August 6, 2014

Projected Savings from Proposition 45

Introduction

Proposition 45 will require health insurance companies to open their books and publicly justify their rates under penalty of perjury before they are permitted to change rates for consumers in the individual and small group market.

While there is no way to exactly predict the amount of consumer savings from Proposition 45, an analysis of available data allows us to estimate that Proposition 45 could save California consumers as much as $**235 million or more each year** between 2016 and 2019, and possibly as much as $1 billion per year.

Methodology

To estimate the savings that Proposition 45 will provide California consumers, it is first necessary to estimate the total premium dollars that individuals and small business owners would spend *without* Proposition 45 in place, and then estimate the savings as a reduction from that amount. This requires: (1) an estimate of future enrollment, and (2) an estimate of future premiums.

1. Future Enrollment in Small Group and Individual Health Plans

We estimated the future total enrollment in small group and individual health plans in California by combining the individual market projections from the CalSIM model,[1] produced by UCLA and UC Berkeley, and a conservative estimate of small group enrollment, which is based on 33% of the number of small group enrollees in California in 2011.[2] Using these figures, the estimated total enrollment in health plans covered by Proposition 45 will be 5.1 million enrollees in 2016 increasing to 5.5 million enrollees in 2019.

2. Future Premiums for Small Group and Individual Health Plans

The Congressional Budget Office (CBO) has projected the cost of health insurance in the individual market for 2015-2024.[3] Specifically, the CBO estimates the nationwide average premium for the second-lowest-cost "silver" plan in the exchanges; their estimate

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[1] The UCLA Center for Health Policy Research and the UC Berkeley Labor Center created the California Simulation of Insurance Markets (CalSIM) to estimate future health insurance coverage by Californians after the implementation of the Affordable Care Act (ACA). *CalSIM Version 1.91 Statewide Data Book*, 2015-2019 (May 2014)(link). CalSIM predicts enrollment in the individual subsidized and unsubsidized market, the employer provided insurance market, and Medi-Cal, but does not predict small group enrollment separately within employer provided insurance. Future small group enrollment was estimated from other sources. CalSIM produces two prediction scenarios—"base" and "enhanced"—for enrollment from 2015 to 2019, reflecting less and more optimistic enrollment assumptions. Using the midpoint between CalSIM's "base" and "enhanced" models, enrollment in the individual market is projected to increase from 3.4 million in 2015 to 4.4 million in 2019.

[2] The California HealthCare Foundation expects small group enrollment to decline as some employees opt to purchase (often subsidized) individual insurance from Covered California, or receive health insurance through Medi-Cal. *California's Individual and Small Group Markets on the Eve of Reform* (2011), at 24. In 2011, 3.4 million Californians were enrolled small group plans. *Id*. at 4. To be conservative, savings estimates assume that small group enrollment will be 33% this amount from 2016 to 2019.

[3] *Updated Estimates of the Effects of the Insurance Coverage Provisions of the Affordable Care Act (April 2014)*, page 6.

is $3800 per year for 2014.[4] The CBO predicts this cost will rise to $4,400 in 2016 and "increase by about 6% per year, on average, from 2016 to 2024."[5]

By multiplying the CBO's estimated premium for each year by the enrollment estimate discussed above, the result is an estimate for total premiums in California's small group and individual market of $20 billion in 2015, increasing to over $26 billion by 2019.

3. Estimating Savings from Proposition 45

To estimate the potential savings from Proposition 45, we applied three different savings models to the total premium projections discussed above. These models were: (a) savings based on an analysis of Proposition 103's impact on auto insurance rates; (b) savings based on the analysis made by the California Insurance Commissioner of proposed rates for property and casualty insurance from 2011 to present; (c) savings based on Oregon's experience with health insurance rate regulation since 2012. Furthermore, the results of California's current rate review process for small group and individual health plans indicates that Proposition 45 will save consumers money.

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[4] The average cost of the second-lowest-cost "silver" plan purchased through Covered California is $3900 in premiums per year. *See* Covered California Health Insurance Companies for 2014, page 6.

[5] The CBO national cost estimate is comparable to estimates of the California individual market, and lower than estimates of the California small group market. The average cost of the second-lowest-cost "silver" plan purchased through Covered California is $3900 in premiums per year. *Covered California Health Insurance Companies for 2014*, at 6. In 2011, California premiums in the small group and individual market were $3,048 for individuals and $4,092 for small group. *California Health Plans and Insurers: A Shifting Landscape* (March 2013), at 17 (but this number may not be accurate because it includes stand-alone plans like vision and dental). If small group and individual plans experienced the same rate increases as the entire employer provided insurance market, premiums in 2014 would be $3,705 for individuals and $4,974 for small group—averaging to $4059 using the enrollment estimate discussed above. Since the CBO's premium estimate produces a more conservative savings estimate, it will be used for this discussion.

(a) Model 1: Proposition 103

In November 1988, California voters passed Proposition 103, which requires insurance companies to publicly justify rates for property and casualty insurance markets, including auto, home and business insurance. Proposition 103 gives the insurance commissioner the authority to block unreasonable rate increases in these insurance markets. Proposition 45 would extend the Commissioner's authority under Proposition 103, allowing the Commissioner to block unjustified health insurance rates.

The Consumer Federation of America recently analyzed the cost of auto insurance across the country and found that rates in California have *declined* slightly since Proposition 103 was passed, while rates nationwide have increased by roughly 43%.[6] Between 1989 and 2010, the cost of auto insurance nationwide has increased on average 43.6% compared to California.[7] Put another way, Californians' auto insurance rates increased an average 1.7% less each year since 1989 than the nation as a whole.

The Consumer Federation of America's report credits Proposition 103 for California's low auto insurance rates. If Proposition 45 has the same effect on health insurance premiums as Proposition 103 has had on auto insurance premiums, California's individual and small group health insurance premiums will increase at a lower rate than they would have without rate regulation: about 1.7 percentage points each year.

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[6] *What Works: A Review of Auto Insurance Rate Regulation in America and How Best Practices Save Billions of Dollars* (November 2013)

[7] This is an understatement because the national average *includes* California (the most populous state).

For example, if premiums would increase 6% in 2016 without rate regulation,[8] this model assumes that rate regulation will limit California's premium increase to only 4.3% (1.7 percentage points less than without rate regulation). This approach suggests that California consumers will save an average of about **one billion dollars each year** between 2016 and 2019.

(b) Model 2: Savings from Rate Increases in Property and Casualty Insurance Found to be Unjustified by the California Department of Insurance, 2011-Present

The California Department of Insurance has rejected $1.6 billion in proposed unreasonable rate increases for property and casualty insurance since January 2011.[9] In 2011 and 2012, the property and casualty market collected an average of $43 billion in premiums each year.[10] In three and a half years, the Department of Insurance has rejected unreasonable rate increases equal to about 1% of total premiums each year.[11]

If Proposition 45 were to save consumers 1% of the premiums projected for the small group and individual health insurance markets, California consumers would save an average of about **$265 million each year** between 2016 and 2019.

(c) Model 3: Health Insurance Rate Regulation in Oregon

Oregon's recent experience with rate regulation provides another model that can be used to estimate the potential savings from Proposition 45. Under Oregon law, the Oregon

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[8] CBO predicts an average increase in premiums of 6% during 2016 in health care exchanges nationwide.
[9] http://www.insurance.ca.gov/0500-about-us/0200-commissioner/
[10] http://www.insurance.ca.gov/0400-news/0200-studies-reports/0100-market-share/2013/
[11] This reflects 43 months of savings from January 2011 to July 2014.

Insurance Division must approve health insurance rate increases before they take effect. Or. Rev. Stat. § 743.018.

Summaries from the rates approved in 2012 and 2014 show that the Oregon Insurance Division frequently approved rates that were below what insurers had originally requested. In 2012, the rates approved were, on average, 0.91% lower than the rates requested. In 2014, the rates approved were, on average, 4.58% lower than the rates requested.[12] To be conservative, the 2012 figure of 0.91% was used for this estimate.

If Proposition 45 were to save consumers 0.97% of total projected premiums each year, consumers will save on average about **$235 million each year** between 2016 and 2019.

Unreasonable Rate Increases in California Health Insurance Markets

An analysis of recent rate filings in California's small group and individual health insurance markets gives another indication of the potential savings from Proposition 45. Under current law, the Department of Insurance and Department of Managed Health Care review rates and may negotiate with insurers, but do not have the power to block unjustified rates. According to an analysis by CALPIRG, nearly one million Californians were subjected to rate hikes that were "declared unreasonable but still went into effect"

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[12] We calculated a weighted average based on the number of enrollees in each plan using savings reported by the Oregon Insurance Division. Summary of 2012 rates available at: http://www.oregonhealthrates.org/files/rate_filling_history.pdf (we corrected some errors in the original).
OSPIRG's summary of Oregon's 2014 rate reductions is available at: http://ospirgfoundation.org/sites/pirg/files/reports/Accountability%20in%20Action.pdf

from May 2011 to November 2013.[13] These rate hikes account for over **$250 million** in projected increased premiums proposition 45 authorizes the insurance commission to block unreasonable rates.

Under current law, with only the authority of the bully pulpit, regulators were able to extract nearly $350 million in rate reductions on plans that covered an average 1.3 million policyholders per year. However, giving regulators the authority to reject an unjustified rate as proposed in Proposition 45, rather than settle for a number the health insurance company is willing to accept, would likely have resulted in significantly greater reductions in those rates as well.

Conclusion

In light of the projections discussed above, and California's recent experience with unreasonable health insurance rates, it is reasonable to estimate that Proposition 45 could save California consumers **235 million dollars or more each year** between 2016 and 2019, and possibly as much as $1 billion per year.

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[13] "*California Health Insurance Rate Review; An Analysis Of Implementation And Results For Consumers*" (April 2014) available at: http://www.calpirg.org/sites/pirg/files/reports/April%202014%20Brief%20on%20Rate%20Review%20FINAL.pdf
http://www.consumerwatchdog.org/resources/unreasonableratefilings-consumercost.xlsx_.pdf