



Nonprofit Publisher
of Consumer Reports

January 25, 2011

Insurance Commissioner Dave Jones
Sacramento Office
300 Capitol Mall, Suite 1700
Sacramento, CA 95814

Re: Blue Shield of California rate increase request

Dear Commissioner Jones:

Consumers Union, nonprofit publisher of *Consumer Reports*, writes pursuant to SB 1163 to provide you with comments on the rate filing of Blue Shield of California ("Blue Shield"). Consumers Union applauds the proactive stance the Department of Insurance (CDI) is taking in closely scrutinizing Blue Shield's filing and we offer these suggestions in support of your examination to protect California consumers from unjustified rate hikes.

1. The Rate Filing Lacks Sufficient Documentation

Consumers Union has examined the rate filing, posted on the CDI website, for Blue Shield's proposed rates, to be effective on March 1, 2011. It is very difficult to determine the validity of this rate increase request because the rate filing lacks sufficient detail. The stated trend assumptions, including the "claims trend" and all other adjustments applied to result in the "net trend," are not supported by underlying data.

We urge you to examine, and publicly disclose, a rolling claims history for at least the past five years for the block of business on an aggregate and per member per month basis, to determine whether the net trend is reasonable. This information is crucial to a determination of the actuarial soundness of the increase, and a "comparison of claims cost and rate of changes over time" is required under SB 1163, Insurance Code section 10181.3(b)(2).

Also, under the proposed increase, some plans are getting much larger rate increases than others. We urge you to review and disclose the claims history for each policy, the trend as applied to each policy, and the anticipated loss ratio for each policy. Specific rating factors applied to risk categories should also be disclosed and reviewed for reasonableness.

Because SB 1163 applies to all increases effective January 1, 2011, we urge you to require Blue Shield to submit the information enumerated there for disclosure to the Department and in turn to the public. That law calls for insurers to submit numerous, specific items (Insurance Code sections 10181.3(b)(1)-(25), (c)(1)-(3) and 10181.7(d),

many of which do not appear to be contained in the Blue Shield filing such as changes in administrative costs, a description of cost containment efforts, actual costs by aggregate benefit category, as well as the certification by an independent actuary of actuarial soundness and “reasonableness.”

2. The Rate Filing Raises Several Red Flags

a. Both the 16.2% "claims trend" and the 29.1% "net trend" seem unreasonably high. Nationwide data show that claims for hospital/physician services for commercial insurers increased on average by just 7.8% between Nov. 09 and Nov. 10. (See Standard and Poor's Healthcare Economic Commercial Index, published Jan. 20, 2011) and the 2011 medical trend for all claims (including pharmacy) is predicted to be at 9% (See PriceWaterhouse Coopers, Behind the Numbers, Medical Cost Trends for 2011). Medical inflation, one factor considered in the medical trend, has been less than 4% for the past three years. While we recognize that market distortions, California costs, or Blue Shield's particular provider contracts may lead to a higher medical trend than these nationwide averages suggest, Blue Shield must be called upon to show why its trends are well beyond nationwide averages, and beyond what other carriers are using.

Further, the extremely limited claims data provided in the rate filing does not suggest that Blue Shield's claims on a per member per month basis are rising anywhere near 29.1%, so a deeper investigation of the trend used for this filing is clearly warranted.

b. Adding adjustments for leveraging, duration, and selection create a real danger that Blue Shield may be "double-counting." The historical claims trends will already reflect the impact of these elements. Blue Shield should bear the burden of proving that the "claims trend" of 16.2% was calculated by first removing all trends associated with the impact of leveraging, duration, and selection before these additional adjustments can be justified.

c. In addition, other assumptions, such as the HIPPA and Health Reform adjustments, likewise do not appear justified by the data in the rate filing.

d. The “Provision for Adverse Deviation”, an adjustment for "uncertainty," is unnecessary and unfair in light of the hardship this increase will impose. Blue Shield has ample surplus to address any "uncertainty." Further, these adjustments are likely just hidden profit margins – Blue Shield has not disclosed its anticipated profit margins on these lines, but these provisions appear to be attempt to pad the rate calculation for extra profits.

e. As noted, some plan segments are getting hit harder than others, and news reports show that some Blue Shield policyholders are facing up to a total of 59% increases over six months. This suggests that CDI must look closely at Blue Shield's risk spreading practices to ensure that members with risk factors, such as health conditions or in higher age brackets, are not being hit with unaffordable rates that will cause yet more Californians to lose coverage.

3. Blue Shield Must Show Why It Needs A Third Rate Increase In Six Months

In the press, Blue Shield claims that it is losing money on these plans, but such losses are not demonstrated in the rate filing. Aggregate annual medical loss ratios on these plans appear to be at about 75%, and therefore are not at a level that should be producing losses. In addition, in these extraordinarily difficult economic times CDI needs to exercise its maximum authority to protect California consumers who are shouldering untenable health insurance and health care costs, particularly in the dysfunctional individual market.

Consumers Union urges CDI to undertake the deepest review possible of Blue Shield's rate filing and to provide an opportunity for full public airing of the evidence underlying this extraordinarily large proposed rate increase. We urge you to use your authority to hold a public hearing on this request and, furthermore, to stay implementation of the rate increase until Blue Shield complies with current law which requires the insurer (and CDI) to make certain rate filing information submitted by the insurer readily available to the public through the insurer (and CDI) web sites 60 days prior to implementation of any increase (Insurance Code section 10181.7(d)).

Sincerely,



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Staff Attorney



Betsy Imholz
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Consumers Union