



December 2012 Blue Cross Blue Shield of Rhode Island Health Insurance Premium Rate Submission Final Decision Summary

Introduction

On December 7, 2012, Blue Cross Blue Shield of Rhode Island (BCBSRI) filed with the State of Rhode Island Office of the Health Insurance Commissioner (OHIC) to request changes to the company’s rate components previously approved by Commissioner Christopher F. Koller on September 21, 2012 for rates effective in 2013. These rate components are comprised of the insurer’s: (1) medical expenses, (2) administrative costs, and (3) contributions to reserves and profit and ultimately determine the premiums charged to small and large employers by BCBSRI. OHIC has the responsibility of reviewing these three components with the goal of holding Rhode Island commercial health insurers publicly accountable for making health insurance more affordable while ensuring their solvency.

The December 2012 Blue Cross Blue Shield of Rhode Island Health Insurance Premium Rate Submission Final Decision: Key Facts

On February 11, 2013, Commissioner Koller issued his final decision on the December 2012 BCBSRI filing. The final decision results in new average premium increases for both small and large employers with renewal effective dates from April 1, 2013 through December 31, 2013. The following tables show the previous approved, new requested, and new approved average premium increases for small and large employers:

**April 1, 2013 to December 31, 2013 Small and Large Employer
Average Expected Premium Increases for Blue Cross Blue Shield of Rhode Island:
Previous Approved, New Requested, and New Approved**

Small Employers

Large Employers

Insurer	Previous Approved	New Requested	New Approved
BCBSRI	1.65%	5.10%	3.67%

Insurer	Previous Approved	New Requested	New Approved
BCBSRI	3.98%	9.00%	7.87%

The next table that follows shows the contributing factors and associated percentage points cited by BCBSRI to explain the difference between its previous approved average premium increases and new requested average premium increases for both small and large employers as well as how OHIC lowered the requested average premium increases to reach the new approved average premium increases:

**How OHIC Lowered BCBSRI's Requested Average Premium Increases
to Reach New Approved Average Premium Increases**

Category	Small Employers	Large Employers
Previous Approved Average Premium Increase	1.65%	3.98%
1. Administrative Expense Increase	+0.80%	+0.50%
2. Past Experience Base Inflation	+0.82%	+1.49%
3. Anticipated Additional Experience Inflation	+0.63%	+0.63%
4. Lifespan Contract Changes	+1.00%	+1.00%
5. Medical Expense Trend	+0.20%	+1.40%
New Requested Average Premium Increase	5.10%	9.00%
1. Administrative Expense Increase	-0.80%	-0.50%
2. Anticipated Additional Experience Inflation	-0.63%	-0.63%
New Approved Average Premium Increase	3.67%	7.87%

- 1. Administrative Expense Increase:** BCBSRI requested that it be approved for what it originally filed for administrative expense in May 2012 that was modified by OHIC in its final decision in September 2012. BCBSRI argued that OHIC's methodology for comparing administrative expense across insurers was flawed due to differences in how insurers categorize expenses. OHIC did not find this argument to be persuasive.
- 2. Past Experience Base Inflation:** In addition to estimating its future costs, an insurer has to estimate its current costs—its base. BCBSRI cited the costs associated with the medical claims it has received in 2012 to date are higher than anticipated when it originally filed in May 2012. OHIC examined BCBSRI's analysis of its experience to evaluate whether the analysis was appropriate and supported BCBSRI's requested increases and found the analysis provided by BCBSRI to be credible.
- 3. Anticipated Additional Experience Inflation:** BCBSRI built a margin into their requested increases because it estimates that experience during 2013 used for its base calculation will continue to be more adverse than had been expected based on 2011 experience used at the time of the original filing in May 2012. OHIC examined BCBSRI's analysis of its anticipated additional experience inflation to evaluate whether the analysis was appropriate and supported BCBSRI's requested increases and found the analysis provided by BCBSRI to be credible. However, OHIC also determined that this additional increase should only go into effect if actual experience inflates as anticipated.
- 4. Lifespan Contract Changes:** BCBSRI cited changes in its contract with Lifespan related to moving from per diem to diagnosis related group payments as contributing to its requested increases. While these contractual changes were to be revenue neutral, BCBSRI asserted that they ultimately resulted in additional expenses for the company. OHIC examined BCBSRI's analysis of the Lifespan contract changes to evaluate whether the analysis was appropriate and supported BCBSRI's requested increases and found the analysis provided by BCBSRI to be credible.

- 5. Medical Expense Trend:** BCBSRI has estimated that underlying medical expense trends will increase in the future. It has cited the following key drivers of its requested increases in medical expense trend: (1) increases in inpatient costs per admission, (2) increases in inpatient admissions, and (3) increases in outpatient costs. Regarding the increases in outpatient costs, BCBSRI cited more complex and expensive treatments being provided in outpatient settings—in particular, specialty outpatient chemotherapy treatment. OHIC examined BCBSRI's projection of medical expense trend to evaluate whether the analysis was appropriate and supported BCBSRI's requested increases and found the analysis provided by BCBSRI to be credible.

OHIC conditionally approved BCBSRI's unusual mid-year request because it found the threat to the company's financial condition, resulting from unanticipated increased medical expenses, to be credible. In general, commercial health insurers bear the responsibility when actual expenses exceed what was projected. However, threats to solvency must be addressed. BCBSRI estimated a 2012 commercial group operating loss of \$40.7 million, which it asserted would reduce its reserves to \$246 million. The target BCBSRI reserve level set by OHIC currently equates to \$358 million. BCBSRI also estimated that if OHIC were to have denied its increase request entirely, its reserves would have dropped to \$232 million by the end of 2013—putting it on a path toward serious financial instability. Moreover, BCBSRI pointed out that BCBS Association data indicates that, adjusting for size, it is the most financially fragile BCBS entity in the country.

OHIC has made its conditional approval dependent BCBSRI's agreement to four conditions aimed at improving affordability and accountability. It is OHIC's position that employers cannot be expected to bear these increased average premiums without the assurance of more collective accountability for reform from BCBSRI and the providers with whom it contracts. Therefore, OHIC has required BCBSRI to consent to the following four conditions in order to receive its new approved average premium increases:

- 1. Affordable Insurance Plans:** By May 1, 2014, BCBSRI will be required to offer at least one new, affordable health insurance plan to consumers priced at least 15% less than the price of a plan with comparable benefits. The plan(s) must incorporate financial incentives for BCBSRI subscribers to use providers that have agreed with BCBSRI to offer health care services with price discounts and utilization procedures designed to achieve the plan's affordability goal. These plan(s) can also include financial incentives for using providers affiliated with one or more health systems.
- 2. Additional 2013 Increase Criteria:** BCBSRI must file complete 2012 medical expense data by March 2013 with OHIC. If OHIC determines that it is justified by the filed data, the company may then request an additional increase of no more than 0.63% for small and large employers.
- 3. Financial Recovery Plan:** BCBSRI must file a report on its financial recovery plan on a quarterly basis in 2013 to ensure that it is making adequate progress in addressing its financial condition.
- 4. Monitoring:** BCBSRI must meet with OHIC on a quarterly basis to review its compliance with the affordable insurance plans condition, above.

OHIC's Affordability Standards will continue. Additionally, BCBSRI (consistent with the requirements placed on other commercial health insurers who do business in Rhode Island) will continue its work in four areas, known as OHIC's Affordability Standards, aimed at improving the affordability of health care in Rhode Island in the long-term: (1) increasing investments in primary care, (2) supporting the adoption of the patient-centered medical home, (3) supporting CurrentCare—the state's health information exchange, and (4) implementing publicly accountable hospital payment reform.

For More Information

For more information, please visit www.ohic.ri.gov.