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Sent: Monday, April 30, 2012 7:45 PM
To: HHS Rate Review (HHS)
Cc: Hall, Linda S (CED)
Subject: ATTN: State-specific Threshold Review

Alaska's State-Specific Threshold Proposal

Effective Rate Review:

HHS deemed Alaska an effective rate review state as of 1/1/2012 when all health care insurance rates for all markets must be filed with the division. By law rates may not be excessive, inadequate or unfairly discriminatory (i.e. unreasonable). Alaska regulations set forth in detail the information that must be submitted in a rate filing. Alaska takes its responsibility to enforce this requirement seriously and reviews rate filings in detail and with care and argues that it will not allow an unreasonable rate increase to be implemented in Alaska. Therefore a threshold to "capture rate increases that may be found to be unreasonable upon review" is unnecessary. However, recognizing that a specific threshold was considered necessary by HHS to implement the disclosure provision in PPACA, the division provides the following additional information in support of increasing the threshold from 10% to 17%.

Data and other information in support of threshold increase:

The cost of health care in Alaska is very high. The Division completed a study in 2010 comparing the cost for common services in Alaska and Washington. An example from the study of the difference in costs in Alaska showed that for common surgeries, such as knee surgery, an insurer pays 82%-128% more in Alaska compared to Washington. There are likely many reasons for the higher cost in Alaska including the lack of providers (and therefore competition among health care providers), remoteness and higher cost of doing business small population, differences in physician medical practices, cost-shifting from Medicare, less healthy population, etc. Increasing utilization of services combined with the ever increasing cost of care drives the large increase in claims (and premiums) that insurers experience in Alaska. The high cost of health in Alaska is noted in the Medicare & Medicaid Research Review 2011: Volume I, Number 4 which states "Alaska's tendency toward comparatively high costs for health care was influenced by its isolation and small markets (Foster & Goldsmith, 2011)".

Based on available data including information from insurers regarding provider contracting in Alaska, Alaska does not have a sufficient number of providers to create a competitive market for health care services, particularly in some specialty areas like cardiology and orthopedics. The Kaiser Family Foundation at www.statehealthfacts.org reports that the number of physicians per 10,000 in 2008 for Alaska was 22.5 per 1000. The number per 10,000 for the US was 25.7. One of the newest insurers in the Alaska market noted their experience in Alaska has been that providers in Alaska are less willing to join a contracted network and therefore plan designs do not distinguish between in and out of network benefits (except for hospital inpatient/outpatient). This limits the ability of insurers to control provider

costs and manage utilization. This is consistent with the experience of other insurers operating in Alaska.

Alaska has a relatively competitive market in terms of number of insurers in the market despite its small and remote population with 5 insurers selling individual insurance policies and 6 insurers selling small group insurance policies. However, as of 2010 70% of individual policies and almost 75% of small group policies in Alaska were issued by one insurer.

Up until 2012 the division reviewed rates only for hospital and medical service corporations (largest insurer in Alaska) and has only limited rating data from other insurers. However, the following data represents over 85% of the individual and small group market in Alaska. Each of the insurers is actively marketing in Alaska. As you can see below the data clearly supports a higher threshold for Alaska.

Rate increase history

INDIVIDUAL

	Insurer 1	Insurer 2	Insurer 3	Insurer 4
2008		21.9%	13.8%	32.0%
2009	14.5%	18.4%	12.7%	17.7%
2010	15.9%	15.5%	21.0%	15.1%
2011	15.9%	18.0%	9.9%	17.8%
2012	9.5%			12.5%

SMALL GROUP

	Insurer 1	Insurer 2	Insurer 3	Insurer 4
2008		14.8%	15.3%	28.8%
2009		4.9%	12.7%	21.7%
2010		12.0%	21.0%	18.3%
2011		18.2%	26.0%	7.2%
2012				-.3%

Note that the largest insurer in Alaska has submitted and received approval for their rate increases. The above rate increase history shows that the 10% threshold would have captured 25 of the 30 rate changes. Clearly the 10% threshold is too low for Alaska and is capturing the majority of rate increases, many of which are in fact reasonable for Alaska. A proposed rate threshold of 17% would have captured 13 of the 30 rate changes, which is a significant number of rate changes and certainly more rate increases than would be have ultimately been considered unreasonable.

Actual to expected loss ratios

Actual-to-expected loss ratio experience is only available for only two insurers in Alaska, one of the insurers does not have credible Alaska data. The other insurer showed that actual loss ratios exceed

expected loss ratios in both the individual and small group market in each year from 2007-2010. 2011 experience was unexpectedly and unusually good in Alaska generally.

National health care spending data

The following information is from **Medicare & Medicaid Research Review 2011: Volume I, Number 4**. It shows that Alaska's average annual growth in health care spending (not insurance specific) is more than 2% higher than the national average. This data is help to show that (1) it is not just that the cost of health care in Alaska is higher than the national average, but that the increase in cost is also higher than the national increase; and (2) a higher threshold is appropriate for Alaska.

Personal Health Care Spending Per Capita Average Annual Growth*

	1998-2004	2004-2009
United States	6.4%	4.7%
Alaska	8.9%	6.9%

Other information:

Public comments

As of 1/1/2012 all other insurers are required to file premium rates. Up until 1/1/2012 only Premera as a non-profit hospital and medical service has filed premium rates for approval. Note that Alaska regulations require rate filings to be held confidential until the effective date of the rates. Beginning on 1/1/2012 Alaska provided links on its website to assist consumer in accessing rate filings submitted to HHS and also provided a link for consumers to send comments regarding such rate filings. The division has received no public comments regarding the rate filings submitted to date not has the division received public comments regarding the rate threshold.

Gaming

Again, the division's experience is limited since the division just started receiving filings from insurers beginning 1/1/2012, but to date the division has not identified any evidence of gaming by the insurers.

Burden associated with the low 10% threshold:

The division is concerned that the inappropriately low 10% threshold for Alaska will result in unreasonable expectations by Alaskans regarding what constitutes an unreasonable rate increase. This will create unnecessary anxiety and use of resources by the state and by HHS.

The data required to be submitted to HHS for rate increases above the threshold requires additional work for insurers, the division, and HHS. A rating threshold of 10% for Alaska will capture many/most reasonable rate increases and will cause unnecessary expense for insurers, the division and HHS.

The data collected by HHS for the rating justifications differs somewhat from the data required to support a rate adjustment in Alaska. Additional work by division staff is required in order to validate the HHS required data for rate increases above the threshold and be prepared for questions from the public.

Request

The Division of Insurance respectfully requests your acceptance and implementation of a 17% rate threshold for Alaska based on the above information. The information shows a 17% rate threshold meets the 3 criteria outlined in the "State-Specific Threshold Proposals Guidance for States" document and

- a. Effectively captures rate increases that may be found to be unreasonable upon review;
- b. Is low enough to provide for the disclosure of a meaningful amount of public information about rate increases
- c. Balances the first two needs with the potential issuer, State, and HHS burden associated with rate increase that are not likely to be found unreasonable.

Please feel free to contact me if you have questions or need additional information at Katie.campbell@alaska.gov or by phone at 907-465-4607.

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