194
FTR

To: Senator Crisco, Representative Fontana, Members of the Insurance Committee

From: Kevin Grozio, ASA, MAAA
VP, Actuarial Services
ConnectiCare Inc. & Affiliates

Re: Testimony in Opposition to Raised Bill No. 194 – An Act Concerning Rate Approvals for Individual Health Insurance Policies

Date: February 25, 2010

Overview:

The purpose of this testimony is to provide a summary of reasons why Raised Bill, No. 194 – An Act Concerning Rate Approvals for Individual Health Insurance Policies should not be enacted.

I am currently the Vice President of Actuarial Services at ConnectiCare and have been with ConnectiCare for over 10 years. ConnectiCare has served the Individual market in all eight counties of Connecticut since 2005. We offer a variety of products at varying price points.

In my current role I am responsible for reserving, trend analysis, rate development, rate filings, and rating systems for our Individual products. I am an Associate of the Society of Actuaries (ASA) and a Member of the American Academy of Actuaries (MAAA).

Key Points:

This proposed bill does very little to address the two main concerns of people seeking individual health coverage in Connecticut -- cost reductions and accessibility of care. No long-term, sustainable health care cost reductions will be achieved by this bill. In fact, some of the proposed legislation will add cost to the system.

What drives cost up in the Health Care system? A large portion of every premium dollars goes to pay for the delivery of medical care. Medical care cost trend is being driven by:

- higher priced technologies
- new treatment patterns
- new drugs
- consolidation and lack of competition among providers

- cost shifting from government payers whose reimbursement to hospitals and physicians is inadequate for hospitals and physicians to cover their costs of providing care, requiring commercial payers to pay more to make up the difference
- an aging population as the baby boomers population moves into their 50s and 60s
- increased incidence of health problems in the general population, such as obesity and diabetes
- increased diagnostic testing (defensive medicine)
- increased consumer demand for health care as people become more educated about their conditions

This bill lengthens significantly the timeframe between the effective date of a newly-rated policy and the filing date and creates additional notification requirements to policy holders and potential policy holders. The increased time for a filing to be submitted has two problems associated with it. To understand those issues, here is a brief look at the rate development process:

- When we develop rates, we look at historical claim experience of that block of business
- This experience develops over time as facilities and providers submit claims and we (insurers) pay the claims
- To have a stable and solid base of information, we usually wait an additional 2 months on a 12-month period of time; this reduces the impact of future payments versus our reserves (Incurred But Not Reported claims) estimates to less than 1% on the rate experience
- For example, if we wanted to analyze calendar year 2009 claims ("incurred period" – dates in 2009 where people went to a facility or provider), we would begin in March 2010, after all payments in January and February were made
- We then project this information forward to the policy period using trend estimates, contract changes, medical management changes, benefit changes, State and Federal mandate changes, and administrative cost changes
- For our example, this policy period may begin for a 7/1/2010 effective date, which translates to 18 months of trend estimation between our experience period and the policy period
- This trend estimation on medical and pharmacy costs is generally the biggest component of the rate increase and is necessary because medical and pharmacy costs are rising as noted above
- Contracts with providers are generally negotiated annually, or sometimes as a two-year arrangement Provider contracts renew throughout the year, and at the time policy pricing is done, we generally have a reasonable understanding of the contracts impacting the policy period, even though some provider contract rates will change during the insurance policy period

So lengthening the time period for rate approval has the following impacts:

- It increases the time frame between the experience period and the policy period adding to the number of months of trend used in the rates
- This decreases accuracy of the rate development (more recent experience is always better)
- It creates more volatility in future rates, because any "miss" on the trend in this policy period will get reflected in future policy periods, since that experience will be used as the base
- It creates additional uncertainty, as fewer of our contracted provider rates will be certain during the filing and approval period

Additional notification periods are also problematic and would result in significant administrative cost increases. This law would create notification upon filing to our current policy holders and "potential" policy holders of their potential increases. This would require us to load this information into systems and create an entire mock renewal package for our policy holders. Currently, this information is not normally mailed to individuals until rates have been approved by the Connecticut Insurance Department. The proposal would create duplicate work (these rates may never be approved), and would result in additional mailing costs to members and brokers. Brokers would then have to potentially meet with their clients multiple times creating additional costs. Marketplace confusion would result, especially for individual considering different policy options or different carriers. Another problem with the bill is that it is not clear when the judicial review process would reach a definitive end, further complicating a carrier's ability to communicate accurate, timely rate information to insureds.

A hearing process with the Attorney General and Healthcare Advocate acting as parties to the hearing, and paying for expertise witnesses that the Attorney General and Healthcare Advocate may hire, would also add significant costs to the Connecticut individual insurance market. Currently, all individual policies and rates are filed with the Connecticut Insurance Department. They review in a timely manner all of these filings and disapprove any rates they believe are discriminatory, inadequate, or excessive. The have trained experts to review these filings and have in the past not allowed all the rate increases at the levels that we have requested. In our experience, they are informed, competent, and work hard to enforce fair market practices that ensure a robust and competitive individual market in Connecticut.

Moving this review to a public forum creates significant risks. One key is that information contained in a rate filing is sensitive from a competitive standpoint. There is a potential for adverse consequences to the individual market if all rate filing information is made public. For example, if every carrier's trend information is public information for everyone to see, it is possible that higher trends will predominate.

Today, the Insurance Department can review all the facts and make an informed decision in a professional and responsible environment. If the rating process is moved into a public setting, emotion, feelings, and passion can muddy the waters of logic, process, Actuarial Standards of Practice, and financial adequacy.

Finally, the hearing process alone will create additional costs that will ultimately be reflected in policy rates. The proposed fees for hired expert witnesses seem unfounded given that the appropriate expertise already exists within the Connecticut Insurance Department. Political pressure may push some rates lower temporarily, but without addressing the real issue – the rising cost of health care being paid for by health insurers – rates will simply rise again to the level needed to pay physicians and hospitals in an expensive health care environment and a competitive marketplace will be put in jeopardy.

Thank you.