STATE OF CALIFORNIA Dave Jones, *Insurance Commissioner*

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Senator Ed Hernandez
Chair, Senate Health Committee
State Capitol Room 4085
Sacramento, CA 95814

Re: SBX1-2 (Hernandez): Health Care Coverage – **Oppose unless Amended**

Dear Senator Hernandez:

The California Department of Insurance has been implementing important provisions of the Affordable Care Act (ACA) since its passage in 2010. While many important reforms are already in effect, some of the most important reforms come into effect on January 1, 2014. This bill puts many of the individual market reforms in the ACA into state law. These reforms include prohibiting insurers from denying coverage to people with pre-existing medical conditions, creating a guarantee issue and guarantee renewability system for the individual health insurance market, and restricting the factors used to determine health insurance rates to age, geography and family size.

Starting in 2014, pursuant to the federal Affordable Care Act (ACA), the price of health insurance and HMO plan premiums for those buying in the individual and small group markets may only vary by age, geographic region, family size (and if the state were to permit it, tobacco usage)[1]. The ACA requires each state to define "geographic rating areas" (PHSA §2701(a)(2)). These areas are to be used uniformly by all insurance companies and healthcare service plans in their pricing of individual and small group non-grandfathered health insurance policies and health plans.

Further, in a rule proposed on November 20, 2012, the Center for Medicare & Medicaid Services (CMS) detailed the requirement that a State establish at least one rating area based on the following geographic divisions: counties, three digit zip codes, or metropolitan statistical areas/nonmetropolitan statistical areas. The rule also allows for a state to propose other existing geographic divisions on which to base rating areas and a number of rating areas greater than seven for approval by CMS.[2] The flexibility granted by CMS to California to define the number of geographic rating areas based on California's unique geography and size is critical to protect consumers by minimizing premium increases attributable to the new uniform rating regions.

**The selection of geographic rating regions is one of the most significant choices the state has the authority to make that will impact the affordability of health insurance for consumers.** The number and location of geographic rating areas will have significant consequences for the price of health

[1] PHSA § 2701(a)(1)(A)
[2] PHSA § 147.102(b)

insurance and HMO plans for existing and new purchasers of health insurance and healthcare plans. The design of the geographic rating regions will play an important role in determining what level of premium "disruption" consumers' experience.

As the Legislature decides to establish the geographic rating areas in statute, CDI urges that a primary consideration must be to protect consumers by minimizing premium increases attributable to the new uniform rating regions. Currently, insurance companies and health plans set their own geographic rating areas. Changing from a wide range of company-determined rating areas to a single, uniform system could result in some consumers experiencing substantial premium increases due to differences in the characteristics of the respective geographic areas. This increase in premium due to re-arrangement of geographic rating areas is referred to euphemistically as "disruption".

**Analysis of Existing Rating Region Proposals**

CDI's actuarial staff has conducted an extensive analysis of the geographic rating area proposals using geographic rating data that we have collected from insurers and health plans. In addition to analyzing the 6-, 13-, and 19-region proposals, we have used the data to develop an 18-rating region structure that minimizes rate disruption. Below please find our analysis of each proposal to determine the maximum disruption that can be expected under each of those plans.

**The 6-region plan includes the following geographic regions:**

1. Northern: Monterey, San Benito, Kings, Tulare, Inyo, Mono, Tuolumne, Alpine, Calaveras, Amador, El Dorado, Placer, Nevada, Yuba, Sierra, Sutter, Yolo, Colusa, Lake, Mendocino, Glenn, Butte, Plumas, Lassen, Tehama, Humboldt, Trinity, Shasta, Del Norte, Siskiyou, and Modoc;
2. Valley: Fresno, Madera, Mariposa, Merced, Stanislaus, San Joaquin, Sacramento, Solano, Napa, Sonoma, San Luis Obispo, Kern, Santa Cruz, and Imperial;
3. Bay Area: Marin, Contra Costa, San Francisco, Alameda, Santa Clara, and San Mateo;
4. South Coast: Santa Barbara; Ventura; and Orange;
5. Los Angeles County; and
6. South: San Bernardino, Riverside, and San Diego.

**The six-region plan contained in SB X1- 2 (Hernandez) results in a maximum increase of 22.6% for consumers. The three regions that would see the most significant maximum premium increases include Northern (19%), Bay Area (22.6%), and Los Angeles (22.3%).**

**The 13-region plan in SB X1 -2 for use in 2015 includes the following geographic regions:**

1. Rural North/Sierra;
2. Wine Country;
3. Greater Sacramento Region;
4. Bay Area;
5. Monterey Bay;
6. Central Valley;
7. South Coast;
8. Southern Desert;
9. Los Angeles East;
10. Los Angeles West
11. Inland Empire;
12. Orange County; and
13. San Diego

**The 13-region plan results in a maximum increase of 25.1% for consumers. Three regions that would see the most significant maximum premium increases include Greater Sacramento (22.2%), Bay Area (21.5%), and Los Angeles West (25.1%).**

**The 19-region plan that was in last year's SB 961 (Hernandez) includes the following geographic regions:**

1. Rural North/Sierra
2. Wine Country
3. Greater Sacramento Region
4. San Francisco
5. Contra Costa
6. Alameda
7. Santa Clara 1
8. San Mateo
9. Monterey Bay
10. Central Valley North
11. Central Valley South
12. South Coast
13. Southern Desert
14. Kern
15. Los Angeles East
16. Los Angeles West
17. Inland Empire
18. Orange County
19. San Diego

**The 19-region plan contained in last year's SB 961 (Hernandez), which was vetoed by the Governor, results in a maximum increase of 25% for consumers. Three regions that would see the most significant maximum premium increases include Greater Sacramento (22.5%), Northern Central Valley (18.4%), and Los Angeles West (25%).**

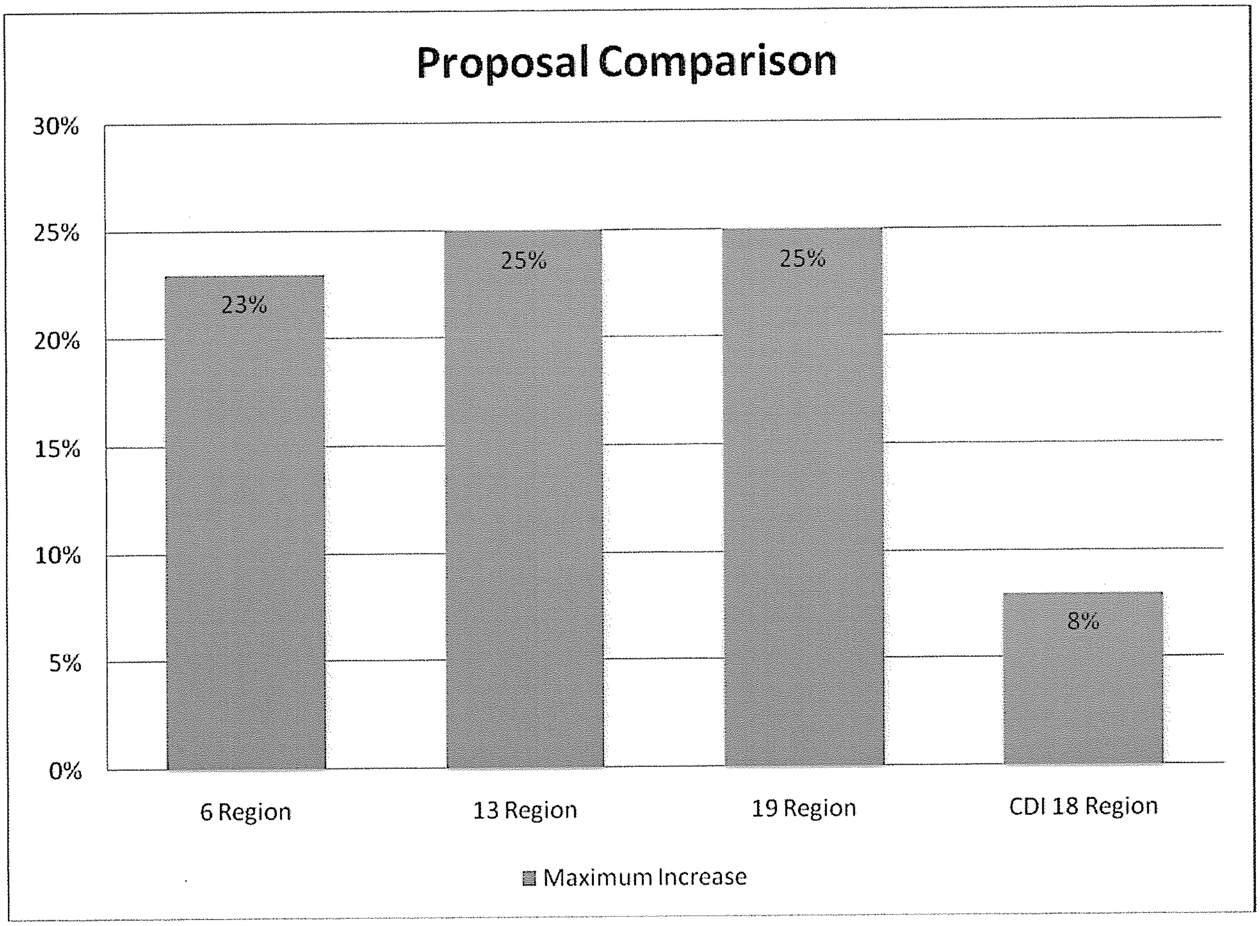
**CDI's 18-regions proposal includes the following geographic regions:**

1. Alameda, Contra Costa, Santa Cruz, and Santa Clara zip codes beginning with 940-943
2. Amador, Placer, Sacramento, El Dorado, Solano
3. San Diego
4. Butte, Del Norte, Humboldt, Lassen, Mendocino, Modoc, Nevada, Plumas, Shasta, Sierra, Siskiyou, Trinity,
5. Fresno, Merced, and San Benito
6. San Luis Obispo, Santa Barbara, Ventura, and Kern zip codes 933
7. Lake, Tehama, Yuba, Yolo, Colusa, Glenn, Sutter
8. Marin, San Francisco, San Mateo,
9. Los Angeles zip codes 90247-51, 90260-61, 90274-75, 905-912, 915, 917, 918, and 935, Orange zip codes 906-907
10. Los Angeles all other zip codes not listed above
11. Alpine, Inyo, Mono
12. Monterey
13. Orange zip codes not found in region 9, Imperial, Riverside, San Bernardino
14. San Joaquin, Stanislaus
15. Kings, Tulare, and Kern zip codes not listed in region 6
16. Santa Clara zip codes not listed in area 1
17. Calaveras, Tuolumne, Mariposa, Madera
18. Napa, Sonoma

**The 18-region CDI plan results in a maximum increase of only 8% for consumers. We expect to see the most significant maximum premium increases in Regions 4 (8%), 17 (6.7%) and 7 (6.7%).**

**Analysis**

Below please find a chart displaying the differences between the maximum premium increases for each rating region proposals.




CDI's health actuaries utilized existing geographic rating data to perform our analysis of the existing proposals. Because of our access to this data from the major HMOs and PPOs doing business in California, CDI was able to systematically parse geographic regions to minimize disruption. When compared to maximum premium increases of 22.6%, 25.1%, and 25% for the 6, 13, and 19 rating region proposals, respectively, we have concluded that our 18-rating region proposal would best minimize premium disruption in the marketplace by reducing it to a maximum of 8%.

CDI believes that the 6, 13, and 19 rating region proposals are unnecessarily and excessively disruptive and should not be adopted. Please remember that many policyholders will also see an increase in their health insurance premiums once the age bands and age factors are determined (as well as the family size factors). And some will see an increase because of the essential health benefits benchmark plan selected by the Legislature. Any premium increases associated with changes in the geographic rating regions are in addition to age factors and family size and the definition of essential health benefits.

If the Legislature approves the geographic rating regions in this bill or the 19 regions in last year's vetoed bill, the result will be premiums increases for individuals and families in multiple regions of

California in excess of 20% based solely on geography. I urge you to amend this bill to use the 18 geographic rating region proposal detailed above which minimizes rate shock and prevents rate increases of up to 25% based upon geography alone.

Thank you for your consideration of this critically important issue. If you have any questions, please feel free to contact me or Janice Rocco, Deputy Commissioner at (916) 492-3500.

Sincerely,

Dave Jones

**DAVE JONES**
Insurance Commissioner

cc: Members Senate Health Committee
Katie Trueworthy, Senate Health Committee