July 27, 2016

PENNSYLVANIA INSURANCE DEPARTMENT

HEARING ON HEALTH INSURANCE RATES

Comments by Capital BlueCross

Good morning Commissioner Miller and Senior Insurance Department Staff. On behalf of Capital BlueCross, we are pleased to have this opportunity to present to you today. My name is Todd Shamash and I am a Senior Vice President at Capital BlueCross here in my capacity as Head of Regulatory Affairs. I am pleased to be joined here by my colleague Debbie Rittenour who is the Senior Vice President of Government Program for Capital BlueCross.

Debbie and I will focus our comments on key issues that are impacting premiums in the local market. However, it is also extremely important to discuss and understand the issues impacting the entire country that are based on the requirements of the Affordable Care Act.

A few opening comments about Capital BlueCross. For nearly 80 years, we have been providing coverage, security and peace of mind to our friends, neighbors and the community in Central Pennsylvania and the Lehigh Valley. We are more than just an insurance company. We invest heavily in our communities, volunteering our time, and providing resources. This past year we were able to assist over 360 organizations locally. The focus of our support is health access and the well-being of our community. With the continued consolidation of the insurance market, we believe that we are unique. We are proud to be headquartered locally to serve businesses and consumers where we live and raise our families. Each and every day our goal is to provide consumers value in their coverage, keep members healthy and have stability for the community.

I will now turn it over to Debbie to address specific market issues impacting premiums.

Good morning. I will focus my comments on several real and material issues that are impacting premiums here in Pennsylvania and across the country. These issues are: (1) the phase out of reinsurance, (2) the uncertainty of the risk corridor program, (3) issues involving the special enrollment period, (4) the non-payment of premium by some members, and (5) medical trend issues such as the significant rise of specialty drugs.

The first issue is the phase out and elimination of the reinsurance program for 2017. The loss of reinsurance is causing over a 6% increase in premiums. We have seen some national estimates that are even higher. The lack of reinsurance represents over 25% of our requested rate change this year. Thus, before we even start examining how the risk pool is performing, we are faced with a material adverse impact to pricing. This statutory issue is a factor outside the control of consumers, insurers and the Department.

The second issue of concern is the lack of funding for the Risk Corridor program. This program was created as an additional backstop to foster a stable market. As you know, there is litigation on this issue between some insurers and the federal government due to the lack of funding. While not commenting substantively, I can say that this creates uncertainty and undermines overall stability for insurers.

The third issue I raise today involves the Special Enrollment Period or SEP activity. Simply stated, there are not consistent controls currently in place in the Federal Exchange to verify that a person is truly eligible for enrollment outside of the open enrollment period. Absolutely, there needs to be a mechanism for consumers to obtain coverage due to a life change or other triggering event. However, this should only happen through a documented and verified process. We believe CMS has recognized these issues and we are committed to working with all regulators to address this

matter. However, in the interim, this is problematic. SEP enrollees appear to be significantly more expensive than open enrollment consumers. An initial estimate by the Blue Cross Blue Shield Association states that Special Enrollment consumers cost an average of 55% more than open enrollment consumers. Capital has seen the number of SEP enrollees grow rapidly from 2015 to 2016 as a percentage of our individual enrollment. We must work together to ensure consumers have continuous coverage. However, having people jumping in and out of the system whether intentional or not, hampers stability for all insurers and is negatively impacting rates.

A related issue is also the continued problem of non-payment by individual enrollees. The New York Times reported that over 1.6 million people have dropped coverage in the first three months of 2016 in the United States. When an enrollee has utilization but fails to pay premiums through the year, it impacts affordability for the entire pool. We ask policymakers to focus on having more consumers enrolled on a sustainable and continual basis.

Turning to some additional factors, increases in facility and professional provider costs are real and must be accounted for in premiums. In addition, sharp increases in the price of prescription drugs is a major concern. In particular, specialty drug pricing is rising significantly. Nationally, it is estimated that specialty drug pricing will quadruple from 2012 to 2020. No sector is immune. The Commonwealth of Pennsylvania estimates that one specific drug within the Pennsylvania Medicaid program has risen from $33 million annually to approximately $138 million in two years or an increase of over 300%.

Let me be clear, prescription medication is a vital part of healthcare and in some circumstances is lifesaving, however, we must acknowledge the impact to pricing per patient, per insurance policyholder and ultimately to all of us. These are costs we all have

to pay. Trend increases for pharmacy are well into double digits and represent about 16% of trend.

On the positive side, our rates filed for individual products do not take the full amount that the actuarial formula suggests for the factors discussed here today. Although difficult to fully quantify, we have factored in the one year suspension of the health insurer tax (HIT), possible abatement of the “pent up demand” and insurers growing ability to estimate risk scoring and adjustments. We believe the entire market should consider these factors that may, and I stress may, mitigate increases.

We also work each and every day in partnership with hospitals, doctors and providers to increase quality and keep prices affordable. We have and are taking meaningful step to shift from payment for volume to value based care. Examples include our bundled payment arrangements, our incentives to assist patient centered medical homes and preventative care and large scale Accountable Care Arrangements. Thank you for your time and I now turn it back over to Todd to close out our comments.

Thank you Debbie. In addition to the factors we have raised, we believe the Department needs to take a holistic view of the entire Pennsylvania market and how we reach both rate and market stability. The good news is that we believe 2016 represents the most stable year so far where rates vary less across the market. This is compared to 2014 where there was a large variation between insurers. Having less spread overall shows some continued maturity in the market. As you consider proposed increases for 2017 that vary widely, we ask you to keep market stability over the long term in mind. If rates vary again by significant amounts, the market will continue to seek significant adjustments year after year, which will be detrimental to consumers and the market.

We also have a concern with competitors discontinuing products on a wide scale. We all should have flexibility to offer consumers new and innovative benefit designs. However consumer confusion, transition problems and mapping issues are potential downsides of this activity. Capital has strived to maintain a broad range of products in each zone where we do business, however, competitor product cancellation is impacting our ability to do so. We have seen MLR percentages go from workable in 2014 to well above 100% in 2015 even after positive adjustments for reinsurance and risk adjuster amounts. This is not sustainable and is due to many factors including competitor cancellations.

In closing, Capital BlueCross works each and every day to be a stable partner for the Department, our customers and our community. When we look at the last three years overall, even factoring in the requested increases for this coming year, individual rates for Capital customers will have increased by less than 10% on average, over that three year span. This shows a stable approach for our customers and the community.

We thank you for your time and we appreciate our ability to present to you today.