

**Pennsylvania Insurance Department  
2017 Affordable Care Act Rate Filings Public Hearing  
July 27, 2016**

**Testimony of  
Paula Sunshine, Senior Vice President and Chief Marketing Officer  
Independence Blue Cross**

**Opening**

- Thank you Commissioner Miller and thank you to the Pennsylvania Insurance Department for the opportunity to testify here today.
- My name is Paula Sunshine, and I serve as senior vice president and chief marketing officer for Independence Blue Cross.
- Independence Blue Cross is the Blue health insurer that has proudly offered health care coverage to the Philadelphia five-county region for nearly 80 years.
- Our commitment to the communities we serve remains steadfast. I am proud of the work we do every day to enhance the health and wellness of the people of Southeastern Pennsylvania.
- Since our founding, Independence has been a strong advocate for ensuring that all Americans have access to quality health care.
- We have proudly participated in the newly created Marketplaces since the beginning.
- In 2017, we are not wavering in our commitment to provide health care coverage in our community.
- We remain dedicated to providing consumer choice for our nearly 180,000 individual members and are proposing to offer plans across all metallic levels and at a variety of price points.
- Our proposed products and rates were prepared with an eye toward managing the viability of our company as well as to ensure the sustainability of the Marketplace.

**Our journey building a healthier community**

- Since our inception, we have worked to improve the health and well-being of the communities we serve. This includes our longstanding efforts to provide coverage to the sickest and those most in need of coverage.
- That is why, when health care reform became the law of the land we jumped in with both feet.
- We knew we could not accept the status quo with tens of millions uninsured across the country. Doing nothing was simply not an option.
- This meant that we needed to transform our business model — and focus on selling directly to consumers. This was a sea change for us.

- From the beginning, our goal has been to be a beacon of stability and security in the sea of uncertainty.
- We started with consumer research in our region and made an unsettling discovery: many people were unaware of the big changes that reform was bringing in 2014. Based on this research, our responsibility to consumers was clear — we had to go where consumers were and explain what the Affordable Care Act was, how it worked, and how it could help them.
- We viewed this as an opportunity and focused on engaging and empowering consumers to prepare them for the historic changes to the health care industry. We wanted to make it as easy as possible for consumers to learn about health care reform and access the plans that met both their financial and health care needs.
- So, we went into the community to meet consumers where they live, work, and play.
- Our mobile education and retail center, the Independence Express, is a perfect example.
- The internet-enabled mobile education and retail truck travels to community events throughout the region to talk to consumers about health care coverage. We stationed the Independence Express at shopping centers and other public places so the experts on board can help consumers understand their options and choose coverage at a time and place that's convenient for them.
- What we found by meeting consumers in the community was that they were grateful to finally have the opportunity to enroll in health care coverage. For far too long, too many consumers felt like they had been shut out of the process, and they were pleased to know they could finally have the safety and security that comes with a health coverage.
- The Independence Express has been particularly important in communities where internet access is limited because the government-run Marketplace website is the easiest way to apply for government subsidies to help pay for coverage.
- When enrollment for new individual plans opens this year on November 1, the Express will once again be on the road.

### **Payment uncertainty**

- We've come far since the Independence Express first hit the streets. We made a commitment to our community but are still operating in a sea of uncertainty. The law has brought sweeping change to health care unlike anything we have seen since Medicare and Medicaid were introduced 50 years ago.
- As you know, pricing health insurance products is an attempt to predict the future cost of health care for the people we hope to cover a year from now. Making an accurate prediction on rates requires, first and foremost, a stable market, which has not yet happened.
- For the market to stabilize we need regulatory predictability, fair competition, and the broadest possible enrollment. However there has been regulatory and political

uncertainty and lower than projected enrollment in the Health Insurance Marketplaces across the country — including Pennsylvania.

- In 2010, the Congressional Budget Office estimated that the Marketplaces nationally would enroll 21 million people in 2016. But these estimates proved to be inaccurate. The Marketplaces will likely enroll only 13 million people this year. In addition, there have been many more enrollees in Medicaid than initially forecasted.
- As a result of this uncertainty, the number of health insurance companies participating in the Marketplace in Southeastern Pennsylvania has changed each year. The changing competitive landscape naturally creates difficulties for predicting how many consumers will sign up for our plans and how much it will cost to pay for their care.
- Congress did make accommodations for this market uncertainty in the first three years. It created three Risk Stabilization programs to help stabilize individual consumer premiums: Risk Adjustment, Reinsurance, and Risk Corridor.
- Given the uncertainty, the law also provided for consumer protections in pricing of products by creating Medical Loss Ratio rebates. If an insurer spends less than 80 cents of every premium dollar directly on individual health care benefits, then it must provide a rebate to its individual customers for the difference.
- However, despite these programs, the market has not completely stabilized. As the risk stabilization programs expire, the regulatory guardrails on rates are coming off and this puts additional upward pressure on premiums.
- And as you know, so far insurers have received only 12.6 percent of the expected 2014 payments due under the risk corridor program payments program and carriers do not know what we will receive for 2015. Obviously, there are consequences to carriers not receiving these payments when we expected them.

### **2017 product portfolio**

- Despite these challenges, in 2017 Independence has proposed to continue to offer consumers access to a wide range of quality health insurance plans to meet their needs. At the same time, we also must ensure a sustainable market and sustainable prices. Therefore, we proposed health plans at rates that ensure the long-term viability of the program.
- We've proposed to offer 17 different health plans at a variety of price points across all metallic tiers and a catastrophic plan — we've done that since day one.
- There is a broad range of proposed rates across all individual plans. For example, we filed for a three and a half percent rate increase in our lowest cost bronze plan.
- For 70 percent of our individual members we filed for a rate increase of 19 percent or less.
- These increases reflect changes to premiums only. They do not reflect the application of subsidies available to the nearly 50 percent of our individual membership.

### **Drivers of 2017 rate increases**

- To come up with our 2017 rates, we are predicting the future cost of health care for the people we hope to cover a full year from now. This means that for our 2017 customers, we use our experience from 2015 in making premium decisions.
- In 2015, we spent nearly 85 cents of each premium dollar to pay for our customers' medical claims. When you add in expenses and taxes, we spent more than the premiums we received. Based on current information, our individual plans will lose \$30 million in 2015. And if we don't receive the anticipated risk protection payment it could be as high as \$40 million.
- Therefore, our proposed 2017 rates must reflect these losses and the changing market trends impacting insurers here and across the country: rising health care costs, an increase in the use of health services, and the high cost of prescription drugs. And as we look into the future, we will continue to forecast based on these same pressures.
- Notably, Philadelphia is one of most expensive markets for health care — more than 40 percent higher than the national average, based on the number of hospital admissions.
- It's also not surprising that the people who are gaining coverage through the new individual market have significant medical needs, and thus have higher spending associated with caring for them.
- This is especially true for customers who came to us through a special enrollment period. On average they had medical expenses that were 30 percent higher than people who came in during the regular enrollment season. That's consistent with the trend in the health insurance industry.
- In fact, the Blue Cross Blue Shield Association recently released a report that showed the costs for individual consumers enrolled in ACA plans were on average 20 percent higher than those in employer-sponsored plans.
- Newly enrolled consumers also have higher rates of certain conditions such as high blood pressure, diabetes, depression, heart disease, HIV, and Hepatitis C than people who had insurance prior to the ACA.
- We are also spending much more on prescription drugs, particularly specialty and high-cost name brand drugs. This is directly related to the rising costs of these medications. The overall pharmacy costs that Independence pays increased by 40 percent last year.
- Finally, the regulatory guardrails on premiums are coming off; the Reinsurance program created by the law is expiring. The program was created to ease the uncertainty in the first three years of the ACA in the hopes that the market would stabilize. But this has not yet come to pass — putting additional upward pressure on premiums.

## **Closing**

- Throughout this uncertainty, Independence Blue Cross has been committed to our community, to reform, and to our customers.
- We're dedicated to offering health plans at a variety of price points that provide access to high quality care through a broad network of hospitals and doctors, but there are regulatory challenges that must be addressed to stabilize the Marketplace.
- And our plans must work for both consumers and our company to be sustainable.
- We look forward to our continued work with the Department to determine where there are opportunities to improve stability in the market and put the unique needs of the Commonwealth's residents front and center.
- Thank you Commissioner Miller for the opportunity to speak today. My colleagues Kathryn Galarneau, senior vice president, finance operations, and chief actuary and underwriting officer and Daniel Rachfalski, vice president, actuarial, reserving, and planning, and I are happy to answer any questions you may have.