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Drug Costs, Risk Adjustment Drive Q2 Health Insurance Rate Increases

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The Massachusetts Division of Insurance (DOI) recently held a two-day hearing on rate changes proposed by Massachusetts health insurance plans to be effective for the second quarter of 2016 (Q2). Presentations by carriers, in the state that provided the prototype for the Affordable Care Act (ACA), raised issues that resonate in other states related to the drivers of premium increases in the small group and individual markets, which are merged into a single market in Massachusetts. On January 11, the first day of the hearing, twelve insurers reported an average increase of 9.1% year-over-year, with the carriers' filings ranging from a change of negative 3.3% across plans to a high of 35.1%. On the second day, only three public presentations were made, by Health Care for All, a major health care consumer advocacy group; the Massachusetts Association of Health Plans (representing 17 plans doing business in Massachusetts); and a licensed health insurance broker. The public record for the hearing was kept open until January 19 for written submissions. Associated Industries of Massachusetts was the only additional organization to submit comments.

Not entirely surprisingly, the hearing pointed to two key drivers of proposed premium increases: underlying medical costs but especially the cost of prescription drugs; and the impact of implementing the risk adjustments mandated under the ACA. As to the latter, the ACA requirement in effect reallocates funds among insurers based on the relative risk of their members, resulting in net payers and net recipients of these reallocated funds. The net payers pointed to their financial obligations as producing increases in premium levels, while the net recipients saw the transferred funds as helping to subsidize some of the cost increases they would otherwise be incurring. A number of plans pointed out the budgeting challenges posed by the uncertainty as to what their pay-outs or receipts would be under this mechanism, with the attendant potential of premiums being projected at too high, or conversely too low, a level.

What follows is a summary of the key points made in the testimony presented by the plans and others in conjunction with the hearing:

Growing Prescription Drug Costs

Rising pharmaceutical costs, both for generics and specialty drugs, was a consistent theme. Most insurers said they were unable to exercise any control on manufacturers' prices, and that their premiums had to take continued cost growth into account.

Specialty drugs were a particular area of concern. Blue Cross Blue Shield of Massachusetts reported that up to a fifth of its 4.1% rate increase was due to pharmaceutical costs, citing highly priced new drugs for hepatitis C, cholesterol, and cancer. Health New England reported that its 8.3% rate increase was also driven by drug costs, noting that the prices for the top 10 highest-selling drugs increased by 76% from 2010 to 2014. Tufts Health Plans' 4.8% rate increase was likewise affected by drug costs, including the over $4 million the insurer spent on hepatitis C drugs last year.

However, the size of a plan does have some relationship to the ability to negotiate prices with manufacturers. Minuteman Health, a cooperative established under the ACA, noted that its small size meant that it lacked negotiating leverage, although, due to growing enrollment and lower administrative costs, it was the only plan to file for a reduced premium for Q2. The much larger Harvard Pilgrim Health Care described itself as the first

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carrier to negotiate a discount with Gilead for its hepatitis C drug Sovaldi and with Amgen for its cholesterol drug Repatha. Despite these successes, Harvard Pilgrim Health Care filed for a rate increase averaging 12.9% across its plans (and a 35.1% increase for its affiliate, HPHC Insurance Company).

Plans did note that they have worked to balance these increases with administrative savings and efficiencies, although the spokesperson for Health Care for All stated that more can be done to keep costs down through improved efficiency and prevention measures. Associated Industries of Massachusetts added that its small business employers are struggling with the rate increases, and feel they have little control over insurers' prices. The group said that the Commonwealth should implement further cost containment measures, given the "skyrocketing" cost of prescription drugs and other factors.

Risk Adjustment

Many carriers cited the ACA risk adjustment requirement as a cost driver. The testimony identified pay-outs under this formula as affecting premium rate setting, contributing to a competitive disadvantage for small insurers, and generally affecting the ability to set accurate prices because of the variability in risk adjustment pay-outs/pay-ins each year. Harvard Pilgrim reported, for example, that 5.5% of the dollars generated from its premiums was associated with risk adjustment payments, and for its much smaller affiliate, HPHC Insurance Company, the equivalent number was 10.5%.

Many insurers asserted that this adjustment is not achieving its aim of ensuring fair coverage and market competition, and instead hurts the market. CeltiCare, for example, reported that its proposed increase of 6.7% would have been closer to 20% if it were to cover all risk adjustment costs. CeltiCare and Minuteman, as well as the insurance broker who presented on the second day, identified the state's merged market's approach of using market-wide average premiums as penalizing lower cost plans, affecting their competitiveness with the bigger health plans.

On the other hand, Neighborhood Health Plan, which had been the largest payer of risk adjustment dollars last year, observed that its 9.7% increase was supported by an expectation of being a net recipient under the risk adjustment allocation formula this year.

Many plans noted the challenges associated with the volatility of calculating the impact of the risk adjustment allocations, although only one, Tufts Health Plan, indicated that it leaves risk adjustment out of the rate setting process entirely due to its variability each year.

If you have any questions about this topic, please contact the authors or your principal Mintz Levin attorney.

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