Testimony for the Senate Committee on Homeland Security and Governmental Affairs

The State of Health Insurance Markets

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Introduction

Good afternoon Chairman Johnson, Ranking Member Carper and esteemed members of the committee. My name is Nick Gerhart and I am the Insurance Commissioner of the State of Iowa. I have held this position since January 2013 and have worked extensively at the state level to comply with Federal law on the implementation of the Affordable Care Act. I am here to speak with you today about Iowa's health insurance markets and issues affecting health insurance markets as a whole.

ACA Implementation

Prior to the Affordable Care Act (ACA), Iowa had one of the highest health care insurance coverage rates in the nation (less than 9.7% uninsured rate[1]). The individual health insurance market faced challenges prior to the ACA, such as rate increases, exclusions, and denial of coverage, but the market functioned for those able to obtain coverage. The state operated a state high-risk pool for citizens unable to obtain coverage, and the state has left that pool open to this day to provide another coverage option for Iowans. The high-risk pool coverage is expensive, but it provides a viable option for coverage for those Iowans who were unable to obtain other coverage.

The ACA was created with the principal goals of improving health care quality, access, and affordability for all Americans. In part, the law has achieved some of these goals, for example, the national uninsured rate decreased by nearly nine million from 2013 to 2014.[2] While many states had higher rates of uninsured citizens, Iowa traditionally had one of the lowest uninsured rates in the country. **However, the uninsured rate in Iowa did improve since implementation of the ACA and fell from nearly 248,000 in 2013 to 189,000 in 2014**.[3] It is important to note that the increase in the number of Iowans obtaining health coverage is due to the implementation of Medicaid expansion. Iowa has actually seen a decrease in its numbers of people purchasing individual insurance. In 2013, 189,594 Iowans purchased individual insurance coverage. At year-end 2015, 184,744 Iowans purchased individual health insurance coverage either through the marketplace or outside of the marketplace. And significant debate remains about whether improved access could have been achieved through much more efficient market mechanisms.

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[1] Available at: http://www.hhs.gov/healthcare/facts-and-features/state-by-state/how-aca-is-working-for-iowa/index.html#.

[2] U.S. Census Bureau. See Table A-1; available at: http://www.census.gov/content/dam/Census/library/publications/2015/demo/p60-253.pdf

[3] U.S. Census Bureau. See Table A-1; available at: http://www.census.gov/content/dam/Census/library/publications/2015/demo/p60-253.pdf

The ACA implemented market reforms requiring insurance companies to cover people regardless of their pre-existing conditions. This change permitted many people with serious health conditions to gain access to health insurance. The ACA also made advanced premium tax credits available to help lower the cost of Health Insurance Marketplace premiums for those who qualify. Nearly 85 percent of the 55,000 Iowans receiving coverage through the Marketplace in 2016 qualified for these tax credits.[4]

The ACA's changes to the Medicare and Medicaid programs are often overshadowed by the commercial market reforms and the Health Insurance Marketplace. The changes in these programs, however, are also worth mentioning as movement towards the ACA's principal goals. Iowa's largest health insurance company created accountable care organizations (ACOs) that were modeled after the ACA's Medicare ACOs. Wellmark Blue Cross Blue Shield ACOs cover fully insured members and reportedly generated $35 million in health savings in 2015.[5] "The 13 health systems participating in the ACOs achieved savings by reducing hospital readmissions by more than 22 percent, inpatient admissions by almost 8 percent, and emergency department visits by nearly 4 percent, according to Wellmark."[6] Iowa is also a state that implemented our own bipartisan, tailored version the ACA's Medicaid Expansion. This program, known as the Iowa Health and Wellness Plan, currently provides coverage to over 150,000 low-income, childless adults, many of whom were previously uninsured.[7] This program integrates health ownership with modest premium contributions required at certain income levels above 50 percent of the federal poverty level and as a guiding principle. The Iowa Health and Wellness Plan since April 1, 2016 has been delivered through a managed care payment model.

The Health Insurance Market in Iowa and Challenges of the ACA

While the ACA has increased health coverage for Iowans overall, the costs of health care have hit the pocketbooks of Iowans hard as rates have increased every year since 2014. Generally, healthier Iowans have subsidized the costs of increased access for sicker Iowans through higher insurance costs. As background, Iowa has a population of just over 3 million people and nearly 66 percent of Iowans have access to employer-sponsored insurance.[8] Less than 7 percent, or about 190,000 Iowans, purchased individual coverage prior to the formation of the Health Insurance Marketplace in Iowa. Of those who purchased individual coverage, nearly 78 percent purchased their policies from one company, Wellmark, Inc. (Wellmark)[9] In calendar year 2014, when Iowa's State Partnership Health Insurance Marketplace became a source of health care

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[4] See U.S. Department of Health & Human Services, Office of the Assistant Secretary for Planning and Evaluation. See 'State Level Data Excel Tables' available at: https://aspe.hhs.gov/health-insurance-marketplaces-2016-open-enrollment-period-final-enrollment-report. Interestingly, in an IID survey of Marketplace carriers, carriers self-reported a total of only 47,813 enrolled members by June 30, 2016.

[5] Business Record, July 27, 2016, available at: http://www.businessrecord.com/Content/Health-Wellness/Health-Wellness/Article/Wellmark-ACOs-generate-35M-in-health-savings/174/836/74119.

[6] Business Record, July 27, 2016, available at: http://www.businessrecord.com/Content/Health-Wellness/Health-Wellness/Article/Wellmark-ACOs-generate-35M-in-health-savings/174/836/74119.

[7] Iowa Department of Human Services, Improve Iowan's Health Status, p.3-28 available at: http://dhs.iowa.gov/sites/default/files/15-6_Improve_Health_Status.pdf.

[8] This percentage of health insurance coverage is based on the health insurance market in 2010-2011, available at: http://www.epi.org/publication/bp353-employer-sponsored-health-insurance-coverage/

[9] National Association of Insurance Commissioners, I-Site Supplemental Health Care Exhibit.

coverage, Wellmark did not join. Also in 2014, grandfathered and transitional plans remained available and many kept their previous coverage. As a result, enrollment numbers in Iowa's Marketplace were low with only 25,560[10] people purchasing Marketplace policies in 2014. Wellmark declined to join the Marketplace in 2015 and 2016 and continues to provide coverage to over 65 percent of the individual health insurance market as many Iowans have kept their grandfathered and transitional plans.[11]

As mentioned above, the costs of health care in Iowa have increased every year since 2014. During the first year of Marketplace implementation, many insurance policies were underpriced, in part due to a lack of claims history on the uninsured population, pent-up demand, and lack of movement from grandfathered and transitional policies. The insurance industry found pricing for this population very challenging. Based on the Marketplace claims experience from 2014 and 2015, federal regulators and insurance carriers found that the population utilized healthcare in a manner similar to the nation's Medicaid population. To be more specific, **the previously uninsured population is, on average, sicker and has a higher level of healthcare utilization than the population who receive commercial coverage through their employer sponsored plans**. With the claims experience available, carriers realized premium increases were necessary and I will discuss those rate increases in a moment

Changes mandated by the ACA and some actions of Congress also directly contributed to these increases. The single risk pools in the ACA Marketplaces were designed to spread the costs of health care across all members of the risk pool. **In Iowa, however, low enrollment in the Marketplace has resulted in a few members with high cost claims driving up the premiums for the entire group**. Aetna[12], a carrier on Iowa's Marketplace since 2014, reported that "…the top 5 percent of spenders drive nearly 60 percent of the cost."[13] This concentration of risk and high utilization population is driving significant rate increases across the carriers' individual risk pools. The ACA does not provide adequate flexibility for a carrier to shield the risk pool from the cost of catastrophic claims.

Additionally, with the ACA's elimination of annual and life time limits on health care costs, the costs of large claims have greatly increased. Aetna reported that claims costing more than $50,000 have increased by 38 percent.[14] Wellmark reported that percentage of claims costing more than $100,000 increased by 200 percent.

The Marketplace special enrollment periods (SEP) have also contributed to increasing health care costs. Carriers in Iowa and nationally have noticed that people who enroll during

[10] The number represents the number of non-Medicaid persons on Iowa's Marketplace in 2014. There were an additional 20,808 Medicaid Expansion members receiving Marketplace coverage and because the state Medicaid program paid premiums for these members, the numbers have been excluded.
[11] Percentage represents numbers through 2015.
[12] Aetna purchased Coventry and began Marketplace operations in Iowa in 2016; prior to Aetna's purchase Coventry operated as Coventry Health Care of Iowa, Inc. in 2014 and 2015.
[13] Iowa Rate Hearing transcript, Dale Mackel (Aetna) testimony, p.12.
[14] Iowa Rate Hearing transcript, Dale Mackel (Aetna) testimony, p.12.

SEPs cost nearly double the amount of those who enroll during open enrollment.[15] Wellmark, for example, received one member during a SEP whose health care coverage costs nearly $12 million annually and caused roughly 10 percent of the rate increase for 2017.[16]

The Rising Costs of Healthcare

In Iowa, the rising costs of health care has resulted in carriers requesting premium rate increases that were significantly greater than before the implementation of the Marketplace. In fact, in 2012 and 2013, the average premium rate increases among health insurance carriers was 5.48 and 5.95 percent respectfully.[17] For calendar years 2016 and 2017, however, Wellmark received rate increases of 26.5 and 42.6 percent respectively for its ACA-compliant, off the Marketplace plans.[18] Aetna received rate increases of 19.8 and 22.58 percent for calendar years 2016 and 2017 respectively. These increases were spread among the ACA compliant plans offered both on and off the Marketplace.[19] **For calendar year 2017, Iowa has carriers that have scaled back on the amount of plans they will offer and the areas where they will provide services. Iowa also had one state-wide carrier, United Healthcare of the Midlands, completely withdraw from the Marketplace without even requesting a rate increase. Finally, Iowa was the first state to face a failed health care cooperative, Co-Oportunity, in late 2014**. The Iowans on that plan were forced to quickly secure other coverage in 2015. Due to the co-op failure and United Healthcare withdrawal, Iowans looking for coverage may have limited options on the Marketplace in 2017.

In my role as Iowa's Insurance Commissioner, I have to balance the needs of Iowa's consumers against the solvency of an insurance carrier. As previously described, several provisions of the ACA have had significant impacts on Iowa's health insurance premium rates and pricing. In reviewing rate increase requests, I facilitate a public hearing[20], review consumer comments, and study the actuarial reports from consulting actuaries and internal actuarial staff from the Iowa Insurance Division.[21] If I find that there is no evidence that the proposed rate filings are discriminatory or excessive under Iowa statute, the rate increases are approved.

The Need for Reform

The levels of rate increases cannot continue to be sustained by Iowa's consumers. If this pattern continues over the next few years, I have serious concern about whether Iowa's consumers will be able to afford Affordable Care Act policies. We are essentially placing consumers in situations where they must choose between healthcare coverage and paying their mortgage or

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[15] Wellmark publication, "Understanding Proposed 2017 Premiums, How Wellmark is Addressing Costs." May 2016.
[16] Available at: http://www.desmoinesregister.com/story/news/health/2016/05/12/wellmark-plans-38-to-43-increases-some-customers/84277758/.
[17] Information from IID healthcare insurance actuary. Percentages are not based on weighted averages of individuals but rather the increases received for each company.
[18] Available at: http://www.iid.state.ia.us/node/11419107 and http://www.iid.state.ia.us/node/14060795.
[19] Available at: http://www.iid.state.ia.us/node/11419109 and http://www.iid.state.ia.us/node/14060792.
[20] In 2016, hearings were only required when rate increase requests exceeded 6.4 percent. *See* IAC 191-36.20(3).
[21] The Iowa Insurance Division is one of the few DOI's that utilize both internal and external actuarial staff in the rate review process. This is done to ensure accuracy.

rent. I also have serious concerns about whether carriers will continue to participate in Iowa's Marketplace. **In its current form, the ACA has turned a previously stable Iowa market with some of the lowest premiums in the nation, into an unstable and teetering market with extremely high premiums**. ***Federal legislative changes are necessary to ensure the continued viability of the Health Insurance Marketplaces. Specifically changes are necessary to the 3R's programs and to the single risk pool. Changes are also needed to address the costs of healthcare.*** There is little a state can do in isolation to reform their health insurance market. Without changes from the federal level, in collaboration with the states, individual states will be in the difficult position of watching a potential collapse of the individual health insurance market.

The 3R's programs.

I believe an area of legislative focus needs to be the 3R's programs. The ACA's risk corridors, risk adjustment, and reinsurance programs, collectively known as the 3R's programs, were designed to protect against the impacts of excess loss or gains, adverse selection, and costs of catastrophic claims.

As you may know, the risk corridors program intended to set a range of allowable gains or losses sustained by any qualified health plan (QHP). The QHPs with less claims amounts would essentially pay the QHPs with greater claims amounts. The intention of this program was not realized because the aggregate losses were so significant. In 2014, the QHPs requested a total of $2.8 billion in risk corridors pay-outs, but only received $360 million.[22] In December 2014 Congress passed the continuing resolution budget act requiring that the risk corridor be budget neutral. Due to the shortfall in risk corridor payments into CMS, QHP carriers received just over 12 cents for each dollar they thought they would receive. In Iowa, this was detrimental to the co-op and contributed, among other factors, to its eventual insolvency. The state of Iowa is now involved in litigation with CMS over many issues as it pertains to the dissolution of the Iowa based co-op, but a main issue is the recovery of risk corridor funds. **The risk corridor program is set to expire in 2016 and we do not recommend that it be continued in the future**.

The risk adjustment program was designed to redistribute funds from plans with lower-risk consumers to plans with higher-risk consumers; this is determined from each consumer's risk score relative to the statewide average. The program is available for all ACA-complaint plans available both on and off the Marketplace. Although this program may have worked as intended, in Iowa, **this program may result in the unintended consequence of pushing narrow network carriers out of the Marketplace**. In 2014 and 2015, plans that tried to control costs with narrow networks paid the larger broad-based PPO plans. Aetna, a carrier with narrow networks, paid over $9.2 million and over $10.8 million in 2014 and 2015 respectfully.[23] While Wellmark, a carrier with PPO plans, received over $4.6 million and over $16.6 million for its off the Marketplace plans in 2014 and 2015 respectfully.[24] Iowa's Marketplace cannot be sustainable if the carriers who choose to control costs with narrow networks (that are deemed to

[22] Numbers received from IID's healthcare insurance actuary.
[23] Numbers received from IID's healthcare insurance actuary.
[24] Numbers received from IID's healthcare insurance actuary.

be 'adequate' by CMS through the QHP certification process) are required to pay those carriers who offer broad-based plans. This program may have contributed to Aetna's withdrawal from 11 of the 15 states where it participated in the Marketplace. Iowa was one of four states where Aetna chose to continue operations.[25] We do have concerns, however, about Aetna's continued participation in Iowa's Marketplace if there is not legislative reform in this area. As CMS recently released draft rules in attempts to address the short-falls of the risk adjustment program, we are hopeful that carriers find the reforms adequate.

The final 3R program is the reinsurance program. This program requires all health insurance carriers, including small group and large group carriers, to provide funds to ACA-compliant individual plans that enroll higher-cost individuals. In Iowa, this program works as envisioned. Without this program, premiums in the individual ACA-compliant market would have been approximately 10 percent higher in 2014, 6 percent higher in 2015 and 4 percent higher in 2016.[26] This program is set to expire after 2016, thus causing rate increases over the same time period. In other words, if a carrier is receiving a 10 percent reinsurance credit in one year due to this program, premiums will increase by the same amount when the program expires. **Legislative changes should be considered to allow this program to continue in a manner that protects individual state interests.**

<u>The Single Risk Pool</u>.

Federal legislators should also consider reviewing how an effective high-risk pool could offer more predictable single risk pool pricing. As stated earlier, a small number of claims in Iowa are driving a significant amount of the rate increases. This is adverse selection by definition. Adverse selection occurs when more people with higher healthcare expenses buy insurance than people with lower health care expenses. When Marketplace coverage became available in 2014, many people who were previously uninsured and who had pent-up demand for services bought Marketplace plans. Additionally, far fewer than expected healthy, young Americans signed up for Marketplace coverage. Carriers initially priced their plans to include the younger, healthier population. Without this population to offset the costs of those with higher healthcare costs, carriers incurred higher costs of claims. Recall that for Aetna, the top 5 percent of high cost members are responsible for 60 percent of the cost of claims. The higher costs of claims results in carriers needing to raise premium rates in the subsequent years. The increased rates, in turn, deter the younger, healthier population from enrolling despite the penalty for going without insurance.

Iowa had a state high-risk pool that is still in effect today. Looking at using that as a mechanism to cover the most needy and chronically ill people may be worth exploring.

High-risk pools effectively spread the cost across society by covering high cost claims, rather than costs being incurred by the individual insurance carrier, and spread to the members of the pool. If states were allowed to place high-cost consumers into a single, national high-risk pool, the costs of those who remain in the Marketplace would become more stable. A high risk pool

[25] http://www.usatoday.com/story/money/2016/08/16/aetna-obamacare-affordable-care-act-exchanges/88825798/.
[26] Numbers received from IID's healthcare insurance actuary.

should be designed to address the problems with the previous federal high-risk health insurance pool including: 1) ensuring enough funding is available to cover the consumers health care costs; 2) designing a coverage option that provides optimal coverage for people with high healthcare needs; and 3) ensuring persons in the pool have access to affordable coverage by offering, for example, the same level of tax credits and subsidies as those in the Marketplace.

Cost of Claims

The cost of health care claims in Iowa spiked post ACA and the spike has persisted. A number of factors are driving the high cost of claims. For example, prescription drug costs, in particular specialty drugs, are driving up the overall cost of healthcare. In addition, the high cost of hospital stays, higher levels of hospital utilization, and increasing advances in technology are putting upward pressure on costs. More transparency and communication around costs and a focus on quality and outcomes would ultimately help bend down the cost curve. by better communicating costs prior to services obtained. Informed consumers of any good or service will ultimately lead to a better performing health care market.

The ACA reformed insurance dramatically, but does little to address other costs. A continued focus on outcomes, transparency, quality, drug pricing, and wellness is critical to bend down the cost of care. The insurance industry can work within the health care system to address these issues, but it cannot be expected to do that alone. The issues with health care extend well beyond insurance and a review of the entire health care economy and marketplace is necessary.

Conclusion

Despite the political controversy surrounding the ACA, we all want the same thing: for people to have access to affordable, quality healthcare. State and federal policy makers need to work together to address the shortcomings of the ACA and work to ensure that state health insurance markets remain vibrant. It is time to work together to make substantive corrections. The states stand ready to assist.