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Kaiser rolls back rates for some firms

Health care giant responds to newly empowered regulators

Premium content from Sacramento Business Journal by Kathy Robertson, Senior Staff Writer

Date: Friday, October 7, 2011, 3:00am PDT

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In an unusual twist, "payback" is the buzzword this fall as millions of Californians prepare to make health plan choices for 2012.

Kaiser Permanente is rolling back rates by 1.2 percent for small employers with contracts up for renewal between July and December 2011 — and is giving premium credits totaling $13.7 million to those who already started paying higher rates that took effect July 1. The first credits will show up on November bills.

The move is a response to pressure from state regulators with new authority to examine rate hikes more thoroughly than they have in the past.

Blue Shield of California is passing out premium credits, too, but for a different reason. The health plan announced in June intentions to give back $167 million to employers, part of a move to reduce profits for 2010 to 2 percent. Most affected customers will see a credit on their October bill.

How the changes will affect employee health benefit choices is unclear, but brokers like carrying a positive message for a change.

"It's better than having (employers) swear at you," said Jo-D Parisi, a longtime local health insurance broker. "Now, it's 'Guess what? Your rates are going down.' "

While some employers renew coverage at other times of the year, many hold annual "open enrollment" in the fall, including the giant **California Public Employees Retirement System**. Open enrollment for CalPERS members is Oct. 10 through Nov. 4.

The two plans say it's a coincidence that the paybacks are playing out now, and they have no relation to open enrollment.

But it's not bad to look good at this time of year. Open enrollment is so competitive that plans crank up advertising to strut their stuff to the public.

Done for different reasons, the net effect of these actions by Kaiser and Blue Shield is a little break for some small employers.

"It's a credit on premium or you get to pay less money going forward," said Vinny Catalano, area vice president at **Arthur J. Gallagher & Co.**

The bottom line for small businesses who want to provide health insurance is they are being priced out of the market," said Scott Hauge, president of **Small Business California** and owner of an agency called Cal Insurance.

Hauge's company is getting a premium credit from Kaiser.

"What this is, is a credit on the increase," Hauge said. "Only in insurance!"

Rollback at Kaiser

Almost 12,900 local Kaiser subscribers and an unknown number of their dependents will be affected by the rollback.

Kaiser began notifying them of the change in mid-September. The company didn't reach agreement with the **California Department of Managed Health Care** on the rates until August.

Roughly 190,000 subscribers to health maintenance organizations and 240 point-of-service subscribers and an unknown number of dependents will be affected statewide.

The approximate value of the rate cut is $13.3 million for the HMO; it's $40,800 for the other plan.

HMO subscribers will get about $70 each and POS subscribers, $170 each, according to Kaiser spokesman John Nelson.

The rollback saga began in April, when Kaiser filed a proposal to hike HMO rates for small employers by 10.7 percent, effective July 1. The POS rate hike was 12 percent, effective the same day.

A new law — Senate Bill 1163, approved last year and enacted Jan. 1 — requires health plans to file specific information with state regulators at least 60 days before they take effect.

The problem for Kaiser is the law requires a rate evaluation by categories that include inpatient, outpatient, physician and other expenses. An integrated health system and health plan, Kaiser doesn't track data like that.

DMHC officials asked for more information, which Kaiser supplied in June. Regulators balked at what appeared to be a 7.2 percent projected margin for Kaiser on the HMO business.

Kaiser says the number falls to 0.6 percent when they subtract money spent on community benefits and the cost shift from un-reimbursed services provided under Medicare.

"That raised a lot of questions back and forth. It was clear we needed to do more to help the department understand our rate system and how and why we are different," Nelson said.

That took time. Meanwhile, the proposed rates took effect July 1.

In recognition that it's going to take more time to resolve the issue, Kaiser agreed to a one-time rate cut of 1.2 percent, to an average of 9.5 percent for the HMO subscribers and an average of 10.8 percent for the POS subscribers.

Employers who already began paying higher rates will get premium credits. The first will appear on November bills, but some won't show up until December, Nelson said.

"What's driving this is a new regulatory process and our commitment to work with the department," Nelson said. "It's a reduction in the rate increase — but there is still a rate increase."

DMHC was able to get Kaiser to roll back rates using existing law, department spokeswoman Lynne Randolph said.

"DMHC requested Kaiser reduce its rates after reviewing the lack of data they provided to support its trends and Kaiser agreed," she said in a prepared statement. "As a result, thousands of small businesses will benefit. In this economy, we must do all we can to help save money for these employers, many of whom are struggling to maintain health coverage for their workers."

Profit return at Blue Shield

Blue Shield is passing out credits, not reducing rates, but the net effect is a little more money in employer and employee pockets.

The plan's decision is a voluntary move to make health care more affordable; it does not come in response to action by state regulators.

The health plan is returning a total of $6.9 million to 2,049 businesses in the Sacramento region in a form of premium credits this month. The average amount is $3,300.

Another $1.3 million will go to individual health plan members in the region, with an average premium credit of $90.

The payback is part of a pledge by Blue Shield to cap its profit margin at 2 percent of revenue and return any additional income to customers, health care providers and nonprofit organizations that provide health care to low-income Californians.

The amount is based on premiums in May 2011; October bills reflect the credit, which is about 30 percent of one month's premium.

People who have dropped Blue Shield coverage lose out, however. The money is only paid out as a credit, company spokesman Steve Shivinsky said.

"We were very careful not to call it a rebate, but a credit, so people won't think it's cash," he said. "Imagine logistically, if we sent checks."

Owen Arnoff, whose company merged with Incompass Tax, Estate & Business Solutions in North Highlands and switched coverage to a new health plan, is miffed.

"I don't understand why that would be, if I paid the annual premium like everybody else," he said. "It's like you have to stay with us in order to get whatever they call it. Are they really giving back? Not across the board."

It's not an inducement to renew, Shivinsky said. The credits were announced in June and the process took a while. Arnoff is not the only person who dropped the policy over the summer and won't get a credit, though.

"It's thousands and thousands of credits worth millions and millions of dollars," Shivinsky said. "It's not easy to give back money."

Kathy Robertson covers health care, labor/workplace issues, law, immigration, medical technology and biotechnology for the Sacramento Business Journal.