

Testimony for Public Hearing
House Labor & Commerce Committee
October 7, 2014

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Concerning recently announced rate increases for the health care policies in Alaska under the Affordable Care Act

Introduction

Chair Olson, Vice Chair Reinbold, and members of the committee, my name is Kraig Anderson, Senior Vice President and Chief Actuary for Moda Health. I am here today to discuss the effect of health reform on the individual Alaska market and the impact that has had on our 2015 premiums.

Discussion Topics

- 1) Prior to health reform, people in the individual market had better than average health status because of health statement underwriting.
- 2) The individual market was impacted by the guaranteed issue requirement and selection issues with the uninsured and extension policies.
- 3) We are required to price our products to the average market risk, which is much worse than what we have observed in our own experience. This is the main driver of our rate increase.
- 4) Competition is essential for the exchanges to work. Insurance competition is voluntary, but only two carriers are participating in Alaska.
- 5) We are projecting losses for 2014 and in spite of our significant increase in premium and we don't expect to return to profitability in 2015.

Moda Background

I have worked for Moda Health, which was formerly ODS Health Plans, Inc., for 14 years. Our company was established in 1955 and is one of the original founding Delta Dental plans. We are unique in the Delta Dental system as the only company to offer medical insurance products, which we began in 1985 as ODS Health Plans, Inc. In the mid-2000s, we were able to gain the Delta Dental marketing rights for Alaska. We launched our dental and medical, individual and group products between January 1st, 2005 and April 1st, 2007.

We established an office in Anchorage in 2005 that now has 7 employees providing local support lead by our regional manager, Jason Gootee. All other support services for our Alaska business are done from our corporate office in Portland Oregon.

In 2013 we rebranded from ODS Health Plans, Inc. to Moda Health, but market our stand-alone dental products as Delta Dental of Alaska.

- 1) Prior to health reform, people in the individual market had better than average health status because of health statement underwriting.

With the passage of the Affordable Care Act in March 2010, we recognized there would be significant market reforms affecting our individual and small group products. The most significant change in the legislation was the prohibition of health statement underwriting and the requirement to provide guaranteed issue insurance coverage in the individual market. Prior to 2014, all insurance companies offering individual products were allowed to either accept or deny coverage based on information gathered from health statement questionnaires. Insurers were also allowed to charge higher premiums based on health status, but that was not our practice at Moda Health. For those who could not gain access to coverage in the individual market, they would either remain uninsured or sign up with the state's high risk pool, ACHIA, which offered individual health insurance coverage to those rejected due to medical reasons. This resulted in a private individual market comprised of people with better than average health status.

In June 2012, Lewis and Ellis, Inc. released a thorough 104-page report to provide actuarial analysis and guidance related to establishing an exchange. The report also offered the potential impact on the Alaska market as a result of health reform. I mention this report not because it was the basis of our 2014 or 2015 rate filings, but because it provides relevant insights regarding the impacts on the individual market. In their report, they noted three principle reasons for increased costs to the individual market: 1) age band limitations, 2) health status/guaranteed-issue restrictions, and 3) minimum benefit coverage. The most significant of these was the health status, guaranteed issue restrictions.

- 2) The individual market was impacted by the guaranteed issue requirement and selection issues with the uninsured and extension policies.

A primary goal of national health reform was the expansion of coverage for the uninsured. This would be done through the establishment of exchanges where individuals could purchase insurance through a competitive marketplace. The ACA created a premium subsidy program for those earning up to 400% of the federal poverty level (FPL) to assist individuals with the cost of coverage. Lewis and Ellis estimated that the average cost of the uninsured was nearly 36% higher than people currently covered in the private individual market. It is important to note

that although the average risk of the uninsured market was 36% higher, it was unknown what portion of the uninsured would sign up for individual coverage in 2014. Lewis and Ellis projections assumed that more of the unhealthy uninsured would purchase through the exchanges resulting in a cost impact greater than 36%.

This point is critical. The total uninsured population in Alaska prior to the implementation of the ACA was approximately 138,000. In their report, Lewis and Ellis predicted that 54,000 uninsured would sign up through the exchange. The most recent estimate of actual exchange enrollment is approximately 16,000. Since this is such a small fraction of the total uninsured, there is great concern that the ACA risk pool contains the portion of the uninsured with the worst risk. In addition, there was a federal policy change at the end of 2013, which allowed states to extend current non-ACA compliant policies into 2014. As mentioned previously, the private individual market prior to the implementation of health reform has better than average risk. These combined factors resulted in a higher average risk profile for ACA-compliant plans than was predicted.

- 3) We are required to price our products to the average market risk, which is much worse than what we have observed in our own experience. This is the main driver of our rate increase.

As insurers, we are required to price our products to the average market risk. In order to do this, we have to assess the risk not only of our population, but also of the rest of the marketplace. Moda along with other insurance companies submit claims experience to Wakely Consulting that provides information on the entire Alaska market. Based on this emerging information, we observed that the average morbidity of the entire Alaska individual market is 25.7% greater than our 2014 individual ACA risk pool. This discovery was the major contributing factor to our large rate increase for 2015.

- 4) Competition is essential for the exchanges to work. Insurance competition is voluntary, but only two carriers are participating in Alaska.

Without insurance company participation, there wouldn't be the competition needed for the exchanges to work. In spite of this, many national insurers withdrew from markets around the country in 2014 and only two carriers offered coverage on Alaska exchange. In order to remain an option, we must set rates that cover projected costs.

- 5) We are projecting losses for 2014 and in spite of our significant increase in premium and we don't expect to return to profitability in 2015.

We have modeled our emerging results and are projecting a financial loss for 2014. The primary source of this loss is a significant transfer payment resulting from our better than

average ACA-market risk required by the risk adjustment program. We predict that we will sustain additional losses for 2015 in spite of our significant rate increase.

Summary

I would like to summarize by saying that we are committed to participating in the Alaska individual market for 2015 and beyond. We are concerned, however, by the rate increases necessitated by the risk profile of the pool. High rate increases will make it increasingly more difficult for people to stay in the post-ACA individual market and less likely for the healthier uninsured to join. We plan to reach out to the Alaska insurance division to offer ideas and assistance in finding ways to address these issues and ensure the long-term viability of the Alaska individual market.

With that, I am open to any questions that the committee members may have. Thank you.