It's Still the Prices:

Second Year Data from California's Rate Filing Law Reveals Prices, not Utilization, Continue to Drive Premium Costs in the Fully-Insured Large Group Market

The second year of financial disclosures from health insurance companies in California on their fully-insured large group market business comprising some 8.6 million covered lives — made pursuant to a state law the labor movement fought for and won in 2015[1] — reveal:

- premiums continue to rise well above the rate of inflation;
- health care provider costs (specifically hospitals and doctors) continue to comprise the largest proportion of overall health care spending, and the growth in payments for pharmaceuticals continues to outpace the growth of any other medical benefit area; and
- prices, not utilization, continue to contribute more to rising premiums than increases in utilization.

These findings[2] reinforce the conclusions from the first year of data disclosed under the law in late 2016. Californians now have two years' worth of data that strongly suggests state government must act to sharply regulate provider prices and prescription drug costs, as well as insurance premiums.

California LABOR Federation

HEALTH ACCESS
California's Health Consumer Advocacy Coalition

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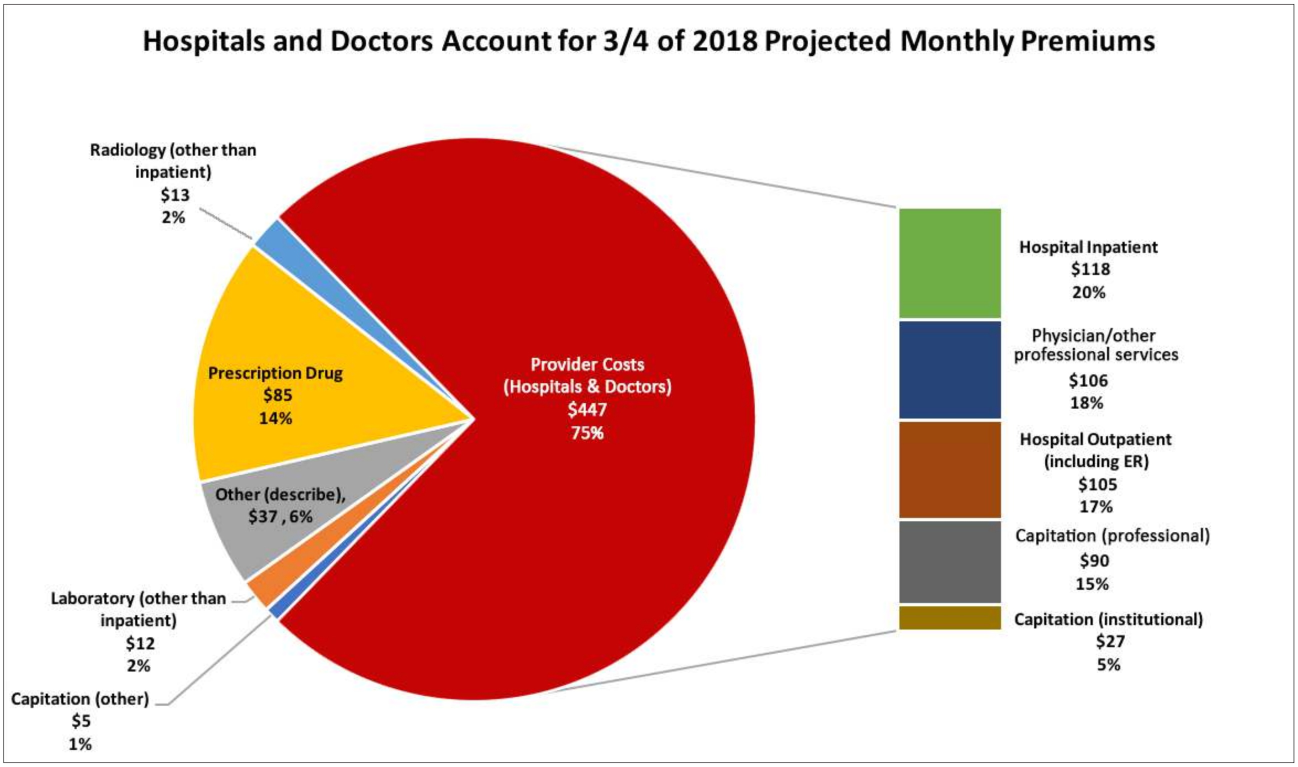
Hospitals and Doctors Represent Greatest Share of Premiums

The data demonstrates hospital costs and physician services represent an overwhelming proportion of the overall projected premium dollar in 2018. The filings require insurance companies to break out 2018 projected medical trend by 10 different "benefit areas." Among the top seven insurance companies, hospital and physician costs altogether represent 75% of the projected 2018 premium dollar. See Figure 1.[3]

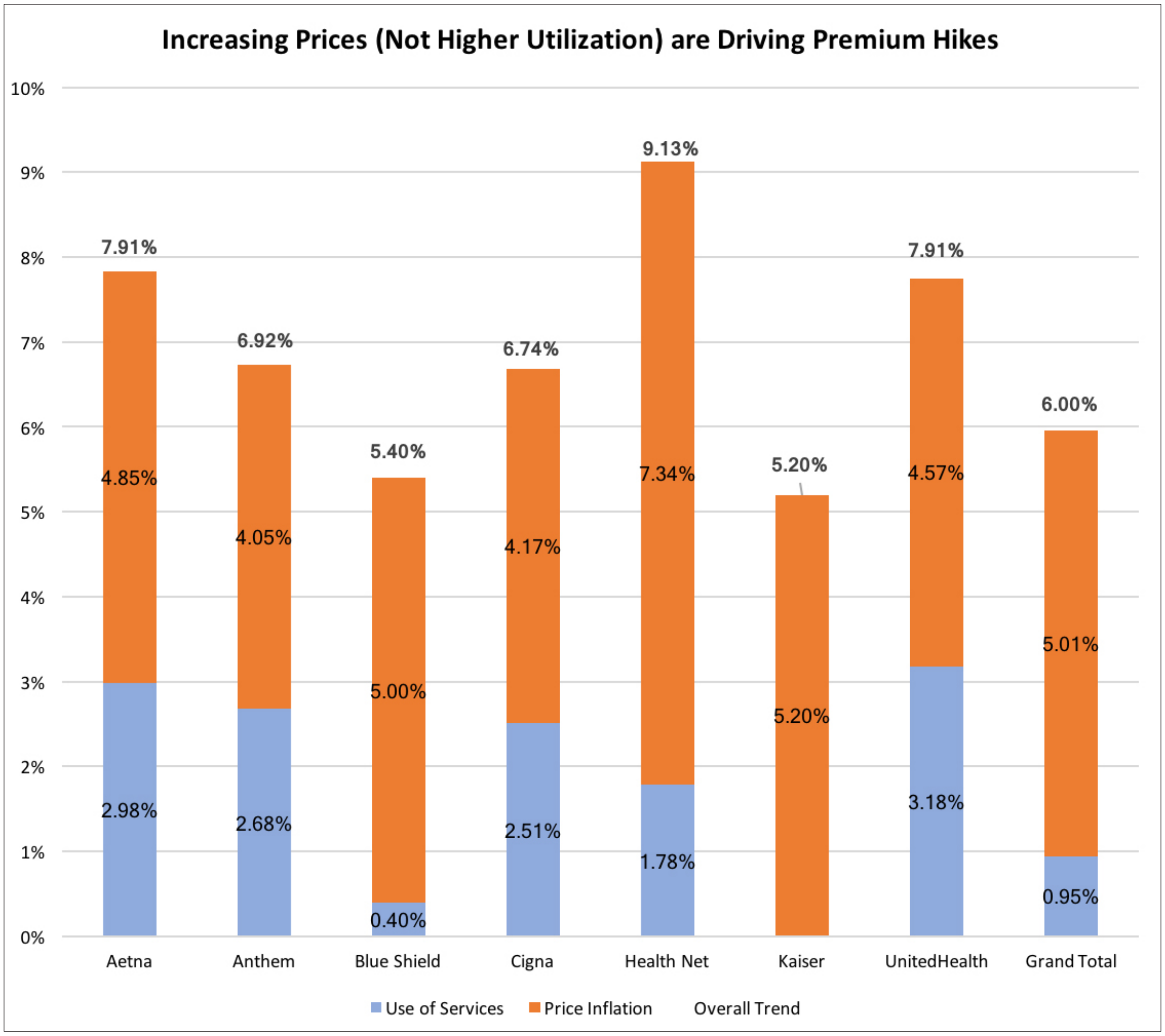
Figure 1



Price Inflation – Not Increased Utilization – Drives Medical Trend

The filings demonstrate that 83% of projected 2018 fully-insured large group market medical trend is due to price inflation – and only 16% is due to increases in utilization.[4] (See Figure 2.) In each of the filings submitted by the top seven companies, price increases were expected to be significantly higher than increases in utilization. Notably, Kaiser reported that _all_ of its projected increased medical trend across both state regulators – accounting for 4.9 million covered lives in California – is due to price increases, and none of it is due to increases in utilization. This is in keeping with last year's filings, which also demonstrated that increases in the cost of medical services would be attributable more to price inflation than increases in use of services.

Figure 2

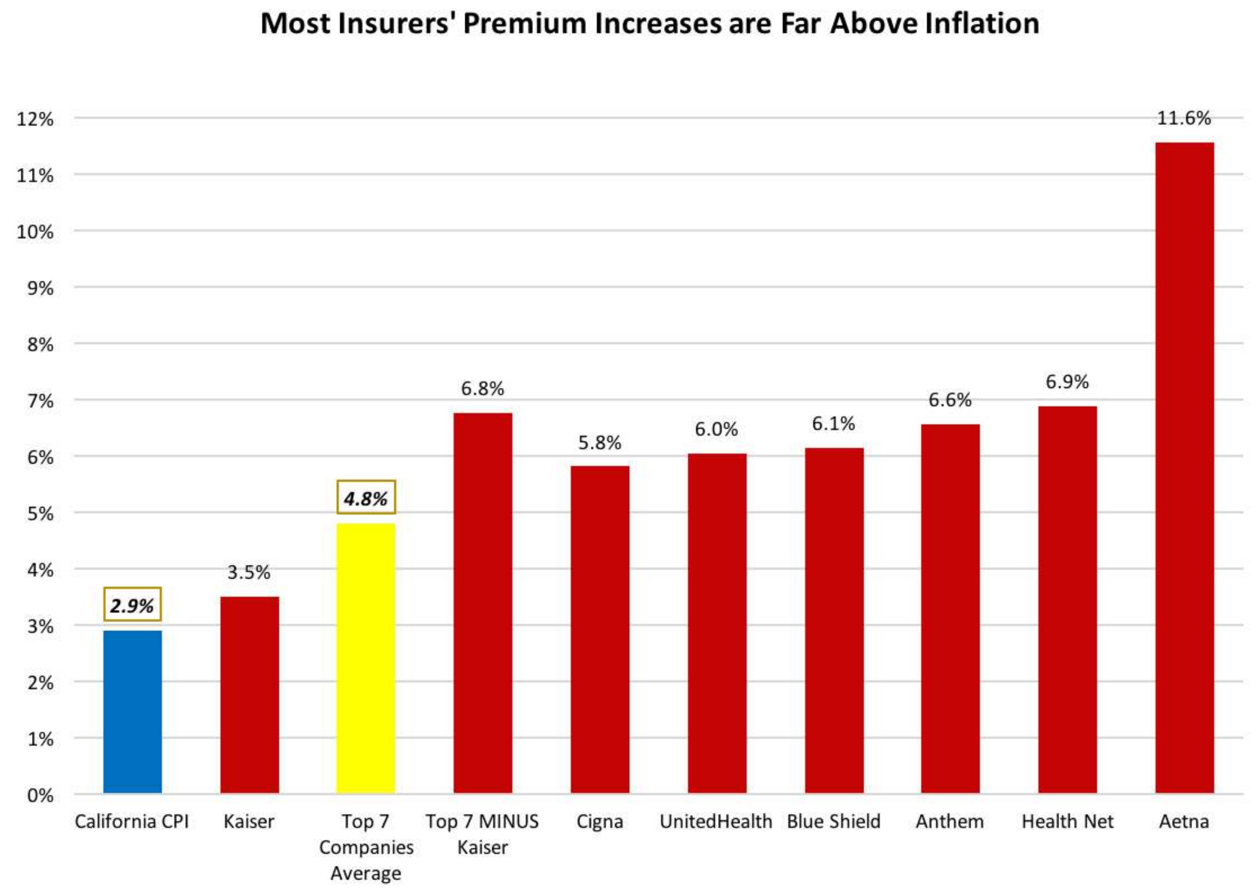


Breakout of 2018 Projected Medical Trend Attributable to Use of Services, Price Inflation, Fees and Risk, and Overall Trend – Weighted by Insurers' Covered Lives

Premiums Again Rise Faster Than Inflation

The average 2016-2017 premium increase[5] among the top seven insurance companies was 4.8%—166% of California's 2.9% inflation rate last year. The top seven companies reported average increases in their large group premiums ranging from a low of 3.5% (Kaiser) to a high of 11.6% (Aetna). (See Figure 3.) In dollar amounts, per-member, per-month premiums ranged from a low of $436 (Anthem) to a high of $511 (Health Net).

Figure 3



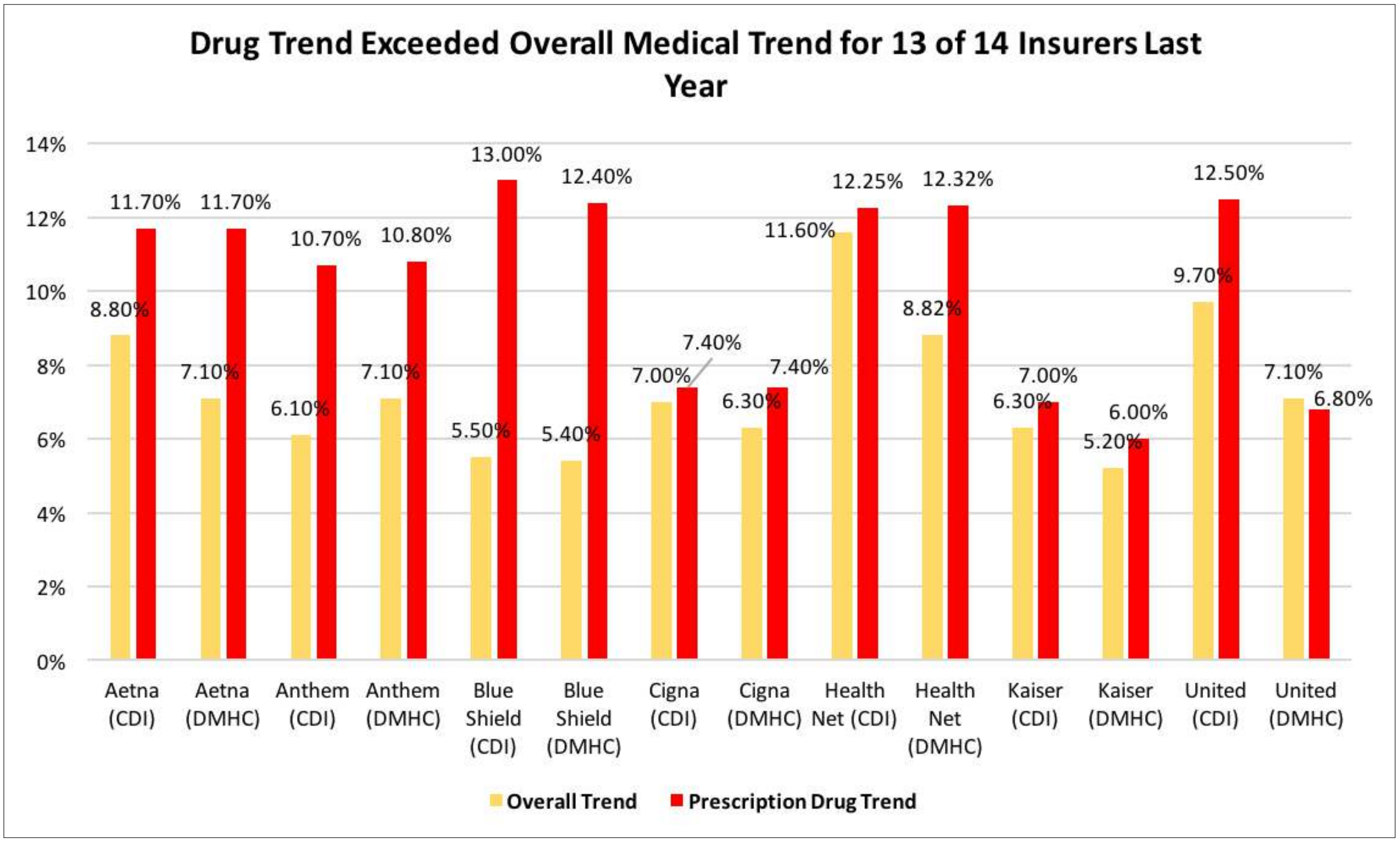
Top 7 Companies' Average Premium Increases on Fully-Insured Large Group Market Products, 2016-2017 (Accounting for 96% of California's 8.6 Million Covered Lives in this Market)

Source for "California CPI" = CCPIU: California Department of Industrial Relations, California Consumer Price Index historic data (1914-2017), downloaded 1/30/2018: http://www.dir.ca.gov/OPRL/CPI/CPIHistDataSeries.xls

Prescription Drug Costs Continue to Rise Faster Than Overall Medical Trend

Of all 10 medical benefit areas, average 2018 projected prescription drug trend was the highest. And in all but one of the 14 filings submitted by the top seven insurance companies, prescription drug cost increases were projected to increase at a higher rate than overall medical trend in 2018 (see Figure 4). The outlier (United's filing with DMHC), accounts for only 2% of the lives in this market.

Figure 4



Profits

The filings show that top seven companies posted total profits of $10.5 billion on their fully-insured large group market business between 2011-2016.[6] See Table 1.

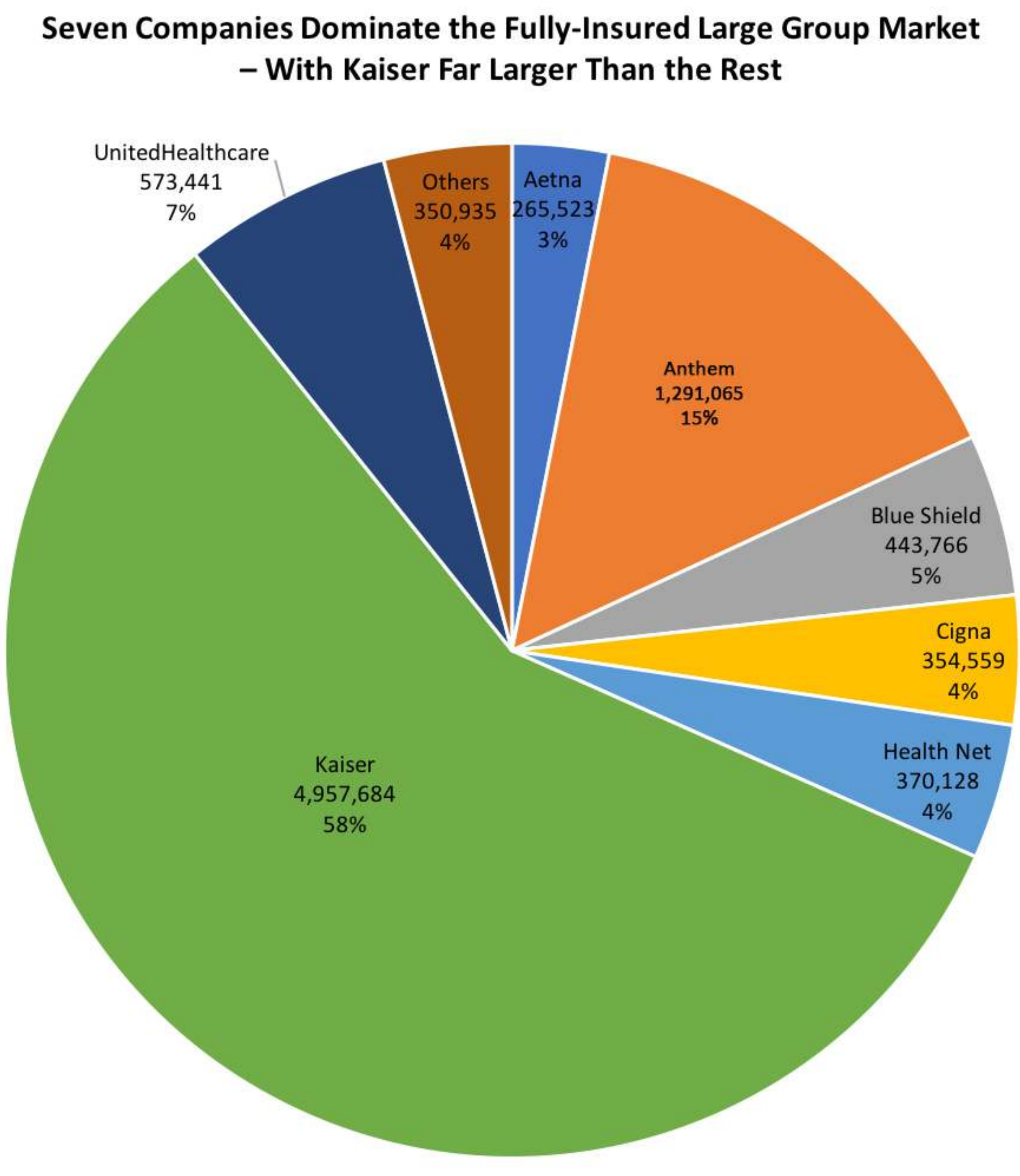
Table 1

Profits on Just Fully-Insured Large Group Market Business, 2011-2016	
Company	Profits
Aetna	$665,867,952
Anthem	$2,088,674,174
Blue Shield	$400,517,908
Cigna	$134,338,782
Health Net	$33,392,072
Kaiser	$6,444,452,429
UnitedHealth	$715,665,407
Grand Total	***$10,482,908,724***

Market Share

For the second year in a row, the filings demonstrate the market power of seven insurance companies: Aetna, Anthem Blue Cross, Blue Shield, Cigna, Health Net, Kaiser, and UnitedHealthcare. Together, they cover 96% of the state's 8.6 million fully-insured large group enrollees.[7] By comparison, last year there were 8.3 million covered lives in the fully-insured large group market, and these same seven companies also dominated 96% of the market. Kaiser is again especially dominant, with 4.96 million enrollees in 2017, or 58% of the entire market. (Kaiser had 4.8 million fully-insured large group covered lives in 2016, which was also 58% of the 2016 total.) See Figure 5.

Figure 5


Seven Companies Dominate the Fully-Insured Large Group Market
– With Kaiser Far Larger Than the Rest
UnitedHealthcare
573,441
7%
Others
350,935
4%
Aetna
265,523
3%
Anthem
1,291,065
15%
Blue Shield
443,766
5%
Cigna
354,559
4%
Health Net
370,128
4%
Kaiser
4,957,684
58%

Endnotes

1. Senate Bill 546 (Leno), sponsored by the California Labor Federation, UNITE HERE and the Teamsters. https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160SB546.
2. Under SB 546, insurance carriers with fully-insured large group market business are required to submit reports to their respective state regulator on products in that market (California has two health care regulatory agencies, the Department of Managed Health Care (DMHC) and the California Department of Insurance (CDI)). For the top seven insurance companies, this means they must submit one report each to DMHC and CDI. All the findings and analysis in this document are based on a comprehensive review of both sets of filings (submitted to DMHC and CDI) in 2016 and 2017.
3. The 10 different "benefit areas" for which insurers must breakout projected medical trend (Question 10 on the SB 546 form that insurers submitted to DMHC and CDI) are: hospital inpatient, hospital outpatient (including ER), physician/other professional services, prescription drug, laboratory (other than inpatient), radiology (other than inpatient), capitation (professional), capitation (institutional), capitation (other), and a miscellaneous "other" category. Insurers are then required to provide 4 figures for each of these line items, as well as for overall medical trend: the aggregate per-member-per month dollar amount attributable to each line item, the overall projected percentage increase, year-over-year, for each line item, as well as the percentage of trend attributable to price inflation, increased utilization, and increased fees and risk. Figure 1 of this document represents the average per-member-per-month aggregate dollar amount attributable to each of these benefit areas.
4. These numbers are based on the following calculation: for the top 7 companies' 14 filings across both regulators (see note 2), average projected overall 2018 trend (weighted by insurance companies' total covered lives in the fully-insured large group market) was 6%; average overall medical trend attributable top price inflation (also weighted by carriers' covered lives) was 5.01% (which, divided by 6.00%, yields 83%); and average overall medical trend attributable to increases in utilization (also weighted by carriers' covered lives) was 0.95% (i.e., which, divided by 6.00% yields 16%).
5. Here we mean what the filings call, in question 1 of the form submitted by insurers, the *adjusted* (as opposed to unadjusted) average premium increase, which is normalized to account for changes in benefits, cost-sharing, provider networks, geographic area, and average age. Companies were asked to report both adjusted and unadjusted average premium increases on their fully-insured large group market products. The average *unadjusted* premium increase among the top seven companies was 4.2% (the same as last year).
6. "Profits" were calculated by taking the net of total premiums minus claims costs, administrative expenses, taxes and fees, and quality improvement expenses (a new field included in the 2017 spreadsheet that regulators did not require last year) in the "CA Large Group Historical Data Spreadsheet" filed by insurance companies pursuant to SB 546. Where companies reported different dollar amounts in their 2016 and 2017 filings (both 2016 and 2017's filings required reporting on the five most recent years of data, such that insurers reported on 2012-2015 both last year and this year), this data uses the most recent (2017) filing.
7. The total number of covered lives is derived from question 5 of the form submitted by insurers to both regulators, and represents the sum of the "overall" line item in column 4 ("Number of Enrollees/Covered Lives Affected By Rate Change") and the "overall" line item in column 5 ("Number of Enrollees/Covered Lives Offered Renewal Without A Rate Change").

This report was written by the UNITE HERE International Union's Research Department.