

Health Insurance Advisory Council
November 24, 2009
4:30-6:00 PM – St. Martin De Porres Center

Minutes

Attendance:

Members: Bill Martin (Co-Chair), Chris Koller (Co-Chair), Rick Brooks, Bill Schmiedeknecht, Domenic Delmonico, Roland Benjamin, Peter Asen, Howard Dulude, Robin Benoit, Gregg Allen, Joel Cooper, Monica Coughlin, Peter Quattromani, Karen Fifer Ferry, Pat Mattingly

Health Plans: Maria LaFerriere, Patrick Ross, John Lynch

OHIC Staff:

Not in Attendance: Ed Quinlan, Phil Papoojian, Hub Brennan, DO, Ted Almon, United Representatives

Guests: Michael Souza, Bruce Cryan, Patrick Quinn

1. Introductions

- Members of the Council and public attendees introduced themselves.
- Chris Koller noted that this meeting was being held in a Providence Community Center as the second of four public meetings required in OHIC statute. Although all HIAC meetings are open to the public, OHIC statute directs that there be at least four public meetings with OHIC staff at different locations in the state. This meeting was publicized on the Secretary of State and OHIC's web site and with an e-mail to the 1100 addresses on the OHIC e-mail list.
- Mr. Martin thanked the St. Martin de Porres Center for their hospitality.

2. Minutes

- Minutes from the October 15 HIAC meeting were approved with no changes.

3. Updates

- Rate Factor submissions from plans: United and BCBSRI have indicated their intent to file new rate factors in January. At this time, OHIC does not intend to alter the annual rate factor review process which normally takes place in the summer of each year.
- MediGap decisions: OHIC approved revised rates for Medicare Supplemental Policies for United, BCBSRI and Banker's Life. These products are regulated by the state, whereas Medicare Advantage Products – which replace, rather than supplement Medicare and whose premiums recently have gone up – are overseen by CMS. The average rate increases were between three and four percent.
- Direct Pay Submission: BCBSRI has submitted new Direct Pay rates, with some product changes, for OHIC review. These would be effective April, and result in an average rate increase of about 10%. OHIC anticipates the mandatory rate hearing will be in January 2010.

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- Chris Koller referred the Council to copies of a presentation he made to the Senate Health and Human Services Committee on the recent work of the Office. This appearance was at the request of the Committee. The committee's questions centered on the Council's Affordability Standards and the Health of Health Insurer's report (see below)
- Mr. Koller also highlighted the issue brief on the Council's Affordability Standards produced by the Commonwealth Fund.

4. Discussion: Financial Health of Health Insurers Report

- Mr. Martin introduced the conversation and Mr. Koller proceeded.
- Mr. Koller explained that this report is produced periodically by the Department of Health and the Office of the Health Insurance Commissioner using annual financial filings as of the end of 2008 from the domestic health insurers (so Tufts – which is domiciled in Massachusetts is not included). DOH produces this report under its public reporting statute; Mr. Koller thanked Bruce Cryan, who was present at the meeting, for his work in producing the report.
- Mr. Koller then reviewed the findings of the report in a presentation to the Council. The report found that:
 - RI health plans in general were less profitable in 2008 than their New England counterparts – but United was significantly more so.
 - RI health plans are better reserved than their New England counterparts.
 - RI health plans spend more on administration and less on medical care – as a percentage of premiums – than their New England counterparts. There was no analysis possible on the finding on Medical expenses – it could be due to lower utilization, lower provider rates or lower benefit plan coverage levels.
 - There are significant variations in these metrics by line of business. Medicare in particular was historically a profitable line of business.
- Questions from the Council concerned how 2009 performance so far had changed these pictures. Mr. Koller noted that both NHPRI and BCBSRI had posted year-to-date losses which were affecting reserve positions.
 - NHPRI with a single line of business had had seen its reserves decline slightly and foresees larger declines in the future as in the wake of the State Budget crisis. When questioned, Mr. Koller articulated his assessment that NHPRI's solvency is a function less of its reserves than of the state's commitment to the Rite Care program, NHPRI's sole source of revenue.
 - BCBSRI estimates its reserves are 10% of annual revenues. The decline is attributable to declining membership, increased administrative costs, lower Medicare Advantage premiums and low commercial insurance rate increases (resulting from OHIC decisions). These also result in the posting of estimated future losses ("Premium deficiency reserves") in the current period. OHIC is actively monitoring BCBSRI's financial projections, which are also tied to future rate factor decisions. It was pointed out the

challenge of balancing BCBSRI needs for solvency against the risk of premium increases simply justifying current administrative and medical costs.

5. Discussion: Health Plan Administrative Costs

Focusing on a particular area of Council concern which came up in the report, Mr. Koller than distributed supplemental information on the four-year historical administrative cost trends for United and BCBSRI and the projections for the next two-year.

- The categories used were standard NAIC reporting categories.
- Projections were from the 2009 rate factor filing
- No comparisons should be made between plans because there is no standard definition for the use of the categories.
- UHCNE has an administrative services agreement with United that costs 12.5% of commercial premium. So as membership changes and premium rises or fall, administrative costs as a portion of premium remain fixed.
- For BCBSRI in a five year period:
 - Membership is projected to have fallen 25%
 - Administrative costs per capital will have risen 110%
 - On percentage increase, the largest increases were for taxes (reflecting the new premium tax) auditing and consulting and other (primarily depreciation on IT equipment)
- For United in a five year period:
 - Membership will have fallen 54% and administrative costs per capita will have risen 81%.
 - Apart from taxes, the analysis by category is less conclusive.
- It was noted also that BCBSRI's rise in administrative expenses puts its ratio close to United's.

The following points were made in discussion:

- Is BCBSRI big enough? Some of the rise in administrative expenses has been due to a decline in membership.
- United's administrative cost model is expensive relative to most non profits health plans but insulates itself against membership decline issues.
- What have been the head count reductions at BCBSRI and how do they compare to membership declines?
- Marketing Commissions are a sizable chunk of administrative costs but not rising at the rate of other components – probably because they are pegged to membership.
- BCBSRI has embarked on a major IT upgrade – some of this is reflected as an expense and some as capital. The costs spent on this may be even greater than what is attributed to it as it affects the whole of the organization.
- Mr. Quinn – the lone public attendee – made points regarding the need to monitor the use of administrative expenses for senior management salaries and lobbying on federal reform. He also inquired on the status of United's extraordinary dividend request and commitments made by the health plan's to fund Electronic Medical Records.

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Mr. Koller then asked the Council how these findings should be used by the Office in rate factor decisions. Although there was no vote there was general consensus on these points:

- OHIC should adopt standards for administrative costs in the commercial market which are the same for insurers – regardless of ownership status or membership size.
- These standards should be based on regional benchmarks.
- Three options were proposed:
 1. Administrative costs on a pmpm basis. These could be directly pegged and increases could be tied to inflation rates. They may preserve current inefficiencies unless care were taken in developing standards
 2. Administrative costs as a portion of premium. These are easier standards to find but unless adjusted annually, they will go up at the rate of health insurance overall.
 3. Target a Medical Expense Ratio and an allowable overall rate of increase in Health Insurance Premium. This has the effect of setting allowable administrative and profit margins. Unless an absolute premium is targeted, it also has the effect of preserving current overall levels.
 - These proposals were not discussed in detail. Mr. Koller indicated the consensus on the first two points were significant. OHIC will take the options under advisement and may bring the topic back to the Council for further discussion.

6. Other Business

- No items were suggested.

Next Meeting of the Council will be on December 15, 2009

Time: 4:30 pm – Location: DLT in Cranston

Agenda:

- Effects of any Federal Reforms – role of state based insurance regulation, effect on commercial market.
- Projections for Uninsured in RI. Trends in commercial insurance in RI.
- Review Draft Regulations for Small and Large Group Rate Factor Review Process.
- OHIC Legislative Items

The meeting then adjourned.