Report Date	April 30, 2012

Organization Information	
State	California
Project Title	California Department of Managed Health Care - Review Program
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Grant Information	
Date Grant Awarded	September 20, 2011
Amount Granted	$2,162,121
Project Year	FY 2011-2012
Phase (Phase I or Phase II)	Phase I
Project Reporting Period (Example Quarter 1 10/1/2011-12/31/2011)	Quarter 2 01/01/2012 - 03/31/2012

PART I: NARRATIVE REPORT

Introduction:

The regulation of health insurance in California is divided between two agencies -- the Department of Managed Health Care (DMHC), and the Department of Insurance (CDI). Previously, the DMHC and CDI (Departments) were jointly awarded $1 million in grant funds to support the rate review activities. Those grant funds were used to implement the National Association of Insurance Commissioners (NAIC) System for Electronic Rate and Form Filing (SERFF), to enhance the Departments' information technology (IT) capacity to support rate review, to enhance the Departments' Web sites to provide transparency of rate filing information and allow public comments on rate filings, and to obtain actuarial services.

In a continuing effort to improve California's rate review program, the DMHC and the CDI submitted separate applications and were each awarded funds for the Health Insurance Rate Review – Cycle II grant.

The DMHC, with the Cycle II grant funds, will continue to build upon the existing infrastructure

of the DMHC's rate review program. The grant funds for the DMHC are being used to:

- Establish, for a limited term, two additional positions to carry out the administrative function for the rate review program;
- Bolster the DMHC's commitment to expand consumer understanding regarding factors driving rate increase and to promote more accountability within the health care industry. Utilizing a consumer advocacy organization to assist the DMHC in those efforts; and
- Contract for Actuarial Consulting Services.

Program Implementation Status:

1. *Quarterly Accomplishments to Date*:

   Objective Work Plans:
   Consumer/Stakeholder Engagement Project Objective 1, developing the proposed scope of work, reviewing the received proposals, and awarding the contract was completed during Quarter 1. Consumer's Union was awarded the contract. The contract was executed on March 21, 2012. Objectives 2 and 3, ongoing consumer rate review and consumer outreach, are long term goals that will continue throughout the term of the Cycle II grant program. However, the DMHC has begun to accomplish these goals by meeting with Consumer's Union on March 29, 2012, to begin developing long-term strategies for solicitation of public comments and enhancing the rate review program.

   Actuarial Consultant Objective 1, developing the proposed scope of work, reviewing the received proposals, awarding and executing the contracts, has been completed. Lewis and Ellis Actuarial Consultants were awarded the primary contract while Oliver Wyman Actuarial Consultants were awarded the secondary contract. The secondary contract will be used when there is a conflict of interest with the primary consulting group. The DMHC will continue working with the actuarial consultants on Objectives 2 through 4, conducting, analyzing, reporting, and opining on the rate review filings that will continue until the end of the grant period.

   Building upon the Existing Program Infrastructure and Resources to Enhance and Monitor the Rate Review Program Objective 1, developing duty statements and justifications for hiring 2 staff members was completed in October of 2011. In November the DMHC hired an Associate Actuary and in December hired a Senior Life Actuary. The DMHC is also seeking to hire a Chief Actuary and an additional Senior Life Actuary. With this new staff, the DMHC has reevaluated its need for the Health Program Specialist II position since the Chief Actuary will be able to handle many of Health Program Specialist II duties. The DMHC determined the rate review team would benefit more with an Associate Health Program Advisor and a Health Program Specialist I. The DMHC will be amending its grant proposal and submitting it to CCIIO for review and approval, changing the Health Program Specialist II to an Associate Health Program Advisor. The job notices for the Health Program Specialist I and Associate Health

Program Advisor were posted in March of 2012, and the interview process has begun.

2. *Quarterly Progress as, or toward, an Effective Rate Review Program*:

   1. Accomplishments to Date:

IT Enhancements:

The DMHC Office of Technology and Innovation has established a process for posting the links on the DMHC public Web site to the Healthcare.gov federal Web site for those rate filings that meet the 10% threshold and filed in the Health Insurance Oversight System (HIOS).

The DMHC also added more questions to the state-specific fields within SERFF. There has been some confusion with our health care service plans (health plans) with some of the insurance terms used within SERFF. For example, health plans use the term "subscriber" while SERFF uses the term "policy holder." This confusion has led to erroneous information or blank fields initially being submitted through SERFF. In response to this confusion, the DMHC added a state-specific question requesting the number of subscribers and enrollees affected by the rate filing.

Legislative Enhancements:

California Senate Bill (SB) 1163 (Chapter 661, Statutes of 2010), effective January 1, 2011, was enacted to implement the rate review provisions of the ACA, providing the DMHC and the CDI with the authority to review health plan and insurer premium rate increases, beginning January 1, 2011.

Although SB 1163 expanded the rate review process, it did not give the two Departments the authority to deny or disapprove rate increases. Under SB 1163, the Departments cannot reject excessive rates.

Assembly Bill (AB) 52 was introduced on December 6, 2010. This bill expands California's rate review authority by requiring prior approval from the DMHC and the CDI before a health plan or insurer can increase rates charged to policyholders or subscribers. Rates requiring prior approval include health care premiums, copayments, or deductibles. This bill has passed the California State Assembly, however, as of January 5, 2012, the bill, at the request of the author, was placed on the inactive list but may become active at any time.

Rate Review Program and Actuarial Services Enhancement:

Prior to enactment of the ACA, the DMHC had extremely limited rate review authority. The only rates that were required to be filed, with very limited scope of review, were rates for small group, HIPAA-guaranteed issue, and conversion products. Health plans were not required to file commercial rates for individual or large group products. As a

result, the DMHC did not have a rate review department/program or employ actuaries. With the grant funding, the DMHC was able to set up an effective rate review program and last year contracted with Oliver Wyman Actuarial Consulting, not only to provide actuarial services, but to help create a DMHC rate review program.

With the current grant funding, the DMHC, through a competitive bid process, has awarded two contracts for actuarial consulting for the next three years. Lewis and Ellis Actuaries and Consultants were awarded the primary contract, while Oliver Wyman Actuarial Consultants was awarded the secondary contract. The secondary contract will be used when there is a conflict of interest with the primary contract.

The DMHC, through a competitive bid process, has contracted with a consumer group, Consumer's Union to assist the DMHC's commitment to expanding consumer understanding regarding factors driving rate increases and to promote more accountability within the health care industry. Consumer's Union will not only provide consumer input on some of the rate review filings, but will assist the DMHC in developing long-term strategies for the solicitation of individual public comments.

Since the beginning of the grant period, the DMHC has hired a Senior Life Actuary and an Associate Actuary, and is currently advertising for: Chief Actuary; Senior Life Actuary; Health Program Specialist I; and Health Program Advisor, in an effort to continue to grow and enhance DMHC's Rate Review Program.

The CDI and the DMHC continue to conduct bi-weekly teleconferences to coordinate implementation of SB 1163, implementation and coordination of federal health care reform issues such as reinsurance, medical loss ratio, and risk adjustment.

Challenges and Responses faced this year: The DMHC has reevaluated its need for the Health Program Specialist II position since the Chief Actuary will be able to handle many of Health Program Specialist II duties. The DMHC determined the rate review team would benefit more with an Associate Health Program Advisor and a Health Program Specialist I. The DMHC will be amending its grant proposal and submitting it to CCIIO for review and approval, changing the Health Program Specialist II to an Associate Health Program Advisor. The job notices for the Health Program Specialist I and Associate Health Program Advisor were posted in March of 2012, and the interview process has begun.

SERFF continues to be a challenge; this system is new to the majority of our health plans. Whenever one is learning and utilizing a new system, unexpected issues may come up . The DMHC has worked through many of these issues with the health plan or with SERFF. The DMHC has also added some state-specific questions using terms familiar to the DMHC regulated health plans such as "subscribers" and "enrollees," to ensure the information submitted under "policy holder" and "covered lives" is correct.

All proposed activities described in the Cycle I grant were completed. The Cycle I grant funds were used to give the DMHC access to the SERFF system and to cover all costs

associated with operating the SERFF. The DMHC and CDI also used grant funds for Information Technology costs associated with conducting rate review activities, as well as costs to update the SERFF system to meet requirements of the ACA. The rest of the grant funds used were spent on actuarial services necessary for developing and conducting California's rate review processes.

3. The only variation from the original Rate Review Work Plan and companion timeline is the hiring of the Health Program Specialist II. The DMHC has received permission to hire to for a Health Program Specialist I and Health Program Advisor. A revised grant proposal and timeline will be submitted to HHS for approval to have grant funds cover the Health Program Advisor position.

Significant Activities: Undertaken and Planned

The DMHC will be working with Consumer's Union to develop programs for consumer outreach, explaining the rate review process to consumers and providing information on where consumer health plan dollars are spent.

Operational/Policy Developments/Issues

The DMHC has contracted with the actuarial firm of Lewis and Ellis and is currently advertising for actuaries. The DMHC continues to build and enhance its rate review program and will be working closely with the industry, consumer groups, and our contracted actuaries to utilize best practices in moving forward with protecting California's consumers.

Public Access Activities

All of the rate review filings received by the DMHC are posted online. The DMHC has also added a feature that allows staff to post the link to the healthcare.gov website on those rate filings that must be submitted through the HIOS.

Collaborative efforts

The CDI and the DMHC continue to conduct bi-weekly teleconferences to coordinate implementation of SB 1163 and rate review, implementation and coordination of federal health care reform issues such as reinsurance, medical loss ratio, and risk adjustment.

The DMHC is also in constant contact with California's Exchange Board. Effective on January 1, 2012, the DMHC was moved from the Business, Transportation, and Housing Agency to the California Health and Human Services Agency (CHHS). CHHS is the agency which oversees the Exchange, the Department of Public Health, the Department of Health Care Services and the Managed Risk Medical Insurance Board, and allows the DMHC to work closely with its sister agencies.

Lessons Learned

In the SERFF system, the DMHC has been sending and receiving comments through the Correspondence section. However, we have recently learned that sending our comments through the Objections section will show the filing pending with the health plan or with the DMHC.

Updated Budget

The DMHC spent $21,080.61 in Cycle II grant funds for contracted services in the second quarter.

Updated Rate Review Work Plan and Timeline

The timeline for the "Building upon the existing program infrastructure and resources to enhance and monitor the rate review program" was updated in the first quarter with new dates for the hiring process of the two analyst positions. Currently, all of the timeliness are on target.

Data Collection and Analysis

During January 1 through March 30, 2012, the DMHC received 10 rate filings. California does not have the authority to deny rates. The DMHC may find a rate unreasonable or unjustified. All of the rate filings are on the DMHC's website and the charts below summarize the types of rate filings received.

Updated Evaluation Plan

At this time, there are no changes to the current evaluation plan since we have just implemented the contracts and are still in the process of hiring staff. As the Rate Review Program continues to build and enhance, the evaluation plan will continue to evolve.

Quarterly Report Summary Statistics:

- Total Funds Expended as of March 30, 2012: $21,080.61.

- Total Staff Hired (new this quarter and hired to date with grant funds): During this quarter, the DMHC advertised for four new staff members and is currently reviewing applications and conducting interviews. No grant funds have been expended to date for staffing.

- Total Contracts in Place (new this quarter and established to date): Three contracts are now in place. Two contracts are with actuarial consulting firms and the third contract is with a consumer advocacy group.

- Introduced Legislation: No

- Enhanced IT for Rate Review: During the first quarter, the consumer Web site was

enhanced to include the link to Healthcare.gov, so consumers can easily reach rate filings submitted through HIOS.

- Submitted Rate Filing Data to HHS: Yes

- Enhanced Consumer Protections: Yes
  - Consumer-Friendly Web site: Yes
  - Rate Filings on Web site: Yes

PART II: HEALTH INSURANCE RATE DATA COLLECTION

The data entered below is consistent with the rate filing data submitted via SERFF and HIOS, except for filing MSF-127892599. According to the SERFF data, this filing is HHS Deferred, and was entered incorrectly; the information was not HHS Reported, however, all of the additional rate data is correct.

Tables A-E: Rate Volume Tables

If using SERFF to import your data into the HIOS System, please discuss any discrepancies between the imported data and State records.

Table A. Rate Review Volume

State	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual Total
Number of submitted rate filings	24	10			
Number of policy rate filings requesting increase in premiums	21	9			
Number of filings reviewed for approval, denial, acceptance etc.	3 withdrawn, 6 completed, 15 in review	10 completed, 15 in review			
Number of filings approved	0	0			
Number of filings denied	0	0			
Number of filings deferred	0	0			

Table B. Number and Percentage of Rate Filings Reviewed – Individual Group

State	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual Total
Product Type (PPO, HMO, etc.)	**PPO:** 1 product, 100% reviewed, 0% completed **HMO:** 8 products, 100% reviewed, 38% completed	**PPO:** 3 products, 100% reviewed, 0% completed **HMO:** 3 products, 100% reviewed, 0% completed			
Number of Policy Holders	**PPO:** 4,000 **HMO:** 207,423 **Total:** 211,423	**PPO:** 66,546 **HMO:** 8,046 **Total:** 74,592			
Number of covered lives affected	**PPO:** 6,500 **HMO:** 303,425 **Total:** 309,925	**PPO:** 106,474 **HMO:** 12,872 **Total:** 119,346			

Table C. Number and Percentage of Rate Filings Reviewed – Small Group

State	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual Total
Product Type (PPO, HMO, etc.)	**EPO:** 1 product, 100% reviewed, 0% completed **HMO:** 13 products, 100% reviewed, 31% completed **HSA:** 1 product, 100% reviewed, 0% completed **PPO:** 2 products, 100% reviewed, 0% completed **POS:** 1 product, 100% reviewed, 0% completed	**EPO:** 2 products, 100% reviewed, 50% completed **HMO:** 21 products 100% reviewed, 47% completed **HSA:** 1 product, 100% reviewed, 0% completed **PPO:** 4 products, 100% reviewed, 50% completed **POS:** 3 products, 100% reviewed, 33% completed			
Number of Policy Holders	**EPO:** 190 **HMO:** 136,987 **HSA:** 2,836 **PPO:** 41,099 **POS:** 6 **Total:** 181,118	**EPO:** 1,633 **HMO:** 351,743 **HSA:** 2,836 **PPO:** 73,906 **POS:** 3,868 **Total:** 433,986			
Number of covered lives affected	**EPO:** 2,229 **HMO:** 827,517 **HSA:** 19,346 **PPO:** 100,378 **POS:** 1,122 **Total:** 950,592	**EPO:** 5,370 **HMO:** 1,501,724 **HSA:** 19,346 **PPO:** 302,503 **POS:** 32,785 **Total:** 1,861,728			

Table D. Number and Percentage of Rate Filings Reviewed – Large Group

State	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual Total
Product Type (PPO, HMO, etc.)	**0**	**0**			
Number of Policy Holders	**0**	**0**			
Number of covered lives affected	**0**	**0**			

Table E. (SERFF Users): Number and Percentage of Rate Filings Reviewed –Combined

State	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Annual Total
Product Type (PPO, HMO, etc.)	**EPO:** 1 product, 100% reviewed, 0% completed **HMO:** 13 products, 100% reviewed, 31% completed **HSA:** 1 product, 100% reviewed, 0% completed **PPO: 2** products, 100% reviewed, 0% completed **POS:** 1 product, 100% reviewed, 0% completed	**EPO:** 2 products, 100% reviewed, 50% completed **HMO:** 24 products, 100% reviewed, 42% completed **HSA:** 1 product, 100% reviewed, 0% completed **PPO:** 7 products, 100% reviewed, 29% completed **POS:** 3 products, 100% reviewed, 33% completed			
Number of Policy Holders	**EPO:** 190 **HMO:** 344,410 **HSA:** 2,836 **PPO:** 45,099 **POS:** 6 **Total:** 392,541	**EPO:** 1,633 **HMO:** 359,789 **HSA:** 2,836 **PPO:** 140,452 **POS:** 3,868 **Total:** 508,578			
Number of covered lives affected	**EPO:** 2,229 **HMO:** 1,130,942 **HSA:** 19,346 **PPO:** 106,878 **POS:** 1,122 **Total:** 1,260,517	**EPO:** 5,370 **HMO:** 1,514,596 **HSA:** 19,346 **PPO:** 408,977 **POS:** 32,785 **Total:** 1,981,074			