely affected by the change think some form of change is inevitable
- OHIC will need to manage this process

Unintended Consequences

- Significant change in public policy and market dynamics may produce consequences that were not anticipated.
- For example, if the medical expense trend is implemented faster than insurers can change their product mix and contracting strategies, unanticipated and perhaps undesired consequences could follow.

Insurer Input Provided During March Meeting

1. Requested clarification if the target is for price trend (same product) or total trend (independent of product)?
2. Need for public engagement (employers and consumers) so employers buy new products
3. Timeframe for insurers to respond with new products and new payment arrangements
4. Questions re: alignment with OHIC hospital rate CMS indexing and DOH network adequacy standards
5. Requests for state help regarding:
 - if provider won't agree to a contract
 - creating a stricter Certificate of Need process
 - OHIC solvency standards

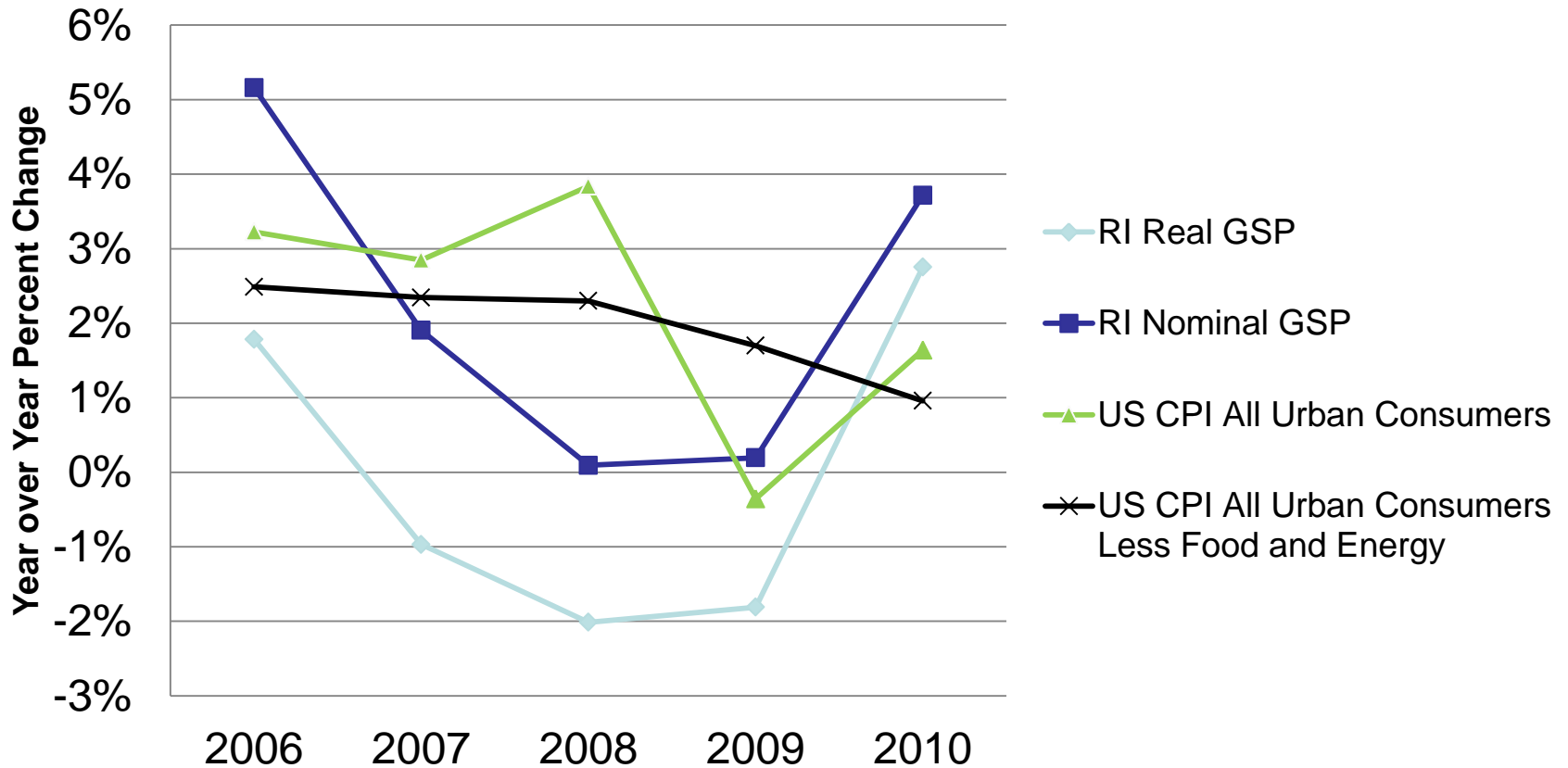
Remaining Policy Issues to Be Resolved

1. What index should be employed for setting the medical expense trend target?
2. Should the index reflect the most recent experience or forecasts?
3. What additional modifiers should be applied to the index rate?
4. Over what time period should the target methodology be phased in?
5. What should be the consequence for an insurer submitting a medical expense trend above target?

What index should be employed for setting the medical expense trend target?

- The Council has been considering two options:
 - US All Urban Consumers All Items less Food and Energy CPI
 - US Real GDP (or RI Real GSP)
- CPI: is a measure of the average change over time in the *prices* paid by urban consumers for a market basket of consumer goods and services.
- GDP/GSP: is a measure of the market value of all final goods and services produced in the country. It measures both changes in *prices and output (volume)*. “Real GDP” is GDP adjusted for the impact of inflation/deflation in prices and is what is most commonly reported in the media.

CPI and GSP Comparisons 2006 - 2010



What index should be employed for setting the medical expense trend target?

- Rationale for using CPI:
 - a measure of consumer cost of living may resonate better with employers and consumers than one of economic growth
 - insurance premium represents a “price” to employers
 - the selected CPI index shows less volatility than GSP
- Rationale for using GSP:
 - some economists think of GDP growth as a more natural target than inflation, since medical spending increases reflect quantity increases as well as price increases
 - GSP is measured at the state level, but inflation is not
 - In most years GSP will be above CPI and may be a more achievable target for insurers
- Prior recommendation: CPI

Should the index reflect the most recent experience or forecasts?

- Recommendation: Forecasting is more appropriate than using a measure of past experience.
- Examples of forecasting entities:
 - Global Insight
 - Moody's Analytic Resources (Economy.com)
 - Kiplinger
 - Forecast-chart.com

What additional modifiers should be applied to the index rate?

- Proposal shared with insurers at March HIAC meeting:
 - OHIC should have the authority to modify the CPI-based medical expense trend target if OHIC finds that a carrier's based medical expense levels are inappropriately high or low relative to Connecticut and Massachusetts benchmarks using an analytic methodology to be defined by OHIC, *or*
 - OHIC should have the authority to adjust medical expense trend target if Rhode Island health insurance rates relative to median wages are higher than in Connecticut and Massachusetts.
- Recommendation: Approach "A" – with definition by OHIC
- In addition, should the insurer's reserve level fall outside of objective parameters specified by OHIC, OHIC will modify the insurance rate reserve adjustment factor.

Over what time period should the target methodology be phased in?

- Council discussed 2-year phase-in during February meeting. Straw model presented to insurers at the March HIAC meeting had a 3-year phase-in.
- Insurers conveyed desire for phase-in in March
- Massachusetts options discussions have contemplated a phase-in using GSP +1
- Recommendation: 3-year phase-in with annual revisit by HIAC and OHIC

What should be the consequence for an insurer submitting a medical expense trend above target?

- Recommendation: Straw model presented to insurers at the March HIAC meeting read “The consequence of filing a medical expense trend above target will be an administrative rate hearing, including a full review of provider contracts. Previous rates will continue until the hearing ruling is issued.”

Next Steps

- Develop a synthesized narrative description of the draft recommendations.
- OHIC will need to share the draft with key stakeholders to solicit additional input and build support.
- In so doing, OHIC will need to gauge any potential unanticipated consequences for implementation of the Council's recommendations.

Next Meeting

- Invite feedback from provider and employer stakeholders.