

Report Date **January 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 I 10/1/2011-12/31/2011

PART I: NARRATIVE REPORT FORMAT

Introduction:

The regulation of health insurance in California is divided between two agencies -- the Department of Managed Health Care (DMHC), which regulates HMOs and some PPOs that comprise approximately 61 percent of the California regulated insured market, and the Department of Insurance (CDI), which regulates indemnity coverage and some PPOs, with approximately 39 percent of the California regulated insured market.

Previously, the DMHC and CDI (Departments) were jointly awarded 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, DMHC and CDI submitted

separate applications and were awarded funds for the Health Insurance Rate Review – Cycle II grant.

With the Cycle II grant funds, the DMHC will continue to build upon the existing infrastructure of the DMHC's rate review program and is making significant strides in implementing a meaningful rate review program. The DMHC is using the grant funds 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 expanding consumer understanding of factors driving rate increase and to promote more accountability within the health care industry; therefore, a portion of the grant funding will be used to support a consumer advocacy organization to assist the DMHC in those efforts; and
- Contract for actuarial consulting services.

Program Implementation Status:

The following is an update on the DMHC's program in implementing and enhancing the programs specified in the grant.

1. *Quarterly Accomplishments to Date:*

Objective Work Plans:

Consumer/Stakeholder Engagement Project Objective 1, developing the proposed scope of work, review of the received proposals, and awarding the contract, has been completed. Consumer's Union was awarded the contract. Once the contracted is executed, the work on the other objectives will begin.

Actuarial Contulant Objective 1, developing the proposed scope of work, review of the received proposals, awarding the contracts and the execution of 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 is currently working with the actuarial consultants on Objectives 2 through 4.

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. However, in November, the DMHC hired an associate actuary and in December hired a senior actuary. The DMHC was also granted permission to advertise for a Chief Actuary. With this new staff, the DMHC has reevaluated its need for the Health Program Specialist II position since the Chief Actuary may be able to handle many of the duties that would have been assigned to the Health Program Specialist II. The DMHC determined that the rate review team would benefit more from an Associate Health Program Advisor. The DMHC will amend its grant proposal and submit it to CCIIO for review and approval.

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

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 HIOs system.

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 (SB 1163 Chap. 661, Stat. 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.

However, 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 would expand California’s rate review authority by requiring prior approval from the DMHC or the CDI before a health plan or insurer can increase rates charged to policyholders or subscribers. Financial terms 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 was placed on the inactive list at the request of the author, 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 were rates for small group, HIPAA-guaranteed issue, and conversion products, subject to very limited review by the DMHC. 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 program and did not employ actuaries. With the grant funding, the DMHC was able to set up an effective rate review program. Last year, the DMHC contracted with Oliver Wyman Actuarial Consulting for

help creating a DMHC rate review program and for actuarial services.

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 in expanding consumers' understanding of factors driving rate increases and to promote more accountability within the health care industry. Consumer's Union will not only provide stakeholder input on some of the rate review filings but will assist the DMHC in developing long term strategies for soliciting individual public comments.

The DMHC has hired a Senior Actuary and an Associate Actuary and has been approved by the California Department of Finance to hire a Chief Actuary. The DMHC has also submitted a proposal to hire a Health Program Specialist and a Health Program Advisor to assist with the administrative functions of running the rate review unit.

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

The DMHC has also developed additional rate review guidance that is currently under internal review. Once approved, the additional guidance will be posted on the DMHC's Web site.

3. *Challenges and Responses faced this year:*

Due to California's budget issues, the DMHC had difficulty receiving approval for the positions detailed in the grant proposal. However, the DMHC did receive approval to hire a Health Program Specialist I and a Health Program Advisor. The duties proposed for the Health Program Specialist II will need to be assumed by the Chief Actuary. A revised grant proposal will be submitted.

Another challenge to the DMHC had been the SERFF system. This system is new to the majority of our health plans. Whenever one is learning and utilizing a new system, there will be bumps in the road. Some of the terms used in the SERFF are insurance terms that are unfamiliar to our health plans. In many cases, the DMHC has worked through these issues with the health plan or with SERFF. DMHC has also some state-specific questions using terms that are familiar with our health plans.

All proposed activities described in the original grant were completed. The original 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 the

IT costs associated with conducting rate review activities, as well as the costs to update the SERFF system to meet the requirements of the ACA. The rest of the grant funds were spent on actuarial services needed to develop and conduct California's rate review processes.

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

Significant Activities: Undertaken and Planned

The DMHC drafted additional guidance that is currently available for public comment. Once the comment period is over, the DMHC will review the comments and if needed, make amendments to the guidance. The final guidance will be posted on the DMHC's website available to all stakeholders.

The DMHC has also developed a checklist that will be issued to the health plans and available on the DMHC's website. This checklist will help health plans submit more consistent information on the rate filings. Consumer's Union and the DMHC's contracted actuaries reviewed the checklist and offered informative and insightful comments. The suggestions were incorporated into the final checklist list, as appropriate.

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

Operational/Policy Developments/Issues

Currently, there are no operational, policies, or developmental barriers impeding rate review. 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 publicly online. The DMHC has also added a feature that allows staff to include a link to the www.healthcare.gov website on those rate filings that must be submitted through the HIOs system.

Collaborative efforts

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

The DMHC also collaborates with other California health care agencies/departments, including the California Health Benefits Exchange, the Department of Health Care Services, the Managed Risk Medical Insurance Board, with the California Health and Human Services Agency (CHHS). Effective on January 1, 2012, agency oversight of the the DMHC was transferred from the Business, Transportation, and Housing Agency to the CHHS. CHHS is the agency which oversees the Exchange, Department of Public Health, Department of Health Care Services and the Managed Risk Medical Insurance Board.

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 that the filing may be pending with the health plan or with the DMHC.

Updated Budget

California had received a no cost extention on the Rate Review Cycle I grant which ended on December 31, 2011. The costs for the actuarial consulting work performed by Oliver Wyman Actuarial Consultants, for October 1 to December 31, 2011, were paid from Cycle I grant funds. To date, no funds have been expended from the Cycle II grant funding.

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” has been updated with new dates for the hiring process of the two analyst positions. The other timelines were right on target.

Data Collection and Analysis

From October 1 through December 31, 2011, the DMHC received 24 rate filings. Of those filings, three were withdrawn for being incomplete. California does not have the authority to disapprove rates. DMHC may only find a rate unreasonable or unjustified. In October, the DMHC renegotiated rates on two rate review filings.

When the DMHC’s contracted actuaries opined that a health plan’s proposed rate increases was unreasonable, the DMHC contacted the health plan to discuss both of the filings at issue. The health plan agreed to lower it rates on the filings.

- a. SERFF Tracking Number: HNLH-127062271
Effective Date: May 1, 2011
The company initially requested 12-month rate increases averaging 12.3%. After review by and discussions with the DMHC, the company agreed to lower its average rate increase to 9.6%. This will affect approxmately 180,478 policy holders. The final disposition of this filing is completed.

- b. SERFF Tracking Number: HNLH-127139743
Effective Date: July 1, 2011
The company initially requested 12-month rate increase averaging 12.6%. After review and discussions with the DMHC, the company agreed to lower its average rate increase to 10.1%. This will affect approximately 26,814 policy holders.
The final disposition of this filing is completed.

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 process continues to grow and enhance the evaluation plan will continue to evolve.

Quarterly Report Summary Statistics:

Please provide the data as available below to include activities new this quarter and occurring to date with Rate Review Grant Funds:

- Total Funds Expended to date: 0
- Total Staff Hired (new this quarter and hired to date with grant funds): Two new staff members have been hired to date. 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: Yes, the consumer website was enhanced to include the link to healthcare.gov so consumers can easily reach those rate filings submitted through HIOs.
- Submitted Rate Filing Data to HHS: Yes
- Enhanced Consumer Protections: Yes
 - Consumer-Friendly Website: Yes
 - Rate Filings on Website: Yes

Enclosures/Attachments

Attachment 1 is the Rate Review Work Plan and Timeline

Attachment 2 is the revised SERFF quarterly report, named C2Q1-CA-CAMC-20120127-163331_files final.xls

PART II: HEALTH INSURANCE RATE DATA COLLECTION

The data entered in below is consistent with the rate filing data submitted via SERFF and HIOS system except for filing HNLH-127786652. The filing was submitted through SERFF and appears on the SERFF generated annual report but does not appear on the SERFF generated quarterly report. HNLH-127786652 is a Health Net Cal Choice Small Group Product that was submitted on November 2, 2011 with an effective date of January 1, 2012. The filing is available on the DMHC’s website at <http://wps0.dmhc.ca.gov/RateReview/>. Below is the information for all rate filings received during October 1, 2011 through December 31, 2011 All of the rate filings detailed below have been reviewed but may not yet be completed.

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				
Number of policy rate filings requesting increase in premiums	21				
Number of filings reviewed for approval, denial, acceptance etc.	3 withdrawn 6 completed 15 in review				
Number of filings approved	0				
Number of filings denied	0				
Number of filings deferred	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 received, 0% completed HMO – 8 received, 38% completed				
Number of Policy Holders	PPO – 4,000 HMO – 207,423, Total – 211,423				
Number of covered lives affected	PPO-6,500 HMO-303,425 Total – 309,925				

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 received, 0% completed HMO–13 received, 31% completed HSA – 1 received, 0% completed PPO – 2 received, 0% completed POS – 1 received, 0% completed				
Number of Policy Holders	EPO – 190 HMO – 136,987 HSA – 2,836 PPO – 41,099 POS – 6 Total – 181,118				
Number of covered lives affected	EPO – 2,229 HMO – 827,517 HSA – 19,346 PPO – 100,378 POS – 1,122 Total – 950,592				

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				
Number of Policy Holders	0				
Number of covered lives affected	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 received, 0% completed HMO–21 received, 48% completed HSA – 1 received, 0% completed PPO – 3 received, 0% completed POS – 1 received, 0% completed				
Number of Policy Holders	EPO – 190 HMO – 344,410 HSA – 2,836 PPO – 45,099 POS – 6 Total – 392,541				
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				

Rate Filing Detailed Data Elements: Please refer to the Enclosure for the updated **Rate Filing Detailed Data Elements**. Please note all the data collected for the Rate Filing Detailed Data Elements will be collected at the level of the *rate filing*.