Covered California: Competition in the Health Insurance Market?

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Health Care Market Competition
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Overview

- Covered California – California’s Health Insurance Marketplace
  - Governance and Structure
  - 2014 Enrollment and 2015 Enrollment to Date
  - Insurance Carriers and Market Share
  - Active Purchaser Model
  - Premium Rate Changes in 2015
  - Narrow Networks

- Covered California: The Impact of Provider and Health Plan Market Power on Premiums
  Forthcoming in the Journal of Health Politics, Policy and Law

- Six Takeaways
Covered California Governance and Structure

- Independent public entity within the State government with a 5-member Board
- All health plans offered through Covered California must cover the Essential Health Benefits
  - State law established the Kaiser Small Group HMO 30 as the benchmark plan in California
- Covered California and Medi-Cal use the same online system to determine eligibility and enroll consumers
  - System determines eligibility for and amount of premium assistance available through Covered California
- Small Business Health Options Program (SHOP)
  - Marketplace for small employers to purchase health insurance for employees
Covered California Active Purchaser Model

- Sets criteria for participating insurance carriers
- Selectively contracts with insurers
- **Negotiate with insurers** on premium rates, providers networks, and customer services for example
- To encourage entry, Covered California agreed to not allow new health plan entry to the marketplace between 2014 and 2017 unless the plans meet various selection criteria
  - Considering health plans that offer something new to the market such as expanded provider networks in a region with few health plans
  - Would consider entry of Medi-Cal Managed Care plans between 2014 – 2017
Covered California 2014 Enrollment

- Nearly **1.3 million Californians enrolled in coverage during the 2014 open-enrollment period**
  - Almost 20% of total marketplace enrollment nationwide
- More than **1.2 million were eligible for premium assistance** to help pay for health care coverage
- 11 health plan carriers were offered in 2014
  - Most health plan carriers offered several products (HMO, PPO, EPO) at various prices within each metal tier
- **2014 Enrollment by Metal Tier**
  - Platinum – 5%
  - Gold – 6%
  - Silver – 62%
  - Bronze – 26%
Covered California 2015 Enrollment

OPEN FORUM

Affordable Care Act made a difference for this San Franciscan

By Barack Obama | February 12, 2015 | Updated: February 12, 2015 9:17pm

- More than 290,000 new consumers applied for coverage through Covered California as of December 3, 2014
  - About 144,000 state residents selected a plan during the first month of the 2015 open enrollment period
- Covered California expects to enroll a total of 1.7 million people in 2015
  - 400,000 expected to enroll in 2015
## Covered California Insurance Carriers

<table>
<thead>
<tr>
<th>Insurance Carriers</th>
<th>Market Share in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anthem Blue Cross of California</td>
<td>30%</td>
</tr>
<tr>
<td>Blue Shield of California</td>
<td>27%</td>
</tr>
<tr>
<td>Health Net</td>
<td>19%</td>
</tr>
<tr>
<td>Kaiser Permanente</td>
<td>17%</td>
</tr>
<tr>
<td>L.A. Care Health Plan</td>
<td>3%</td>
</tr>
<tr>
<td>Chinese Community Health Plan</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Contra Costa Health Plan*</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Molina Healthcare</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Sharp Health Plan</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Valley Health Plan</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Western Health Advantage</td>
<td>&lt;1%</td>
</tr>
</tbody>
</table>

*Contra Costa Health Plan did not return to the market in 2015.
Covered California and the Individual Market

Premium Rate Increases

Covered California
4.2% weighted average increase in health plan premiums between 2014 and 2015

Individual Market
9.8% median rate increase in health plan premiums between 2011 and 2014
Some Insurance Carriers Offering Narrow Networks

- Narrow networks have a smaller number of providers (hospitals and doctors) that patients can choose from
  - Presumed to be lower cost, higher quality providers?
- The Department of Managed Health Care (DMHC) has received over 100 complaints each about Anthem and Blue Cross provider networks
- Covered California does not have a comprehensive provider directory – hard for consumers to compare networks
- Proposed policy: In 2016, Covered California would consider new market entrants in specified regions in which any part of that region has less than 3 carriers as an option for consumers
Addressing Narrow Networks

- The Department of Managed Health Care (DMHC) investigated Anthem and Blue Shield networks to search for potential law violations
  - More than 25% of physicians listed as participating in the plans’ directories were not taking Covered California patients or they were no longer at the location listed in the directory
- Governor Brown signed a bill (SB 964) in September 2014 that requires carriers to submit annual reports on provider networks to DMHC
- Class action lawsuits filed against Blue Shield and Anthem, filed in July and September 2014, due in part to inadequate physician and hospital networks
Covered California: The Impact of Provider and Health Plan Market Power on Premiums

Forthcoming in the Journal of Health Politics, Policy and Law

- Studying the impact provider (medical groups and hospitals) and health plan concentration on Covered California premium rates
- Analyzed data for **19 rating regions**
- Used premium rates for silver and bronze tiers
  - Made up 88% of total enrollment in 2014
  - Analyzed total premium rates without considering the amount of premium assistance available to consumers
  - Used premium rates for a 40-year-old individual
- Able to compare premium rates of different health plans because each plan in a metal tier has the same benefit design

Covered California: The Impact of Provider and Health Plan Market Power on Premiums

- To measure market concentration calculated the Herfindahl-Hirschman Index (HHI) to determine provider and health plan concentration
  - HHI is a measure of the degree of competition among companies within an industry
  - Defined as the sum of the squares of the market share of each the firms, and ranges on a scale from 0 to 10,000
- FTC uses a 2,500-point threshold HHI as one of the guidelines to indicate a highly concentrated market
- Moderately concentrated markets have an HHI between 1,500 and 2,500
**Selected Markets:** 2015 Average Premium Rates for Covered California Silver Health Plans for a 40-year-old Individual and Herfindahl-Hirschman Index (HHI)

<table>
<thead>
<tr>
<th>Rating Region</th>
<th>Average Silver Plan Total Premium</th>
<th>Medical Group HHI</th>
<th>Hospital HHI</th>
<th>Health Plan HHI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – Northern Counties</td>
<td>$327</td>
<td>669</td>
<td>5,574</td>
<td>8,363</td>
</tr>
<tr>
<td>3 – Greater Sacramento</td>
<td>$354</td>
<td>821</td>
<td>2,651</td>
<td>3,294</td>
</tr>
<tr>
<td>4 – San Francisco County</td>
<td>$387</td>
<td>1,306</td>
<td>1,398</td>
<td>2,304</td>
</tr>
<tr>
<td>6 – Alameda County</td>
<td>$360</td>
<td>613</td>
<td>965</td>
<td>3,405</td>
</tr>
<tr>
<td>11 – Central Valley</td>
<td>$303</td>
<td>159</td>
<td>2,437</td>
<td>4,005</td>
</tr>
<tr>
<td>12 – Central Coast</td>
<td>$339</td>
<td>190</td>
<td>2,606</td>
<td>4,314</td>
</tr>
<tr>
<td>15 – Los Angeles County</td>
<td>$255</td>
<td>155</td>
<td>149</td>
<td>2,880</td>
</tr>
<tr>
<td>16 – Los Angeles County</td>
<td>$278</td>
<td>155</td>
<td>149</td>
<td>2,300</td>
</tr>
<tr>
<td>18 – Orange County</td>
<td>$299</td>
<td>169</td>
<td>485</td>
<td>2,986</td>
</tr>
<tr>
<td>19 – San Diego County</td>
<td>$318</td>
<td>332</td>
<td>481</td>
<td>2,236</td>
</tr>
</tbody>
</table>
Covered California: The Impact of Provider and Health Plan Market Power on Premiums

Herfindahl-Hirschman Index (HHI) Medical Groups

Predicted Average Premium for a 40-Year-Old Individual in a Silver Plan

Adjusted $R^2$: 0.6052


Covered California: The Impact of Provider and Health Plan Market Power on Premiums

Herfindahl-Hirschman Index (HHI) of Hospitals

Sources: Authors’ calculations based on Covered California Health Insurance Companies and Plan Rates for 2015, July 31, 2014; United States Department of Labor, Bureau of Labor Statistics; American Hospital Association’s Annual Hospital Survey, 2010

### Covered California: The Impact of Provider and Health Plan Market Power on Premiums

Regression Coefficients Relating Logged Average Premium Rates for Covered California Silver Health Plans for a 40-year-old Individual to Health Plan HHI, Medical Group HHI, Hospital HHI and Average Monthly Wage

<table>
<thead>
<tr>
<th></th>
<th>Unadjusted Model</th>
<th>Wage-Adjusted Model</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Parameter</td>
<td>t-value</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.522</td>
<td></td>
</tr>
<tr>
<td>Health Plan HHI</td>
<td>-0.0122</td>
<td>-1.31</td>
</tr>
<tr>
<td>Medical Group HHI</td>
<td>0.0654</td>
<td>1.94&lt;sup&gt;c&lt;/sup&gt;</td>
</tr>
<tr>
<td>Hospital HHI</td>
<td>0.0722</td>
<td>1.98&lt;sup&gt;c&lt;/sup&gt;</td>
</tr>
<tr>
<td>Average Monthly Wage</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> = statistically significant at the 1% level using a two-tailed t-test. <sup>b</sup> = statistically significant at the 5% level using a two-tailed t-test. <sup>c</sup> = statistically significant at the 10% level using a two-tailed t-test.

6 Key Takeaways

1. Covered California enrolled **1.3 million people in 2014**
2. Expects to enroll a total of **1.7 million people in 2015**
3. Covered California consumers will see a **4.2% weighted average premium rate increase**, which was less than the 9.8% increase trend in the individual market
4. California regulators and the legislature are **monitoring narrow health plan networks** and Covered California is considering new market entrants
5. **Statistically significant positive relationship** between a measure of market concentration (HHI) of medical groups and hospitals and Covered California premium rates
6. Covered California may consider new market entrants in regions that have less than 3 carriers in 2016
Thank you!


Contact Information

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