

COVERED CALIFORNIA'S STORY FOR 2016: Good Rates and How We Got There



Covered California Is Holding Rates Down for All Consumers

The Patient Protection and Affordable Care Act has changed the health insurance market for all Americans, making affordable health care available to millions of Americans, including many for the first time. The Affordable Care Act requires all insurance offered in the individual and small-group markets to cover all “essential health benefits” and in standard metal tiers — Platinum, Gold, Silver and Bronze. Covered California takes it a step further and functions as an “active purchaser.” That means it selects insurers to participate in the exchange, designs the products it wants those insurers to offer and negotiates premiums on consumers’ behalf. This contrasts with the federal marketplace and most other state exchanges that allow any insurers to sell whichever products they wish to sell on the exchange.

Today, Covered California announced preliminary health insurance rates for 2016. The rates, which are still subject to regulatory review and public comment, reflect three years of positive premium experience, with the initial rates in 2014 being substantially lower than expert and Congressional Budget Office projections, and an average increase of 4.2 percent in 2015.

Covered California Rate Changes for 2016



Several factors have contributed to relatively low rate increases in California, including:



Selecting Plans Based on Price, Networks and Quality — Covered California puts every health insurance company that wants to be a part of the exchange through a rigorous review to ensure they meet high standards of quality, affordability and accountability as they compete in the marketplace, and they are turned away if they don’t meet these standards. Other state exchanges adopted the “clearinghouse” model, which means they sell any carrier that meets that state’s regulatory minimum and offers products compliant with the Affordable Care Act. Covered California turned plans away in 2014 and 2015 because of their cost, networks or administrative capability.



Robust Enrollment — Covered California attained strong enrollment numbers during the first and second open-enrollment periods through successful

marketing, community enrollment efforts and a website that worked relatively well in the first year. As a result, the exchange has a robust and diverse mix of enrollees that has stabilized rates and kept prices affordable. Currently, there are more than 1.3 million active customers in Covered California.



Plan Negotiations Informed by Independent Analysis —

Working with actuaries and academic experts, Covered California conducted its own studies of the health of its enrollees and learned that they are healthier than expected. As a result of that work, health carriers lowered their initial rates during rate negotiations, meaning a savings of hundreds of millions of dollars for Covered California consumers.



Early Adoption of Affordable Care Act-Compliant Health Plans — Covered California made an important policy decision in 2013 to allow only Affordable Care Act-compliant plans in the individual market. This leveled the playing field for the health insurance marketplace early on; pushed insurance carriers to offer competitive products based on premium cost and network design; and meant that the entire individual market was one

“risk pool,” enabling health plans to rate more accurately and reflect a healthy overall mix. In other parts of the country, the federal exchange and many state exchanges have been transitioning over two years to this standard — meaning consumers at risk of getting plans that offer thin or illusory benefits and individual markets in those areas are much harder to predict in terms of potential costs.



Standard Benefit Designs Mean Competition on Price and Networks — Covered California standardized all products offered on the marketplace, allowing consumers to make true apples-to-apples comparisons for their health insurance options. For example, when a consumer buys a Silver plan from Blue Shield or Molina, they will pay \$35 out of pocket for lab tests, and their deductible will be \$2,250. This allows consumers to compare plan choices side

by side on things that are important to them: price and whether their doctor is in the plan. Other states may offer dozens of plan design options with varying deductibles and out-of-pocket costs, forcing consumers to shop from an array of options that can be confusing. Standard designs also mean that consumers both in Covered California and those who buy directly from plans in the individual market will get coverage in which deductibles are not barriers to consumers getting the care they need.



Value Networks That Meet Consumers' Needs — As more individuals enroll in the marketplace, health plans are encouraged to create high-quality networks that allow premium costs to stay low for consumers. Covered California closely assesses network capacity as part of its negotiating. While these networks may limit the total number of participating providers, early research indicates consumers are getting the access they need. A 2015 Health Affairs

study examined exchange networks and concluded that Covered California hospital networks were as good as or better than networks off the exchange. In addition, 91 percent of Covered California enrollees reported in a Kaiser Family Foundation study that it was “very” or “somewhat easy” to travel to their usual source of care, which matches other private markets.

Other Affordable Care Act Provisions Critical to Covered California's Success

The Affordable Care Act reshaped the health insurance. It's no longer about "avoiding sick people," but rewarding health plans that provide better care and use their premium dollars wisely. In particular:

- **Guaranteed Issue:** A key component of the Affordable Care Act, "guaranteed issue" ensures that all insurance companies provide coverage to any applicants, regardless of health status or other factors. Guaranteed issue has eliminated many discriminatory practices or pricing in the health care industry, including denying coverage due to pre-existing conditions or setting lifetime limits.
- **Subsidies Based on Income:** Employers who offer insurance to their employees take advantage of significant tax benefits. Under the Affordable Care Act, individuals without job-based coverage can also get help from the government to buy health insurance in the form of subsidies, which put health insurance in reach for millions of low-and middle-income Americans. In California, approximately 90 percent of Covered California enrollees qualify for these subsidies to make their health insurance affordable each month. The estimated average household subsidy for Covered California enrollees in 2014 was \$436 per month.
- **Medical Loss Ratio:** The Affordable Care Act requires health insurance companies to spend 80 percent to 85 percent of every premium dollar on consumer medical claims and activities that improve the quality of care. In California, medical loss ratio has proven effective, with an average health plan profit margin for plans to be offered by Covered California at 1.1 percent.
- **The "Three R's" — Risk Adjustments, Reinsurance and Risk Corridors:** These three provisions of the Affordable Care Act have helped achieve stability in the insurance market during the early years of implementation.

Risk Adjustment: Health plans and health insurance companies that experience lower-than-average actuarial risk among enrollees face assessment, while those that have higher-than-average risk among enrollees will qualify for federal payments from the state pool.

Reinsurance: A transitional reinsurance program stabilized the individual health insurance market to moderate premium increases during the first three years. Beginning in the three-year period starting Jan. 1, 2014, all health insurance companies paid into a reinsurance fund that was used to lower costs of health coverage in the individual market. For 2016, the last year of reinsurance, Covered California estimates that the value of this program will be approximately 2 percent. In the absence of this program, Covered California plans would have increased about 6 percent instead of the 4 percent they have.

Risk Corridors: Plans offered in the individual or small-group market participate in a payment adjustment system in 2014, 2015 and 2016 based on the ratio of the allowable costs of the plan to the plan's aggregate premiums. Health insurance companies with costs that are 3 percent less than the company's cost projections remit charges for a percentage of those savings to the U.S. Department of Health and Human Services (HHS), while companies with costs greater than 3 percent of cost projections receive payments from HHS to offset a percentage of those losses.