Actors Fund ☙ Children's Defense Fund-New York Community Service Society of New York
Consumers Union ☙ Empire Justice Center
Make the Road New York ☙ Medicare Rights Center ☙ Metro New York Health Care for All Campaign
New Yorkers for Accessible Health Coverage ☙ New York Immigration Coalition ☙ Project CHARGE
Public Policy and Education Fund of New York/Citizen Action of New York
Raising Women's Voices-New York ☙ Schuyler Center for Analysis and Advocacy ☙ Small Business Majority
Young Invincibles

July 7, 2017

Maria T. Vullo, Superintendent
Troy Oechsner, Deputy Superintendent for Health
John Powell, Assistant Deputy Superintendent for Health
NYS Department of Financial Services
One Commerce Plaza
Albany, NY 12257

RE: Requested Rate Changes – MVP Health Plan, Inc. – Individual - 131020891

Dear Superintendent Vullo, Deputy Superintendent Oechsner, and Assistant Deputy Superintendent Powell:

Below are HCFANY's comments on MVP's request for a 13.55 percent rate increase.[1] MVP is a non-profit plan that operates in seven different rating areas: Albany, Buffalo, Mid-Hudson, NYC, Rochester, Syracuse, and Utica/Watertown. The company projects that it will have 29,335 members for 2018, a slight increase over 2017.

I. Market-Wide Issues

This year, the deliberations in Washington, D.C. about potential changes to the Affordable Care Act (ACA) complicate the process of determining the rates insurers will need in 2018 in order to pay claims and retain a reasonable margin for administration, profit, and/or reserves. Nevertheless, several factors indicate that individual market rate increases in New York State for the 2018 plan year should be relatively modest.

First, the U.S. Department of Health and Human Services (HHS) has promulgated two new regulations giving insurers more flexibility to restrict enrollment and to design policies with less generous benefits.

Second, insurers have now had over three years of experience in doing business on the New York State of Health Marketplace, and in adapting to the ACA's requirements. That

[1] HCFANY would like to acknowledge the invaluable assistance we had this year from Jay Angoff, of Mehri & Skalet, PLLC (www.findjustice.com), in the preparation of these comments.

experience, as well as the fact insurers have less pent-up demand and no longer have start-up costs should enable them to reduce costs.

Third, the size of the New York market means insurers do not need to incorporate additional amounts into the various assumptions they make to account for uncertainty resulting from data that are not fully credible.

With those factors in mind, HCFANY offers the following general observations that may have bearing upon the Department's analysis of issues common to all rate filings as it seeks to determine for each carrier rates that are not excessive, inadequate, or unfairly discriminatory.

A. The trend factor

Trend is the rate at which the insurer projects it must increase (or decrease) its rates due to underlying health care costs. Along with the health status of the insured population, it is one of the two factors that typically has the greatest impact on a proposed rate.

In assessing the reasonableness of a projected medical trend, HCFANY believes that the Department should consider whether a carrier's assuming a high trend factor increases the likelihood that it will accept unreasonably large provider price increases rather than negotiating rigorously with providers. In particular, the Department should not accept at face value insurer statements that are based on the assumption that the company is a passive price-taker, and cannot use its bargaining power to drive down underlying healthcare costs. To be sure, hospitals have substantial bargaining power — some to such an extent that they are commonly characterized as "must have" hospitals. At the same time, however, many doctors and hospitals cannot afford not to be in the networks of the major carriers. By disapproving rates to the extent that they incorporate unreasonably high trend assumptions, the Department can give both the insurer and the providers it contracts with an incentive to manage costs so that they do not exceed what the Department has approved. HCFANY therefore believes that the rate approved by the Department should be based on a lower trend factor than the carrier has assumed to the extent that the Department concludes that the carrier has not sufficiently used its bargaining power to drive down costs.

Moreover, the Department may wish to scrutinize trend factors exceeding 5 percent particularly closely. That is because the Milliman actuarial firm, which in its Milliman Medical Index (MMI) has been calculating the annual increase in healthcare costs for each of the last 15 years, has determined that medical trend has been steadily decreasing. In fact, medical trend hit new lows in both 2016 and 2017: 4.7 percent in 2016, and 4.3 percent for 2017.

In addition, because the MMI trend is the trend Milliman found for "an average employer-sponsored PPO plan," trend in New York's predominately in-network only individual market could be even lower than the 4.3 percent found by Milliman. First, Milliman explains that "employers and employees have been subsidizing other markets for many years," because the plans insurers sell to employers are paying higher rates to providers than are individual plans. Trend for individual plans therefore may reasonably be expected to be lower than trend for group

plans. Second, because PPO plans provide some coverage when the insured sees an out-of-network provider, and thus have less control over their costs than do carriers offering only in-network coverage, New York's mostly closed-panel plans may reasonably be expected to have a lower trend than a trend based on PPO data, as Milliman's is.

In determining a reasonable rate increase, therefore, the Department may wish to disregard the assumed trend factor to the extent it substantially exceeds the Milliman-determined trend.

Drug trend is a component of overall medical trend. It accounts for 17 percent of overall trend, according to Milliman. Drug trend is higher than other medical trend, but according to both the MMI and a recent Blue Cross Association study of drug spending on Blue Cross enrollees since 2010, it is not nearly as high as some carriers are projecting. The Blue Cross study found that spending on drugs has been increasing by 10 percent annually since 2010, and Milliman found drug trend to be 8 percent. While both numbers are substantially higher than trend for non-drug medical spending, this is the second year in a row that drug trend, like non-drug medical trend, has decreased. According to Milliman, a few years ago drugs became available that cured hepatitis C but at a cost of almost $100,000, which drove large increases in drug trend. Milliman explains, however, that those increases will not continue to the same extent because many hepatitis C patients have now been cured. In addition, Milliman notes that many drug company CEOs have "taken the price hike pledge" to keep price increases below 10 percent, and that some pharmacies are reducing drug prices so they can participate in preferred pharmacy networks and thereby increase their sales of non-pharmacy products.

In view of the above, HCFANY urges the Department to require carriers to submit robust support for any assumed drug trend exceeding 10 percent before approving any rate increase incorporating such a trend.

B. Morbidity

The health status of the insured population in the market — morbidity — can also have a very substantial effect rates. Trend and morbidity are two separate concepts. Trend is the change in health care costs everything else equal, while morbidity measures the increase in costs due solely to the change in the market's health status. However, there is clearly a potential for double-counting because trend includes both the change in unit costs and the change in utilization, and it is difficult to separate out the extent to which utilization changes while health status remains constant from the extent to which utilization changes because health status becomes less favorable. The potential for double counting is particularly great if the insurer assumes both a high trend factor and a high morbidity factor.

In estimating rate needs, some carriers have assumed that morbidity will remain unchanged in 2018, while others have assumed that it will be less favorable in 2018, i.e., that 2018 enrollees as a group will be less healthy than were 2017 enrollees. The Department should use the same morbidity assumption with respect to all carriers in determining the rates it will

approve. Morbidity measures the change in health status of the market as a whole, regardless of the assumption any given carrier makes as to morbidity.

In addition, the Department may wish to also consider factors weighing in favor of morbidity improving in 2018. Insurers have strongly argued that individuals with the greatest need for insurance — those with pre-existing conditions — are more likely to sign up for insurance than people in standard health. Those people have now had four years to sign up. It is therefore reasonable to assume that most individuals with health conditions have signed up, and that morbidity is likely to improve as time goes on. In addition, the individual market pool can reasonably be expected to be healthier as time goes on because pent-up demand will have been satisfied: the previously uninsured with health conditions who became insured at their first opportunity to do so will have obtained care for problems they avoided getting care for when they were uninsured. They may still have higher-than-average expenses, but not to the extent that they did when they first enrolled. This is especially true in New York, where the individual market enrollment has increased from an all-time low of 19,000 in 2013 to over 360,000 in late 2016.

More significant than any of the above, however, a new HHS rule and CMS guidance, opposed by advocates and New York State alike, include several provisions that the industry has strongly argued will improve the health status of the individual risk pool in 2018. They include:

1. <u>A shorter open enrollment period</u>

The new HHS Market Stabilization Rule shortens the open enrollment period in all states from 90 days to 45 days: from November 1 through January 31 in 2016 to November 1, 2017 through December 15 in 2017. Insurers have argued that this will allow them to collect a full year's premium from all enrollees for the first time, and that it will reduce the likelihood of adverse selection by consumers who learn they have health problems in December and January: people could no longer buy coverage after the new year started that would pay for a condition they discover between December 15 and January 31. This can benefit insurers in two ways. First, it enables them to avoid paying for anyone who has not bought or renewed coverage by December 15 and has a serious illness or injury between December 15 and January 31. Second, if consumers know that they must enroll by December 15 to avoid the possibility of being personally responsible for their health care costs, the number of healthy insureds signing up is likely to increase.

2. <u>Limiting special enrollment periods (SEPs)</u>

The HHS Market Stabilization Rule also makes it more difficult for consumers to sign up during Special Enrollment Periods (SEPs). For example, it requires consumers applying during an SEP to verify their eligibility. Up until now, individuals seeking to apply during an SEP could simply attest to their eligibility, thus allowing people who had just discovered a serious health condition to attest that they were eligible even if they were not. In addition, the Rule prohibits individuals who add a dependent during an SEP from obtaining more comprehensive coverage

during the SEP. And the Rule also makes it easier for insurers to reject people during SEP's on other grounds. It allows insurers to reject those who have lost Minimum Essential Coverage because they did not pay their premium, unless they pay back those premiums. It allows newlyweds to buy coverage during an SEP only if one spouse had Minimum Essential Coverage or had lived abroad at some time during the previous 60 days. And it requires consumers claiming "exceptional circumstances" enabling them to buy during an SEP to meet a higher standard than in the past and to submit supporting documentation.

The Rule's provisions restricting special enrollment expressly apply only to the federally-operated Exchanges. Nevertheless, HHS encourages states to adopt those restrictions. To the extent the New York Marketplaces adopts these rules — and it is widely believed to have done so — it should ensure that savings resulting from those restrictions be reflected in the morbidity assumption used to determine the rate.

In summary, all the above factors can reasonably be expected to improve morbidity. The Department should consider all those factors, as well as those that could worsen morbidity, in determining a reasonable market-wide morbidity assumption to be incorporated into each rate filing.

C. The impact of cost-saving provisions

Insurers typically increase their rates to reflect the cost of implementing quality improvement measures and new technology, but rarely reduce their rates to reflect the cost-savings that result from such measures. Notably, New York State has engaged in a series of efforts to encourage value based payments and expand the use of primary care and medical homes. These efforts should be factored into the Department's analysis of the carriers' requests.

In addition, quality improvement and new technology cost money, but they should save more money than they cost: if they don't, why implement them? Relatedly, insurers may narrow their networks, negotiate discounts with providers, and take steps to limit utilization, but they rarely assume any savings resulting from these initiatives in their rate filings.

Importantly, Exhibit 18 to the rate filing includes four lines on which an insurer should reflect savings resulting from actions it has taken which may reasonably be expected to reduce costs. Those lines are as follows:

1. Line 14 — Marketwide adjustment for changes in provider network. Insurers have argued that narrow networks reduce premiums and improve quality by forcing providers to compete to be in the network. Insurers have consistently maintained, with evidentiary support, that by narrowing their networks they can reduce their costs. Nevertheless, insurers typically refuse to recognize any such savings in their rate filings, since the factor they use for changes in provider network is usually 1.00.

2. Line 15 — Marketwide adjustment for fee schedule changes. Although carriers do not make their fee schedules public, when they guarantee providers a certain volume of business for

participating in their network the standard quid pro is for providers to accept reduced fees. Yet insurers usually include a 1.00 factor for fee schedule changes.

3. Line 16 — Marketwide adjustment for utilization management changes. Utilization management--including both providing needed care more efficiently, and discouraging people from obtaining unneeded care — by definition reduces costs. Despite this, insurers routinely use a 1.00 factor for utilization management changes.

4. Line 17 — Marketwide adjustment factor for impact on claim costs from quality improvement and cost containment activities. By definition, cost containment activities contain costs. The purpose of quality improvement activities is to improve quality so that as a result of improvements in quality costs are contained. Again, insurers routinely use a 1.00 factor for quality improvement and cost containment activities.

With respect to all four of above cost-saving measures, unless the insurer can make a compelling case that its initiative is not saving money — in which case it probably should not be implementing it at all — the Department should assume a factor of less than 1.00 in calculating an appropriate rate change.

D. The impact of lower actuarial values

The Market Stabilization Rule allows insurers to sell plans with lower actuarial values at each metal level. Under the original HHS rule implementing the statutory requirement that insurers sell plans with Actuarial Values (AV) of 60 percent, 70 percent, 80 percent, and 90 percent (known, respectively, as Bronze, Silver, Gold, and Platinum plans), the AV of any metal level plan could vary by plus or minus 2 percent. Thus, for example, an insurer could sell a plan with an AV of between 68 percent and 72 percent as a Silver plan. The Market Stabilization Rule increases the allowable downside variation for all metal-level plans to -4 points, while keeping the upside at +2 for Silver, Gold and Platinum and raising the upside for a Bronze plan to +5. These provisions expressly apply only to federally-operated Exchanges, but HHS encourages state Exchanges to adopt them too. To the extent that the New York Marketplace permits carriers to do so — as is widely believed — the Department should ensure that the resulting savings be reflected in the approved rate.

E. The impact of the higher 2018 out-of-pocket limit

The new HHS Benefit and Payment Parameters Rule contains a provision increasing the maximum out-of-pocket (OOP) limit by 2.8 percent, to $7,350 for individual coverage and $14,700 for family coverage. The rule expressly applies in all states, regardless of whether the federal or state government operates the Marketplace in the state. Notably, insurers almost always include a factor that increases the rate for so-called "deductible leveraging"— trend increasing while the deductible remains constant, thus increasing the effective trend for the carrier. On the other hand, insurers do not include a factor that reduces the rate for an increase in the OOP maximum, which can potentially reduce the effective trend, since insureds subject to

the new higher OOP maximums pay for more of that trend. HCFANY urges the Department to require that the rates it approves incorporate the effect of the new higher OOP maximum.

F. Administrative expenses

Although a few carriers assume that their administrative expenses will remain constant or decline slightly in 2018, the majority of carriers (9 out of 13) assume they will increase. Such an assumption would appear to be unreasonable, for three reasons. First, administrative expenses can reasonably be expected to decline as insurers become more familiar with doing business on the Exchange, and they have now had three and half years of experience with the Exchange system.

Second, insurers have traditionally had to heavily market and establish their own broker networks to sell insurance to the individual market. With the Marketplace system, however, they need do neither, since the Marketplace allows them to reach all their potential customers without establishing a broker network. As the New York State of Health Marketplace has become institutionalized, carriers are dropping reliance upon broker commissions or downwardly adjusting them.

Third, the extensive coverage the media give to the ACA, whether positive or negative, continues to increase public awareness of the law and of its requirement that people have insurance. As a result, insurers can spend less on marketing than they otherwise would.

The Department therefore should not approve a rate to the extent that it includes an increase in administrative expenses. In addition, the Department may wish to consider requiring that rates for 2018 reflect lower administrative expenses than 2017 rates.

G. Underwriting profit

The higher a carrier's underwriting profit, the greater the extent to which it can increase its surplus. To be sure, insurers should hold surplus sufficient to ensure that even under the most pessimistic assumptions they will be able to pay all claims. However, beyond some point additional surplus is unnecessary to protect policyholders. In for-profit companies, such excess surplus redounds to the benefit of the shareholder/owners, since their stock reflects the value of all the company's surplus. Non-profits, however, have no shareholders. They owe a duty not to shareholders but either to the general public or their policyholders, neither of whom benefit from surplus that exceeds the amount necessary to protect policyholders. There is therefore a substantial argument that non-profit insurers should not be permitted to include an underwriting profit provision in their rates if their surplus exceeds the level necessary to protect policyholders.

What is that level? The Blue Cross Association requires Blue plans to have a minimum risk-based capital (RBC) ratio — the ratio of the company's year-end surplus to its Authorized Control Level surplus — of at least 375 percent, and has historically considered a plan to be a strong Blue if its RBC ratio exceeds 500 percent. It has never established a maximum surplus standard. Neither has the New York Department of Financial Services, or the NAIC. However, in

2005 the Pennsylvania Department of Insurance issued an order establishing a 550 percent RBC level as that at which a non-profit Blue plan may not include an allowance for "risk and contingencies" in its rate filings, and establishing the 950 Percent RBC level as presumptively excessive.

That order is not binding in other states. Nevertheless, HCFANY believes that the Department should consider whether there is some RBC level in the 550-950 percent range at which a nonprofit plan should not be permitted to include an underwriting profit factor in its rates. Establishing such a level is important because a high underwriting profit factor gives the insurer an incentive to pay providers higher rather than lower prices, since the higher those prices are, the larger the base to which the underwriting profit percentage is applied.

H. Special consideration regarding very high proposed rate increases

At some point, proposed rate increases become counter-productive for the carrier: they become so high that they drive away the healthy risk in the pool, thus further worsening the health status of the pool and requiring even greater increases in order to pay for the increasingly unhealthy pool. A lower rate increase, on the other hand, will bring in more relatively healthy risks.

To be sure, a relatively low rate increase may well not be sufficient to enable the carrier to meet its profit targets. A huge rate increase is, however, almost certain to accelerate the collapse of the system. The Department therefore may wish to reduce very high proposed increases in order to avert an even worse case situation than that used by the insurer to justify its increase.

I. Distribution of the increase by metal level

Some carriers are seeking to implement substantially greater percentage increases for the more comprehensive plans — gold and platinum — than for the less generous silver and bronze plans. This could have the effect of driving the healthier people out of the gold and platinum plans, thus requiring even higher rates for those plans in the future. The Department should therefore satisfy itself that the manner in which the insurer distributes the total increase across metal levels will not unduly disadvantage high-cost enrollees, or lead to a pricing spiral for platinum and gold coverage.

J. Special considerations regarding the size of the carrier

It may make sense for the Department to be more solicitous of a small insurer with a high proportion of individual business than of a large insurer with relatively little individual business. That is because the consequences of the Department being wrong in substantially reducing a rate increase are relatively insignificant for a large insurer with relatively little individual business, but much more significant for a small insurer with mostly individual business. So, for example, if a small insurer with primarily individual business assumes a higher-than-average trend or expense or profit factor, the Department may wish to consider the more serious effect of failing

to recognize risk and give the carrier's judgments greater deference. On the other hand, in the case of a large carrier with relatively little individual business, HCFANY believe the Department should be less deferential to estimates of risk that deviate from national norms. The consequences for those insurers are less impactful if the Department is wrong. Those large insurers also can reasonably be expected to use bargaining power to reduce trend and are able to spread costs over a wider base to reduce expense factors.

II. Specific Issues in MVP's Rate Application

MVP is asking for a below-average 13.5 percent increase in premiums for 2018. The company's application includes quite a few numbers that demonstrate a good-faith effort to keep costs manageable for their customers. It only asked for a moderate increase of 6 percent last year. Its expense ratio is below average, and increased by less than a percent since last year.

Still, a double-digit increase is difficult for consumers to bear. This is borne out by the comments MVP members have left on the Department's website. One member mentioned paying $15,000 a year for an MVP plan on a fixed income, and suggested that a double-digit increase would mean they will go without insurance. Another pointed out that their monthly premium will rival their mortgage payment if the full increase is granted and are asking why the company needs another increase this year.

HCFANY identified three issues that the Department should carefully review to assure that MVP's members are protected from unnecessarily high rate increases.

A. MVP seeks a higher medical trend than the Milliman Medical Index.

MVP's requested trend is 7.5, which is nearly double the 4.3 percent projected by the Milliman Medical Index. This is also higher than the average for other carriers in New York State (which is 6.7 percent). MVP cites the 2017 Segal Health Plan Cost Trend as support. Given that there are five carriers in New York that achieved a lower trend than MVP, the Department should require the company to produce a thorough justification for this trend rate or disallow it.[2]

Some carriers provided charts breaking out utilization and price inflation for different types of services like inpatient, outpatient, and pharmacy. If all carriers did this, it would be easier to see why some carriers end up with different medical trend projections. MVP does break out medical claim and pharmacy price inflation, and includes pharmacy utilization projections in their narrative (though without any discussion of how the company attempts to manage its pharmacy costs). But it does not for example provide an estimate of medical utilization increases.

B. MVP has not met the State's MLR requirements in the past and experienced a large change in its MLR last year.

[2] Or, as one MVP member puts it, "We just received notice that MVP is requesting a rate increase of over 10% for 2018. My premium is now over $660 per month, where do they come off asking for such a large increase? Inflation is nowhere near 10%. All they should get is based on inflation."

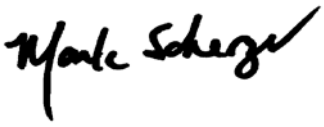
MVP's medical loss ratio was favorable for members last year at 94 percent. But the company reported lower MLRs than the State's requirements for 2014 and 2015, at 72.9 percent and 69.2 percent respectively. The company should provide a detailed description of why its MLR changed so much last year, and it should indicate if consumers received adequate rebates for 2014 and 2015.

C. Broker costs contribute 2.5 percent to MVP's rates.

Even though MVP's administrative costs are reasonable overall, 2.5 percent for broker commissions is significant. Some carriers have no broker costs at all. MVP does not indicate what percentage of its individual market enrollment is secured by brokers versus direct enrollment through the New York State of Health website, Certified Application Counselors, or Navigators. Absent concrete evidence that the commissions MVP paid in 2016 were equal to 2.5 percent of its premiums, and that its enrollees who bought through brokers would not otherwise have enrolled with MVP, MVP's 2.5 percent factor for broker commissions should be disallowed.

HCFANY urges DFS to carefully review MVP's application for ways to give consumers a better deal. Thank you for your attention to these comments. Please contact us with any questions at adunker@cssny.org or 212-614-5312.

Sincerely,



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