PUBLIC MEETING PRESCRIPTION DRUG COSTS & LARGE GROUP HEALTH INSURANCE RATES

RICARDO LARA

CALIFORNIA INSURANCE COMMISSIONER

March 14, 2019

WELCOME

AND

INTRODUCTORY REMARKS

RICARDO LARA

CALIFORNIA INSURANCE COMMISSIONER

March 14, 2019

IMPACT OF PRESCRIPTION DRUG COST ON HEALTH INSURANCE PREMIUMS SB 17

CALIFORNIA DEPARTMENT OF INSURANCE

MARCH 14, 2019

Insurers submitting data under SB 17

Aetna Life Ins Co

Anthem Blue Cross Life and Health Ins Co

Blue Shield of CA Life and Health Ins Co

Cigna Health and Life Insurance Co

Health Net Life Ins Co

Kaiser Permanente Ins Co

National Health Ins Co

Nippon Life Ins Co of America

United Healthcare Ins Co

What Insurers Reported

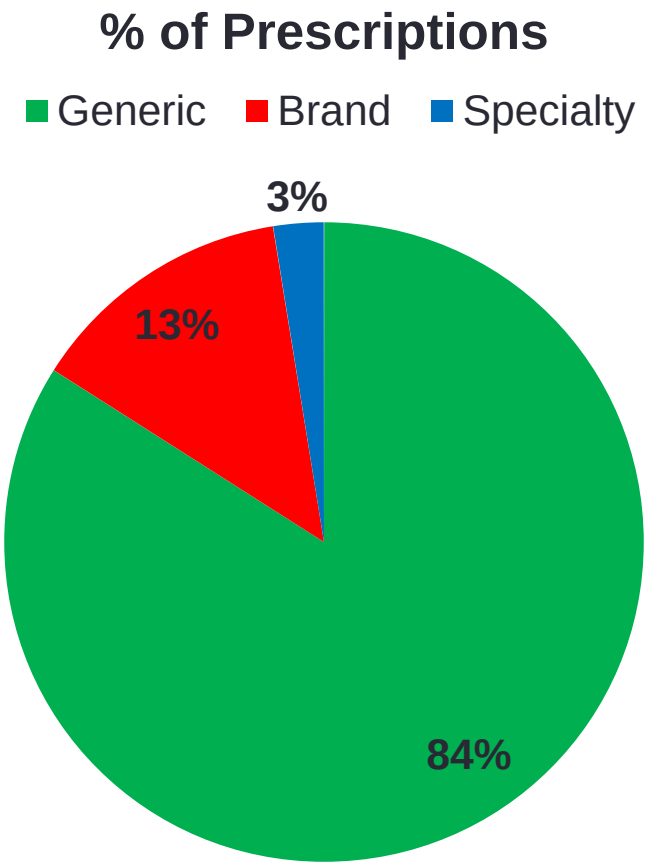
- **Outpatient prescription drugs in the following drug categories: generic, brand name, and specialty.**
- **In each of the three drug categories insurers reported:**
  - **the 25 most frequently prescribed drugs**
  - **the 25 most costly drugs by total annual plan spending (including member cost-sharing), and**
  - **the 25 drugs with the highest year-over-year increase in total annual plan spending (including member cost-sharing).**

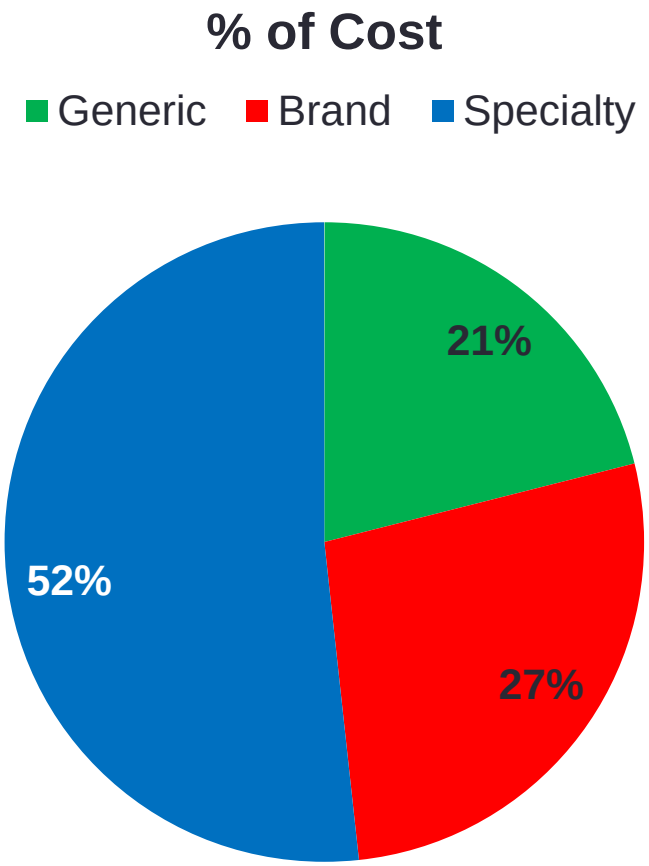
Full Report Available at:
www.insurance.ca.gov
search for
"Prescription Drug Premium Impact"

Definitions

- **Generic Drug:** A generic drug is bioequivalent to an already marketed brand name drug in dosage, form, safety, strength, route of administration, quality, performance characteristics, and intended use.
- **Brand Name Drug:** Medications protected by patents.
- **Specialty Drug:** A drug with a insurer-negotiated monthly cost that exceeds the threshold for a specialty drug under the Medicare Part D program (Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Public Law 108-173)). In 2018, the threshold amount is $670 for a one-month supply.

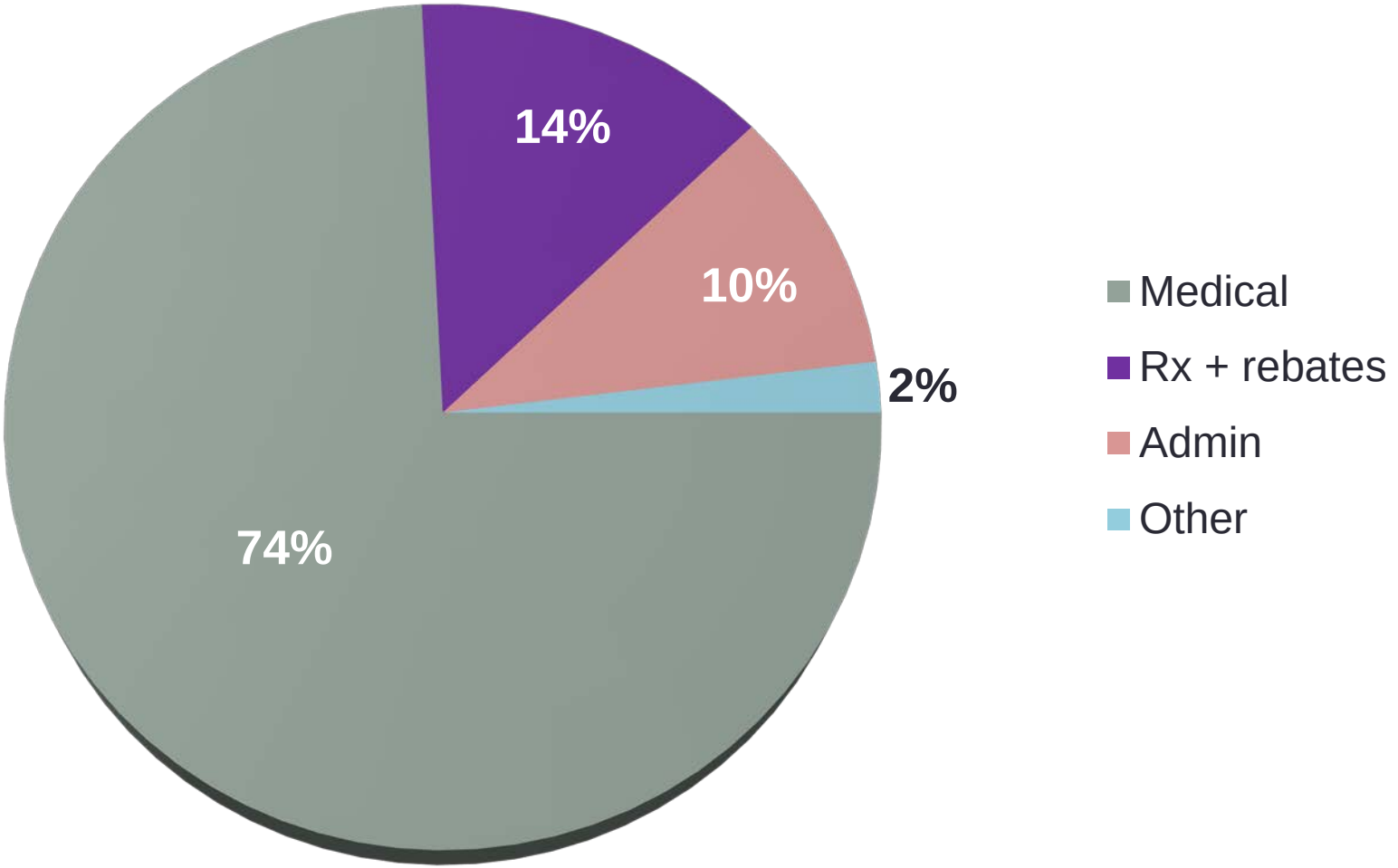
Cost and Utilization – 2017 Calendar Year





- *Generic drugs comprise 84% of prescriptions and 21% of spending*
- *Specialty drugs comprise 3% of prescriptions and 52% of spending*

Costs in Relation to Premiums – 2017 Calendar Year



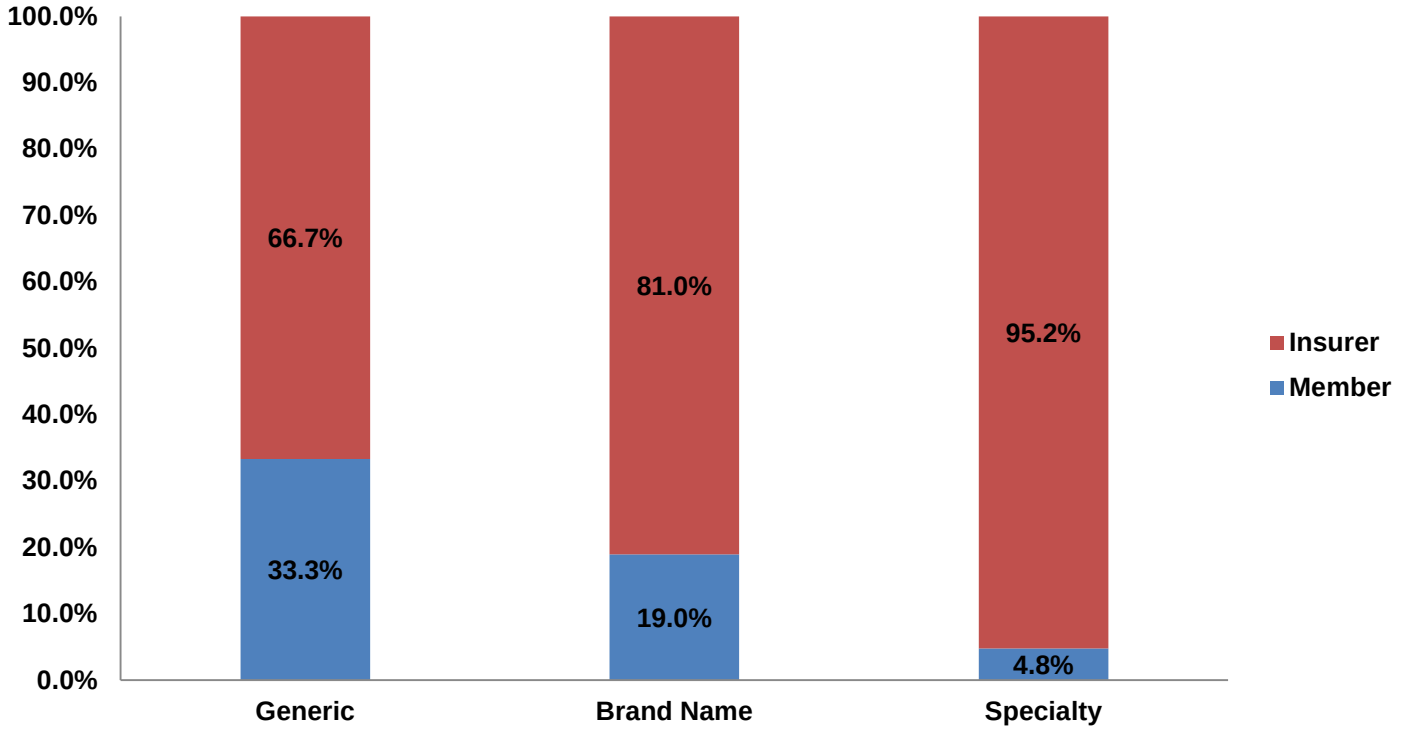
Manufacturer Drug Rebates

- **In 2017, Manufacturer drug rebates to California health insurers accounted for**
  - **approximately $186.2 million, or**
  - **approximately 17.17% of the $1.05 billion spent by health insurers on prescription drugs**

Manufacturer Drug Rebates

- Related concerns:
  - Prices set in anticipation of rebate
  - Rebating encourages use of brand & specialty drugs, at the expense of generic drugs
    - Rebating can affect tier placement

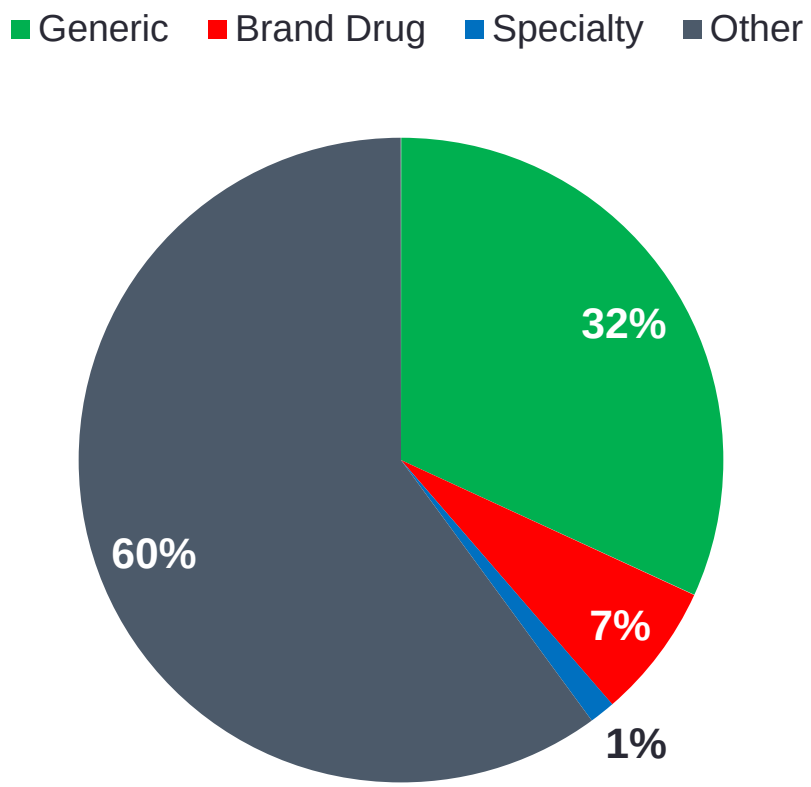
Member Cost Sharing Per Script – 2017 Calendar Year



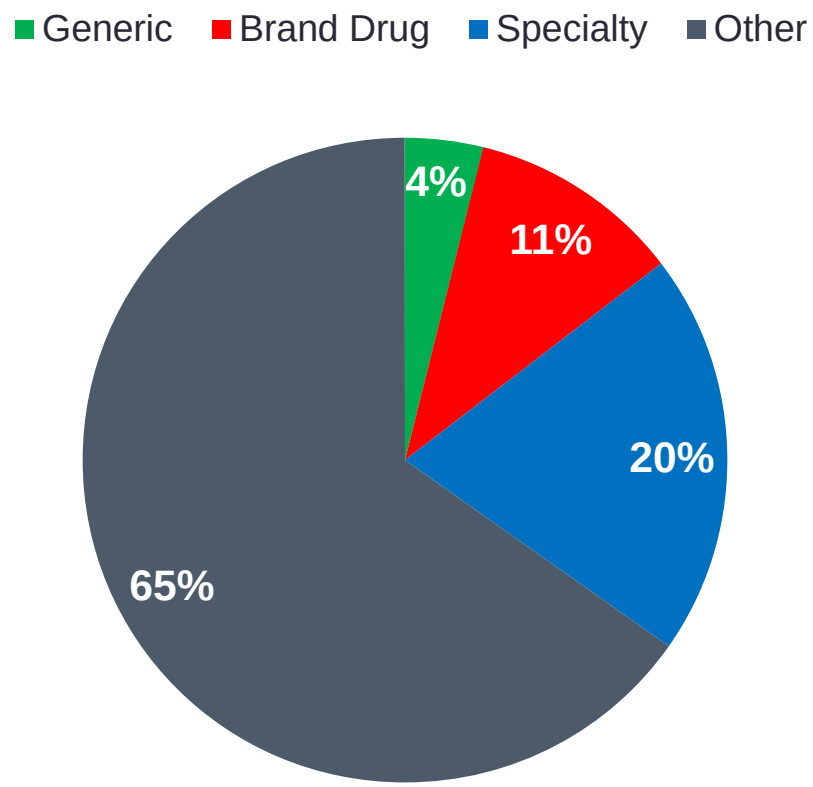
	Generic	Brand Name	Specialty
Total Cost/Script	$29.22	$236.35	$2,361,16
Member Cost Sharing	$9.74	$44.80	$113.03

25 Most Frequently Prescribed – 2017 Calendar Year

% of All Prescriptions



% of Total Cost



Other: all generic, brand name, and specialty drugs outside the 25 most frequently prescribed.

Most frequently prescribed: Generic

1	ATORVASTATIN CALCIUM (Lipitor)	Lowers LDL Cholesterol, triglycerides
2	LEVOTHYROXINE SODIUM (Synthroid)	Treats underactive thyroid (hypothyroid)
3	LISINOPRIL (Zestorectic)	ACE inhibitor: Treats hypertension, CHF

Most frequently prescribed: Generic

4	AMYLODIPINE BESYLATE (Norvasc)	Calcium channel blocker, treats HTN, angina
5	AZITHROMYCIN (Zithromax, Z-Pak)	Antibiotic (strep, pneumonia, middle ear infections)
6	AMOXICILLIN (Amoxil)	Broad-spectrum Antibiotic

Most frequently prescribed: Brand

1	LEVOTHYROXINE SODIUM (Synthroid)	Treats underactive thyroid (hypothyroid)
2	ALBUTEROL (Proair)	Inhaled beta-2-agonist, treats bronchospasm in asthma, COPD
3	ALBUTEROL (Ventolin)	Inhaled beta-2-agonist, treats bronchospasm in asthma, COPD

Most frequently prescribed: Brand

4	LISDEXAMPHETAMINE (Vyvanse)	Treats ADHD, binge-eating disorder
5	NORETHINDRONE, ETHINYL ESTRADIOL (Lo Loestrine FE)	Oral contraceptive
6	ETONOGESTEREL, ETHINYL ESTRADIOL (NuvaRing)	Contraceptive vaginal ring

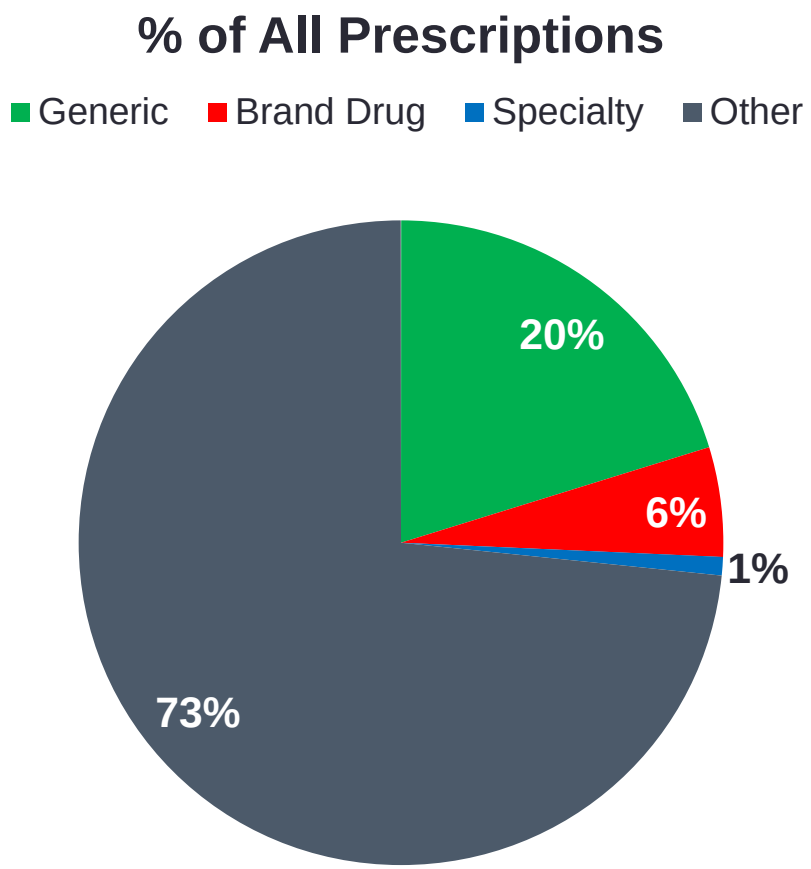
Most frequently prescribed: Specialty

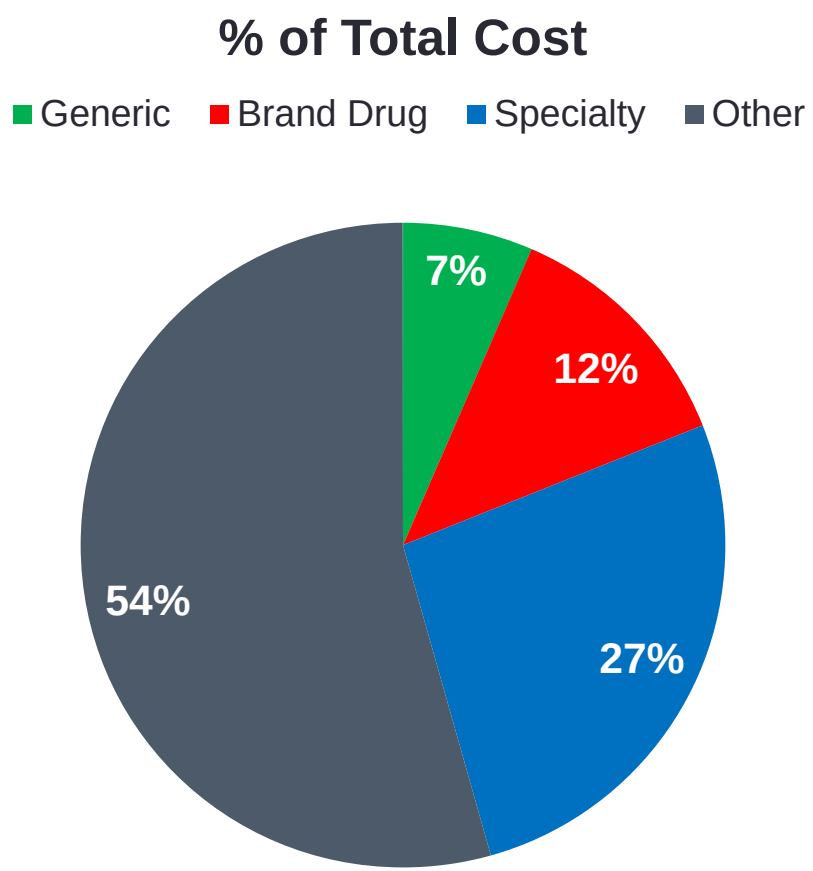
1	EMTRICITABINE & TENOFOVIR (Truvada)	Treats HIV infection, PrEP
2	ADALIMUMAB (Humira)	Immunosupressive: arthritis, plaque psoriasis, Chron's, ulcerative colitis
3	INSULIN LISPRO (Humalog)	Insulin analog

Most frequently prescribed: Specialty

4	LIRAGLUTIDE (Victoza)	Improved blood sugar control in adult type 2 diabetes (sq injection)
5	TESTOTERONE GEL (AndroGel)	Topical testosterone replacement gel
6	DULAGLUTIDE (Trulicity)	Improved blood sugar control in adult type 2 diabetes (sq injection

25 Most Costly – 2017 Calendar Year





- *Other: all generic, brand name, and specialty drugs outside the 25 most frequently prescribed.*
- *The 25 most costly specialty drugs comprise less than 1% of prescriptions and constitute more than 26% of annual spending.*

Most Costly: Generic

(by total annual prescription drug spending)

1	ARIPIPRAZOLE (Abilify and others)	Treats schizophrenia, bipolar disorder, depression, Tourette syndrome
2	ATORVASTATIN CALCIUM (Lipitor)	Lowers LDL Cholesterol, triglycerides
3	ROSUVASTATIN (Crestor)	Lowers LDL Cholesterol, triglycerides

Most Costly: Generic

(by total annual prescription drug spending)

4	LEVOTHYROXINE SODIUM (Synthroid)	Treats underactive thyroid (hypothyroid)
5	DEXTROAMPHETAMINE SULFA(Dexedrine)	Treats ADHD, narcolepsy
6	CLOBETASOL PROPIONATE (Temovate)	Topical cream, treats eczma, psoriasis, topical allergic reactions

Most Costly: Brand

(by total annual prescription drug spending)

1	LISDEXAMPHETAMINE (Vyvanse)	Treats ADHD, binge-eating disorder
2	INSULIN LISPRO (Humalog)	Insulin analog
3	Fluticason & Salmeterol (Advair)	Inhaled steroid and beta-2-agonist, treats asthma, COPD

Most Costly: Brand

(by total annual prescription drug spending)

4	SITAGLIPTIN (Januvia)	Blood glucose regulation in adult type 2 diabetes (oral)
5	CANAGLIFLOZIN (Invokana)	Blood glucose regulation in adult type 2 diabetes (oral)
6	RIVAROXABAN (Xarelto)	Anticoagluant. Reduces stroke risk in atrial fibrillation, also treatment of DVT, PE

Most Costly: Specialty

(by total annual prescription drug spending)

1	ADALIMUMAB (Humira)	Immunosupressive: arthritis, plaque psoriasis, Chron's, ulcerative colitis
2	ETANERCEPT (Enbrel)	Treats rheumatoid arthritis, psoriatic arthritis
3	EMTRICITABINE & TENOFOVIR (Truvada)	Treats HIV infection, PrEP

Most Costly: Specialty

(by total annual prescription drug spending)

4	USTEKINUMAB (Stelara)	Immunosupressive: arthritis, plaque psoriasis, Chron's, ulcerative colitis
5	GLATIRAMER (Copaxone)	Treats relapsing-remitting multiple sclerosis
6	LEDIPASVIR, SOFOSBUVIR(Harvoni)	Treats Hepatitis C infection

PRESENTATION

Joan Allen

Government Relations Advocate

SEIU-UHW

HEALTH INSURANCE RATE DRIVERS

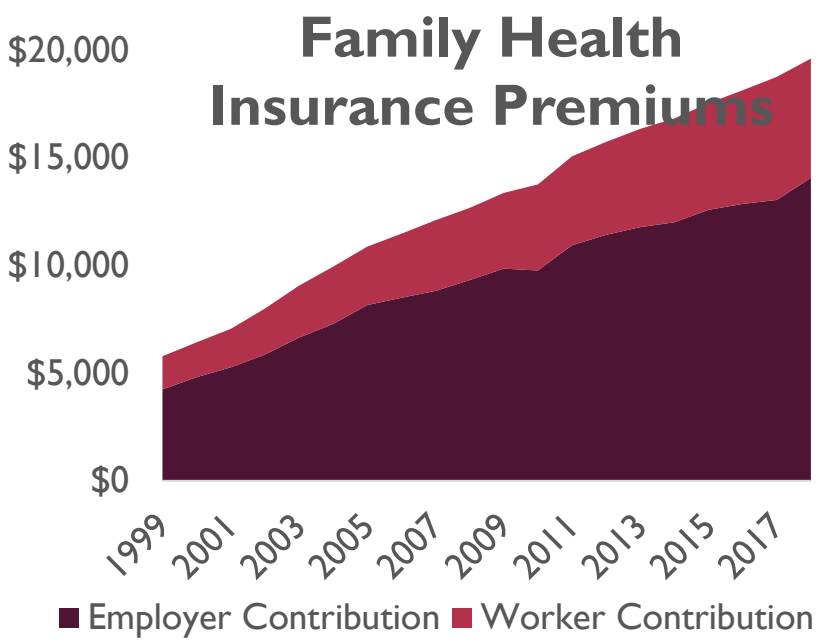
SEIU-UHW

MARCH 14, 2019

RISING HEALTH INSURANCE COSTS

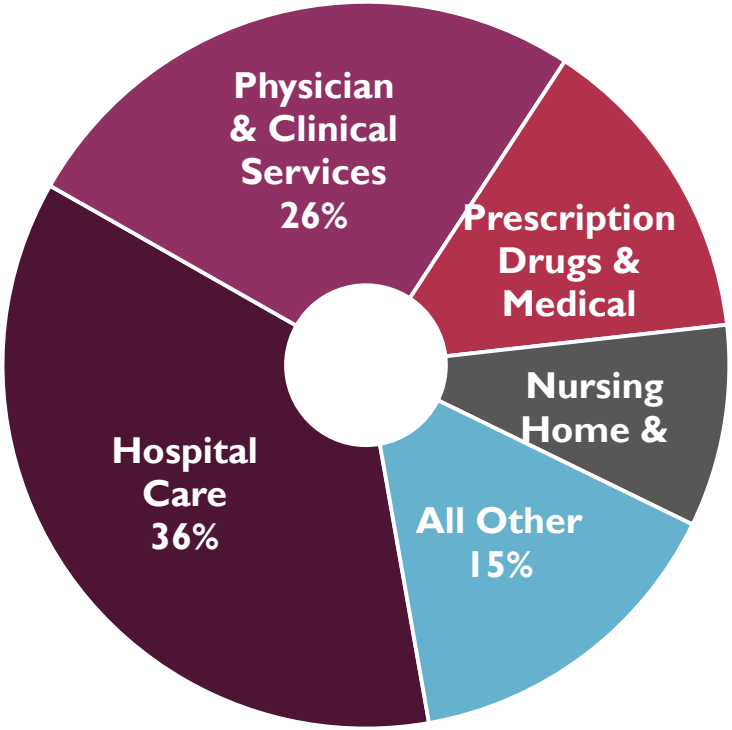
Costs increasingly shifting onto workers

- Workers' share of premiums outpacing wage growth
- Deductibles increasing
- Other out-of-pocket spending increasing



CALIFORNIA HEALTH CARE SPENDING

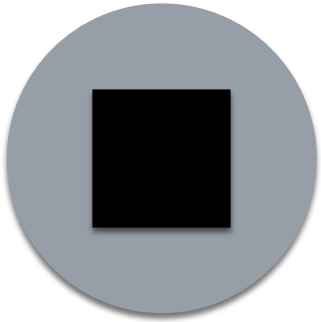
- Rising health insurance rates are primarily driven by rising provider costs
- Not all of that money goes toward improving patient care



COST DRIVERS THAT DON'T ADD BENEFIT FOR PATIENTS OR

MARKET CONSOLIDATION AND MANIPULATION

UNDUE FINANCIAL INTEREST



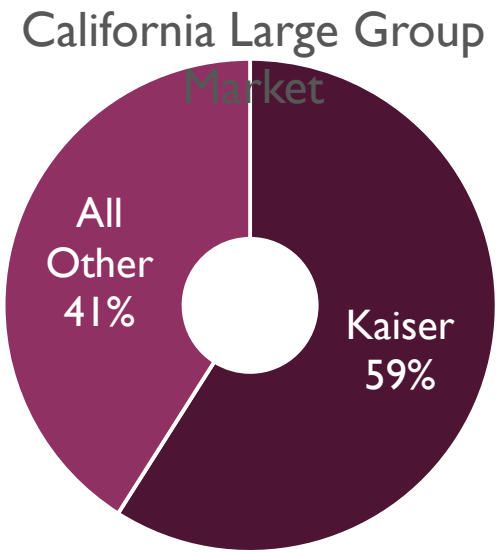
LACK OF TRANSPARENCY

CASE STUDY 1:
KAISER PERMANENTE

- Controls 59% of the large group market
- Consistently high profit and reserves
- Lack of transparency limits insight into cost drivers

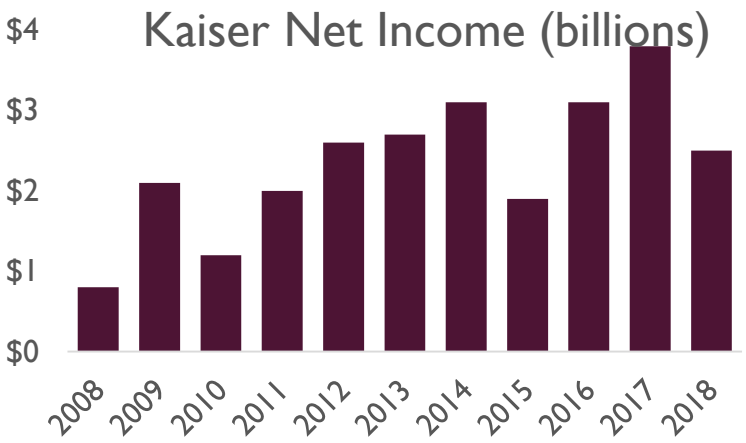
KAISER:
MARKET CONSOLIDATION

- 1/4 of all Californians are Kaiser enrollees
- Business model focuses on large group market
  - 5 million large group enrollees
  - Large group market share has grown steadily in recent years, up from about 41% in 2011



KAISER:
UNDUE FINANCIAL INTEREST

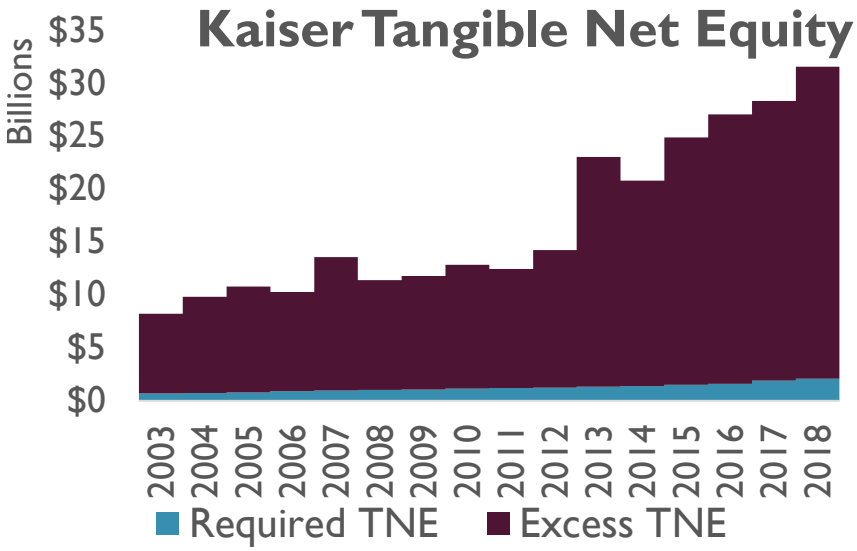
- Consistently high annual profit
  - Rate increase driven by price, not utilization
  - Potential shadow pricing
- Executive compensation (2016)
  - 30 executives made over $1 million in total compensation and benefits
  - CEO Bernard Tyson's total compensation and benefits was more than $10 million



KAISER:
UNDUE FINANCIAL INTEREST

Kaiser holds $31.5 billion in tangible net equity (TNE)

- 15 times more TNE than required by DMHC
- Largest % increase in TNE over the past 15 years of any full service health plan
- TNE far exceeds other health insurance plans

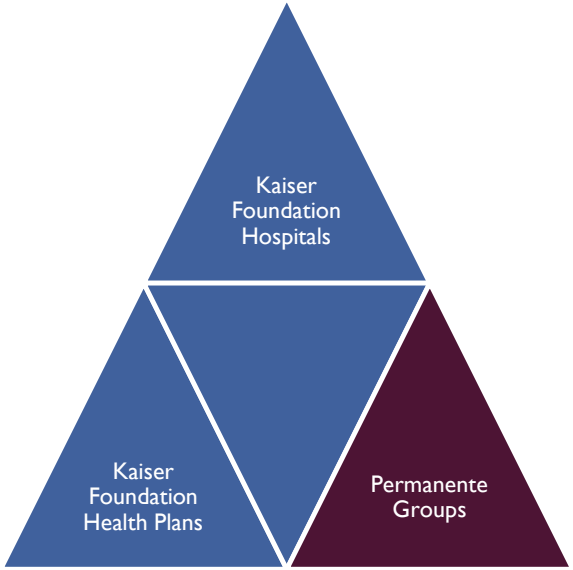


KAISER:
LACK OF TRANSPARENCY

For-profit Permanente Medical Groups are exempt from nearly all disclosure including:

- Executive compensation
- Profit
- Cost and utilization

This part of Kaiser's business is basically a black box to the public



KAISER:
LACK OF TRANSPARENCY

Incomplete OSHPD data

- The only system permitted to report certain financial and utilization data to OSHPD in aggregate rather than at the facility level
- Reporting aggregated data for Northern and Southern California

All other hospitals report the following to OSHPD

- Net income
- Net patient revenue
- Operating expenses
- Operating margin
- Salaries and wages
- Employee benefits
- Revenue by payor

KAISER:
LACK OF TRANSPARENCY

Incomplete SB 546 data:

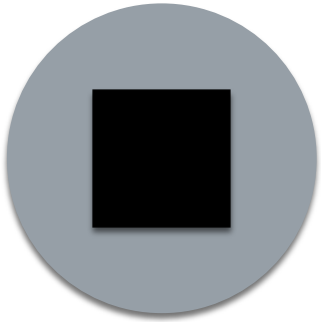
- Kaiser is exempt from reporting projected medical trend to the same level as other insurers
- Kaiser only reports on inpatient and prescription drug trend when reporting data to DMHC – other data elements are not broken out

	CDI	DMHC
Physician/other professional services	6.1%	Not broken out
Hospital Outpatient	6.1%	Not broken out
Laboratory	6.1%	Not broken out
Radiology	6.1%	Not broken out

CASE STUDY 1:
KAISER PERMANENTE- SUMMARY

¼ CALIFORNIANS

MORE THAN $11 BILLION IN PROFIT THE LAST 4 YEARS



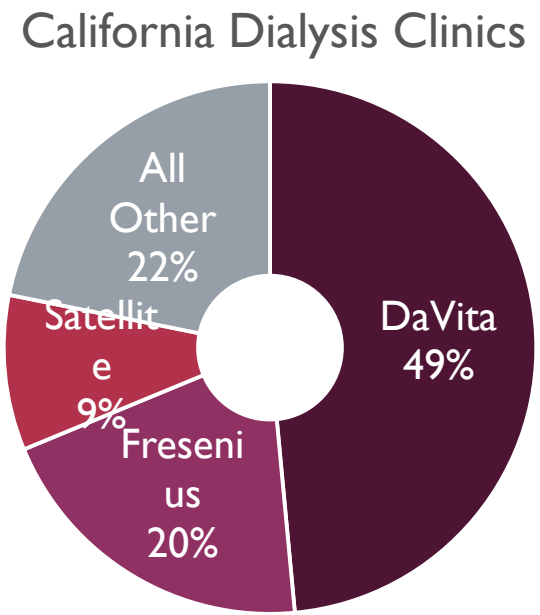
LACK OF TRANSPARENCY HIDES COST DRIVERS

CASE STUDY 2: OUTPATIENT DIALYSIS

- Market power drives commercial reimbursement
- Indirectly paying patients' premiums drives insurance underwriting losses
- Lack of transparency hides financial relationships from patients and insurance companies

OUTPATIENT DIALYSIS: MARKET CONSOLIDATION

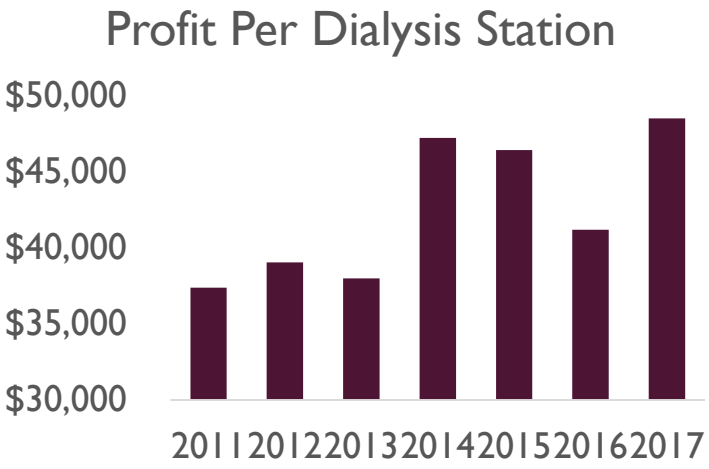
- 69% of California dialysis clinics are owned by 2 companies
- Commercial rates 3-4 times the cost of providing care
- Network adequacy requirements give dialysis companies unusual negotiating power



OUTPATIENT DIALYSIS: UNDUE FINANCIAL INTEREST

California dialysis clinics are very profitable

- $556 million in profit (2017)
- 138% profit growth since 2010
- 18% average profit margin (2017)



OUTPATIENT DIALYSIS: UNDUE FINANCIAL INTEREST

Dialysis companies give hundreds of millions of dollars to a nonprofit that pays insurance premiums for their own patients

- Each patient can drive $250,000 in underwriting losses
- Damages risk pool
- Other providers using same scheme

	Medicare	Commercial
Revenue per Treatment	$250	$1,000
Treatments per Year	156	156
Annual Dialysis Cost	$39,000	$156,000
Other Annual Medical Costs	$71,000	$106,500
Total Annual Medical Costs	$110,000	$262,500
Annual Premiums		$10,000
Annual Underwriting Loss		**-$252,500**

OUTPATIENT DIALYSIS: LACK OF TRANSPARENCY

Lack of disclosure to health insurance plans

- Payments hidden by use of debit cards given to patients

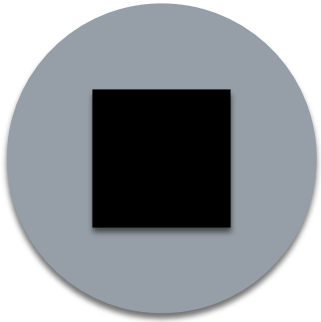
Lack of disclosure to patients

- May not understand additional costs
- May not be told about all treatment and coverage options
- Not told about financial relationships that impact their treatment and coverage

CASE STUDY 2: OUTPATIENT DIALYSIS- SUMMARY

CONSOLIDATED MARKET LEADS TO HIGHER PRICES

18% PROFIT MARGIN DRIVEN BY QUESTIONABLE PRACTICES



LACK OF DISCLOSURE TO PATIENTS AND INSURANCE PLANS

AB 290 (Wood)

Will remove financial incentive for providers like dialysis companies to pay premiums for their own patients

SB 343 (Pan)

Will increase health care data transparency by removing Kaiser's exemptions to data reporting

QUESTIONS?

PUBLIC COMMENTS

RICARDO LARA

CALIFORNIA INSURANCE COMMISSIONER

ANALYSIS OF SB 546 LARGE GROUP RATE DATA FILINGS

PREPARED BY
THE CALIFORNIA DEPARTMENT OF INSURANCE
PRESENTED BY
LAN BROWN • BRUCE HINZE
MARCH 14, 2019

What is “Large Group”?

Large Group = Employer with more than 100 employees

CDI does not have rate review or approval authority

California Health Insurance Rate Review – Legal Authority Comparison of Market Segments

	Individual/Small Group	Large Group
Prior approval?	**No**	**No**
Specific rates submitted?	Yes	**No, aggregate only**
Before implementation?	Yes	**No**
Determine if rates unreasonable?	Yes	**No**
Specific rate filings public?	Yes	**No**

CDI Regulated Insurers

Aetna Life Ins Co

Anthem Blue Cross Life and Health Ins Co

Blue Shield of CA Life and Health Ins Co

Cigna Health and Life Insurance Co

Health Net Life Ins Co

Kaiser Permanente Ins Co

National Health Ins Co

Nippon Life Ins Co of America

United Healthcare Ins Co

Insurer Data Submissions Available at:

www.insurance.ca.gov

search for

"Large Group Rate"

Large Group Aggregate Rate Submissions

Section 10181.45 of the California Insurance Code requires health insurers to annually submit information to the California Department of Insurance (the Department) for all large group insurance policies. Unlike rate filings required for small group and individual policies, where insurers file each rate the the department, for large group policies the law requires one submission from each insurer that shows their weighted average increase. Increases for specific policies are not available. Below please find the filings submitted to the Department.

Large Group Rate Increase Submissions							
	2016		2017		2018		
Insurer	Annual Aggregate Rate Data	Historical Data	Annual Aggregate Rate Data	Historical Data	Annual Aggregate Rate Data	Historical Data	Prescription Drug Cost Reporting
Aetna Life Insurance Company	PDF	PDF	PDF	PDF	PDF	PDF	PDF

RICARDO LARA
INSURANCE COMMISSIONER
California Department of Insurance

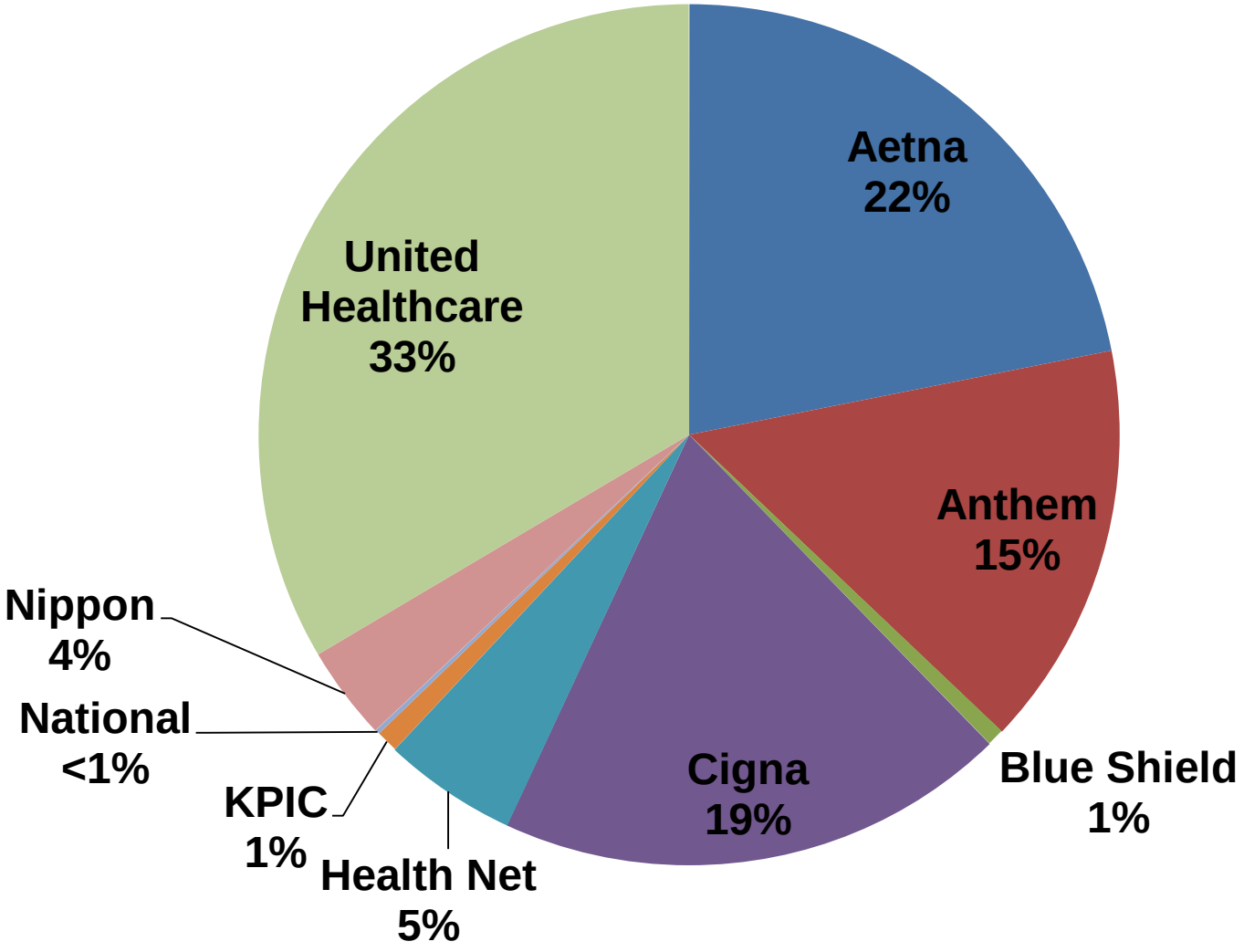
California Health Insurance Enrollment, 2017

- **In 2017, California health insurers provided coverage to 33.1 million enrollees in total:**
  - **Individual insured plans: 2.2 million**
  - **Small group insured plans: 2.3 million**
  - **Large group insured plans: 9.6 million**
  - **Medicare: 2.5 million**
  - **Medi-Cal and other public plans: 10.7 million**
  - **Self-insured plans: 5.7 million**

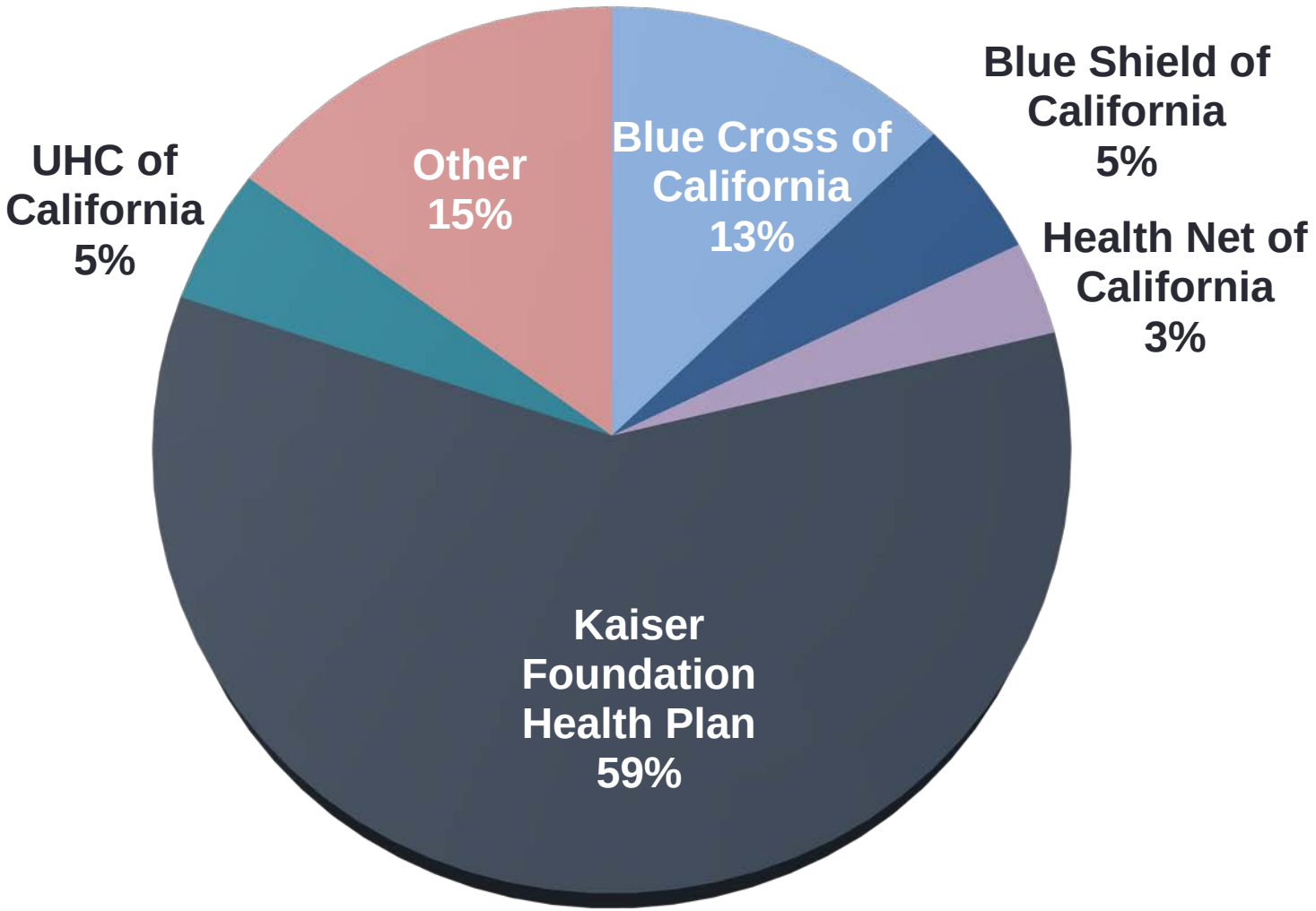
Data from California Health Care Foundation report for 2017 (most recent year available)

2018 Large Group Market Share within CDI (covered lives)

Total Covered Lives ~ 644,000



2018 CDI and DMHC Combined Large Group Market Share (covered lives)



Total covered lives ~ 8,550,000

Rate Development Process

Health insurance companies use estimated future claim costs, administrative expenses and margin to develop rates

Claim Costs

- The amount the company expects to pay for health care services and goods.

Administrative Expenses

- Cost of administering a health plan; includes:
  - salaries of health insurer employees;
  - costs to maintain the claim payment systems;
  - costs to manage the provider networks;
  - marketing and commissions

Taxes and Fees

- State premium tax, income tax, and fees

Margin

- Risk margin and profit

Rate Development Process – Cont'd

The main difference in the rate development process for <u>large</u> employers tends to be in how the future claim costs are estimated

Claim Costs

Experience Rated

Reflect fully the group's experience

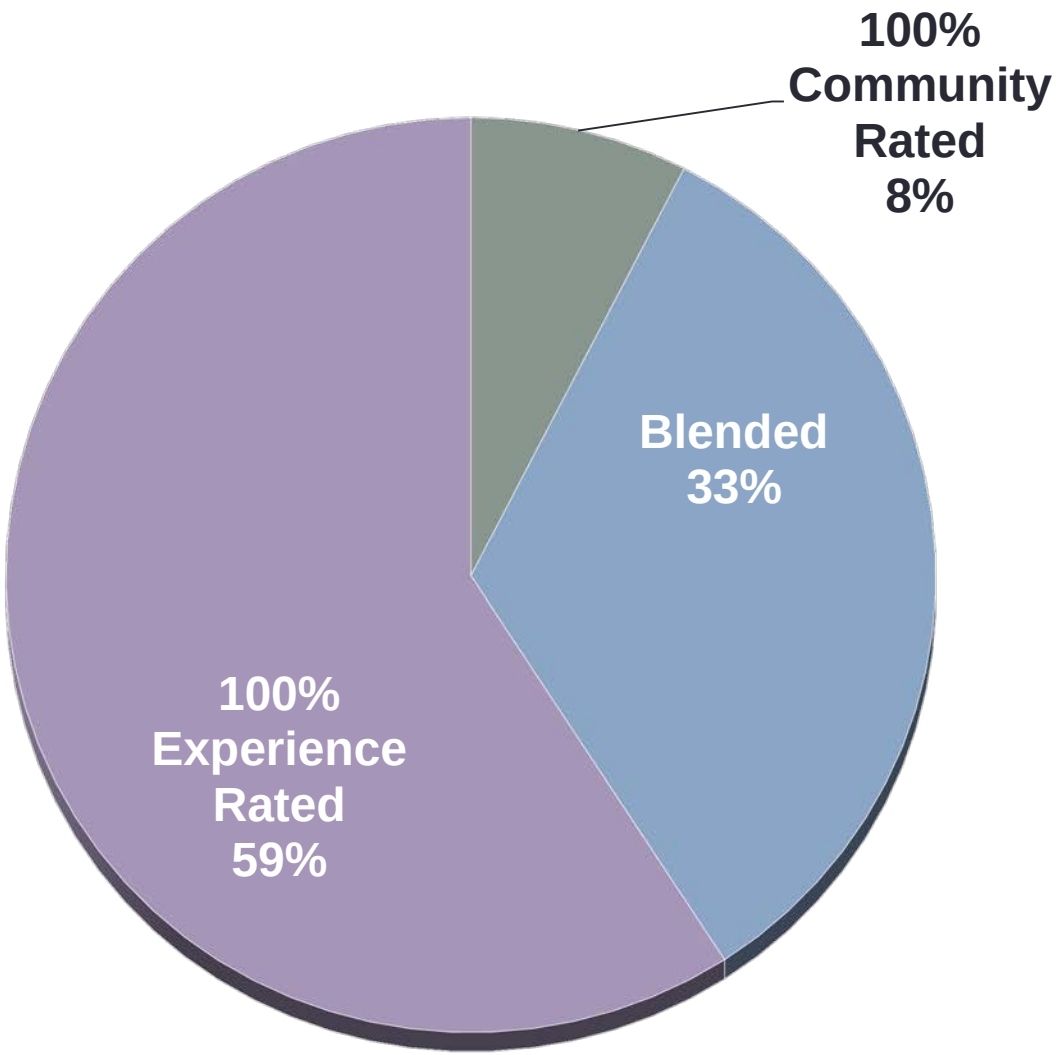
Community Rated

Based on manual rates/community rates, but reflect the group's risk characteristics

Blended

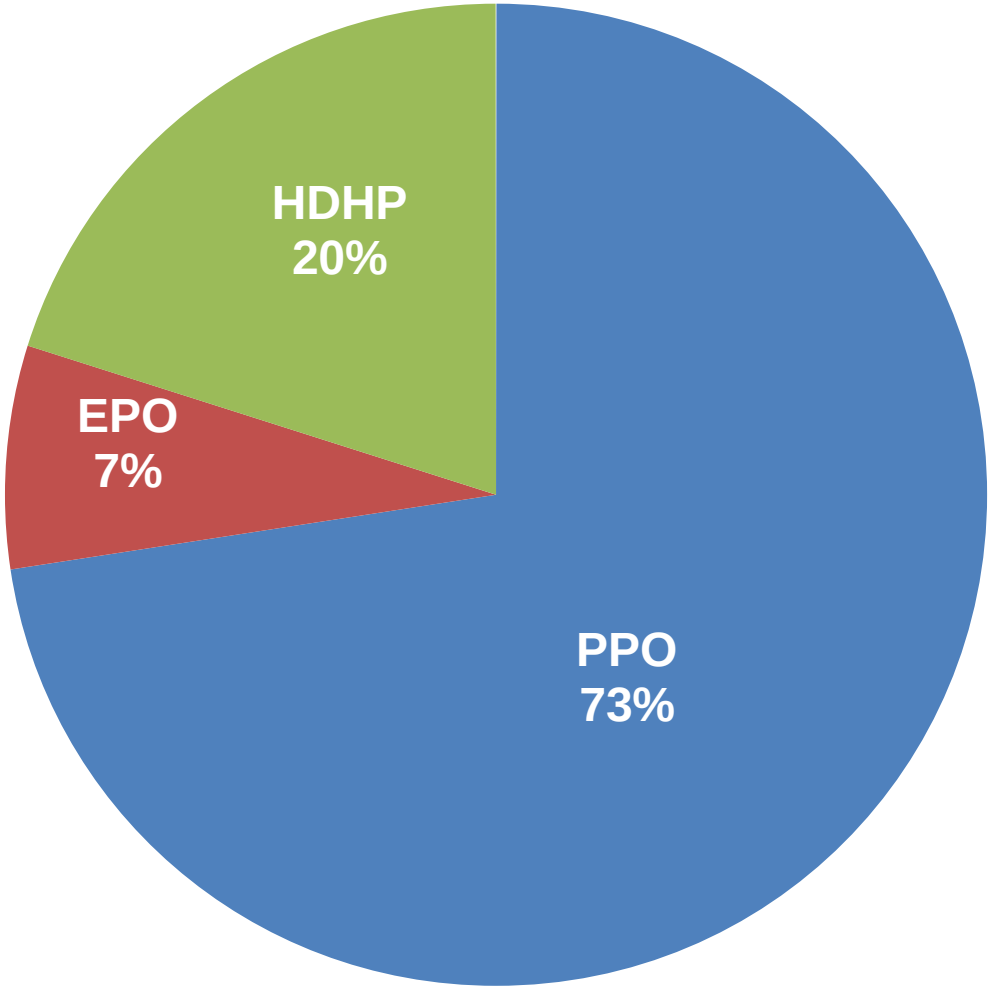
Weighted average, depending on the credibility criteria and group size

2018 Rating Method - All Insurers

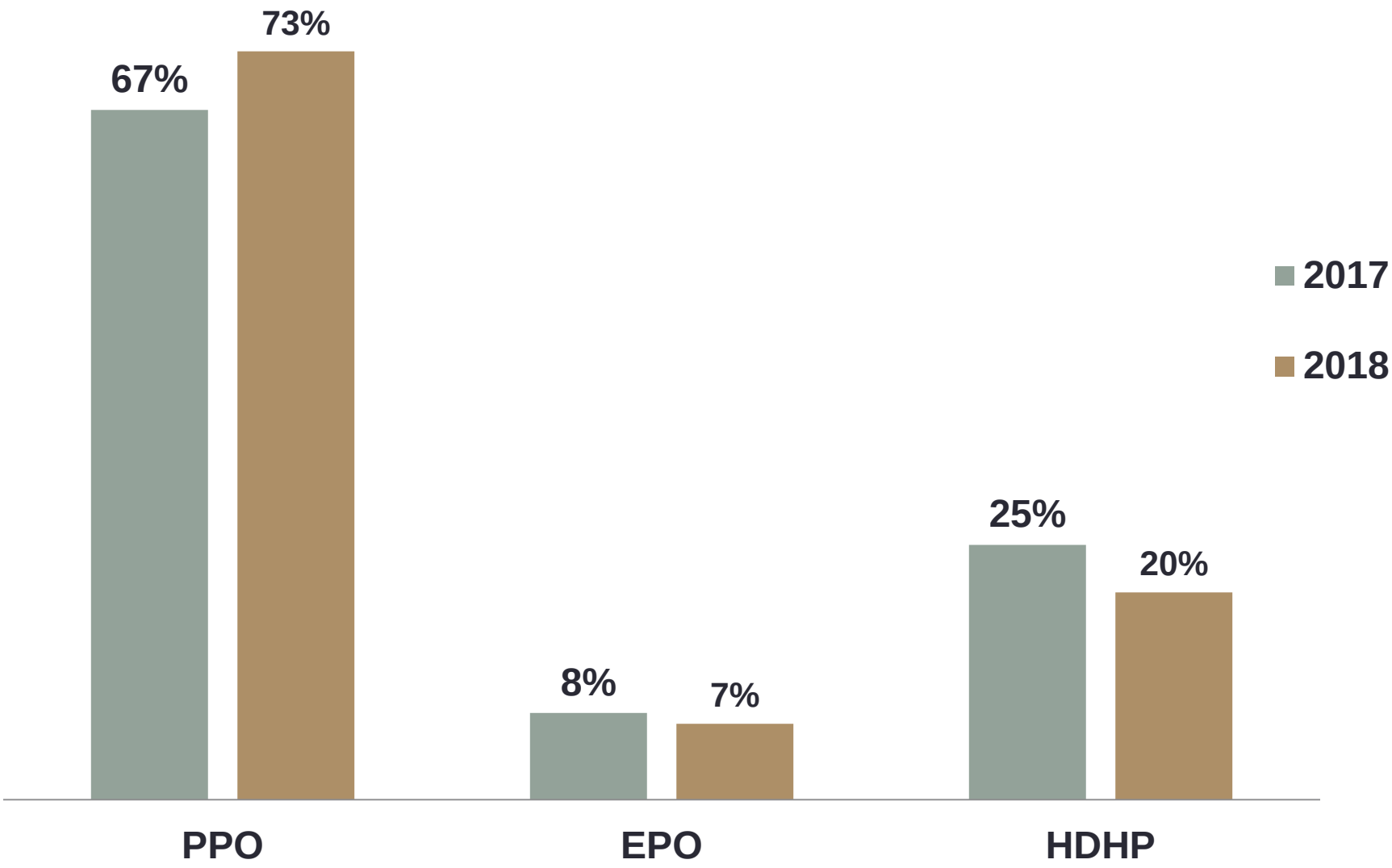


Total covered lives ~ 644,000

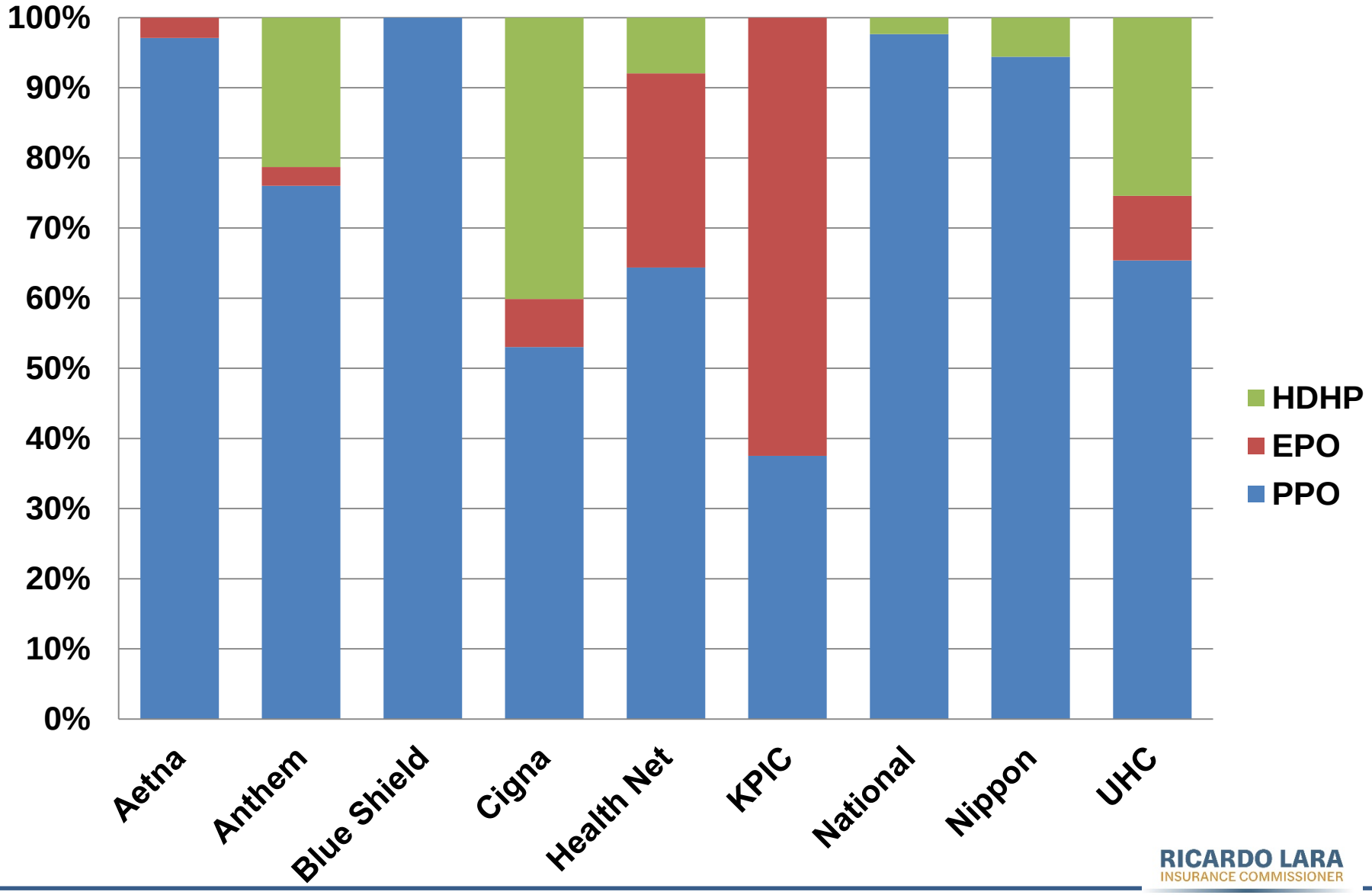
2018 Product Type



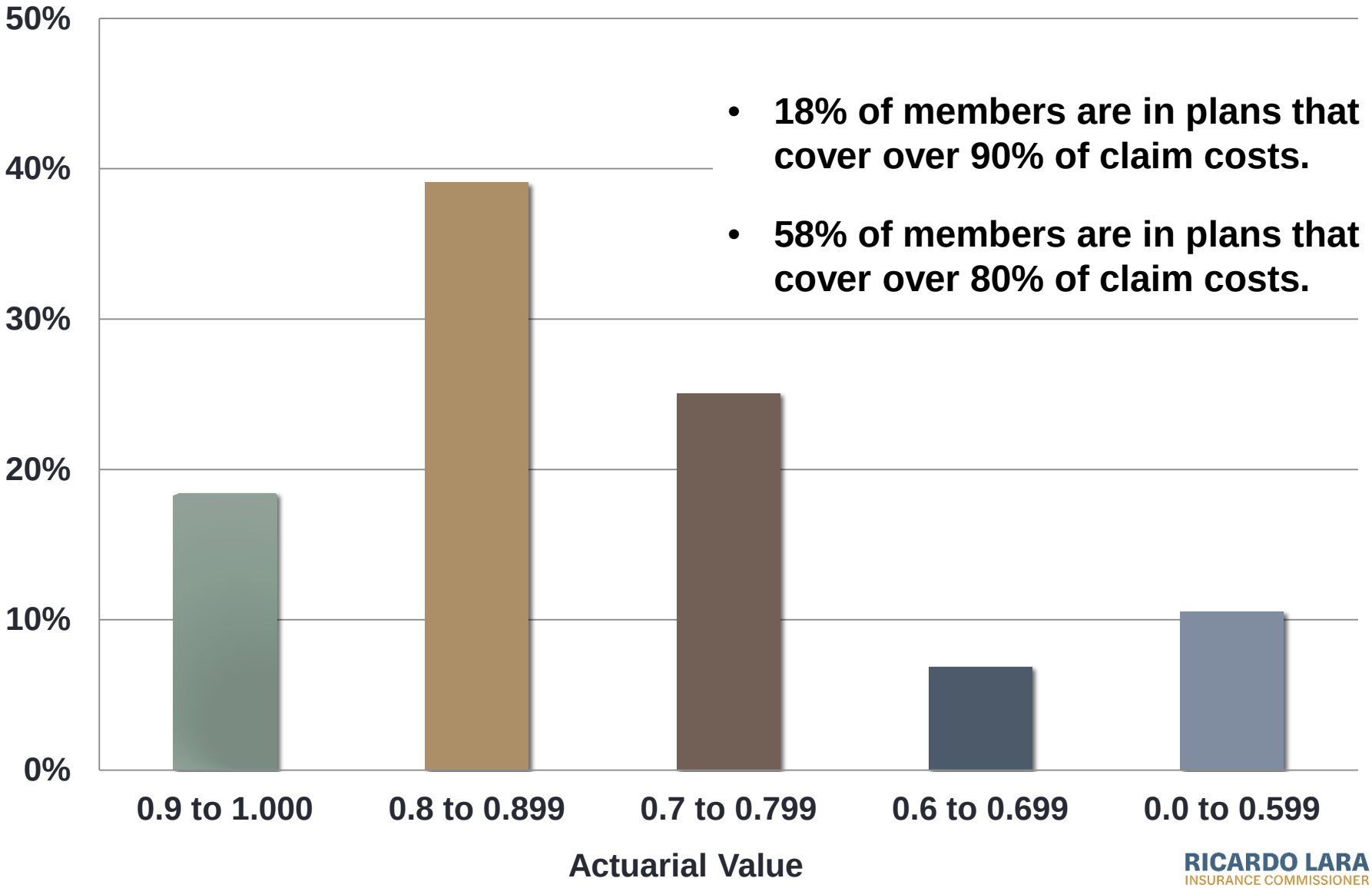
Change in Product Mix



2018 Product Type by Insurer

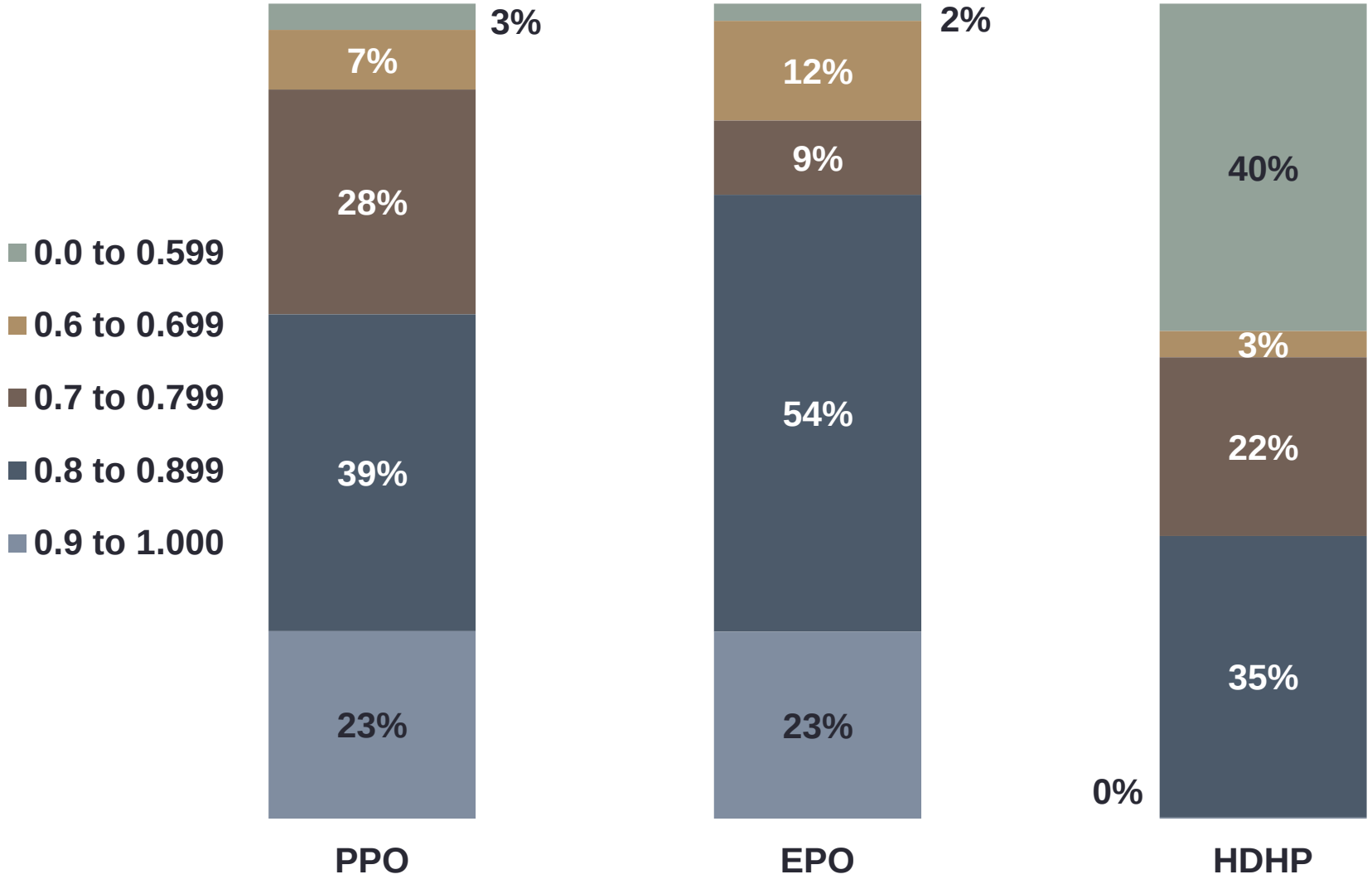


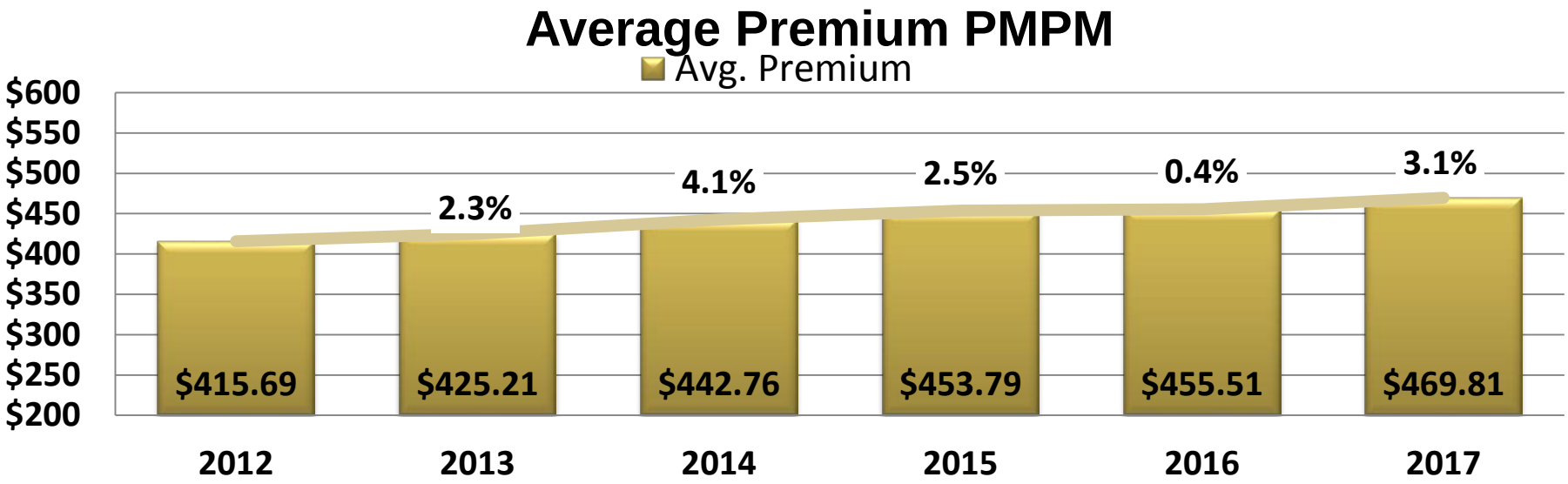
2018 Market Share by Actuarial Value (AV)

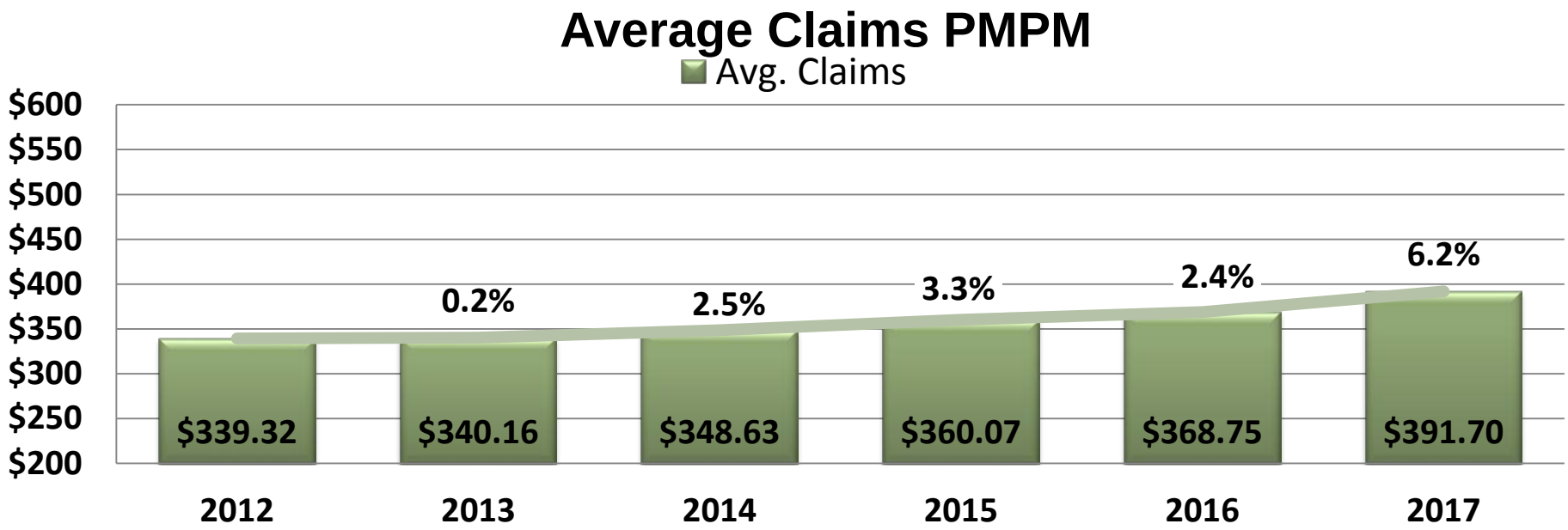


- 18% of members are in plans that cover over 90% of claim costs.
- 58% of members are in plans that cover over 80% of claim costs.

2018 AV by Product Type







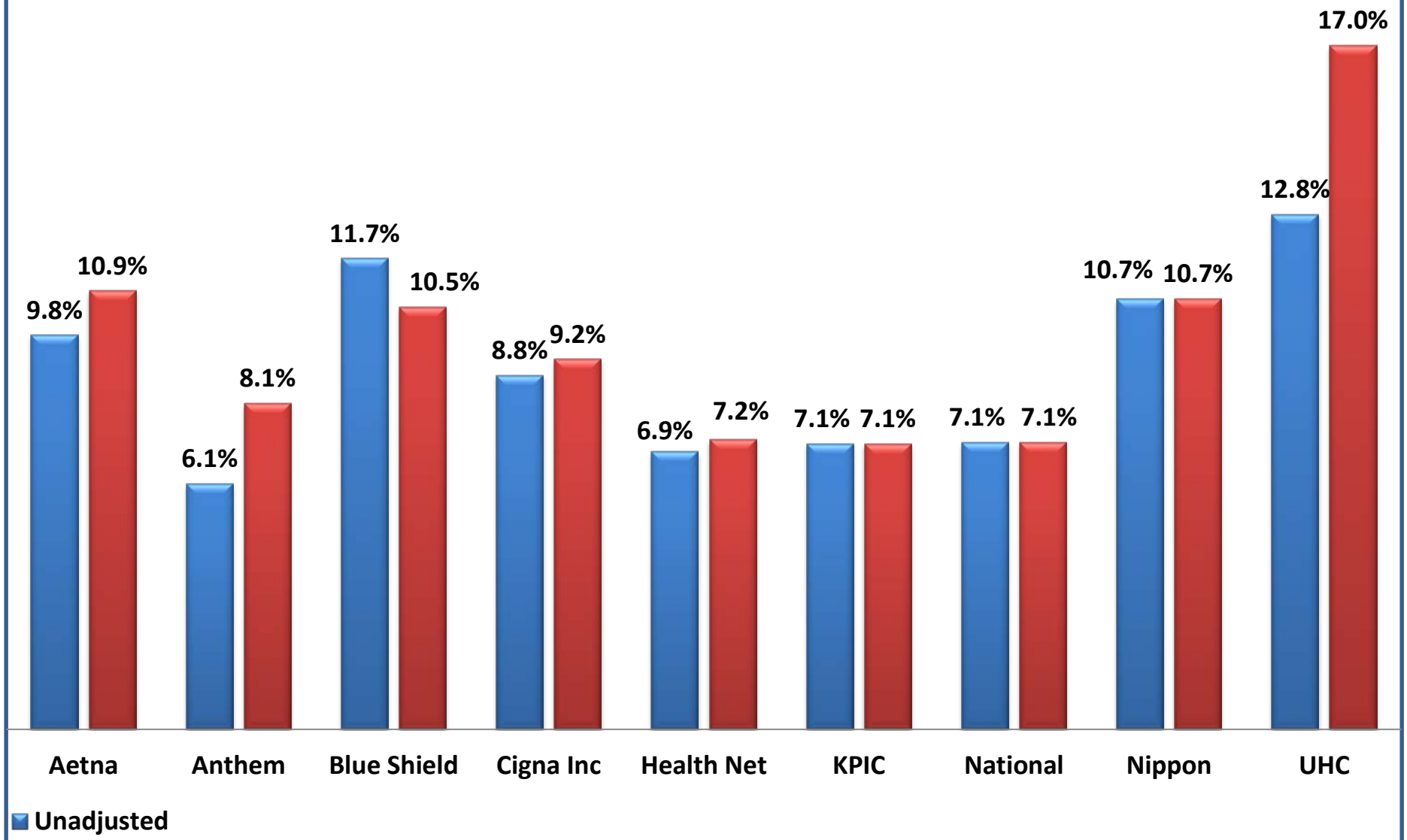
**** Small Group definition changed effective 1-1-2016 to include employers with 51-100 employees.***

Average Premium Increase Covered California and CalPERS

Health Insurers are required to include information in their notice of premium rate change indicating whether the rate change is greater than the average increase for Covered California and CalPERS.

Year	Covered California	CalPERS
2018	21.1%	2.3%
2019	8.7%	1.2%

Weighted Average Annual 2018/2017 Rate Increase



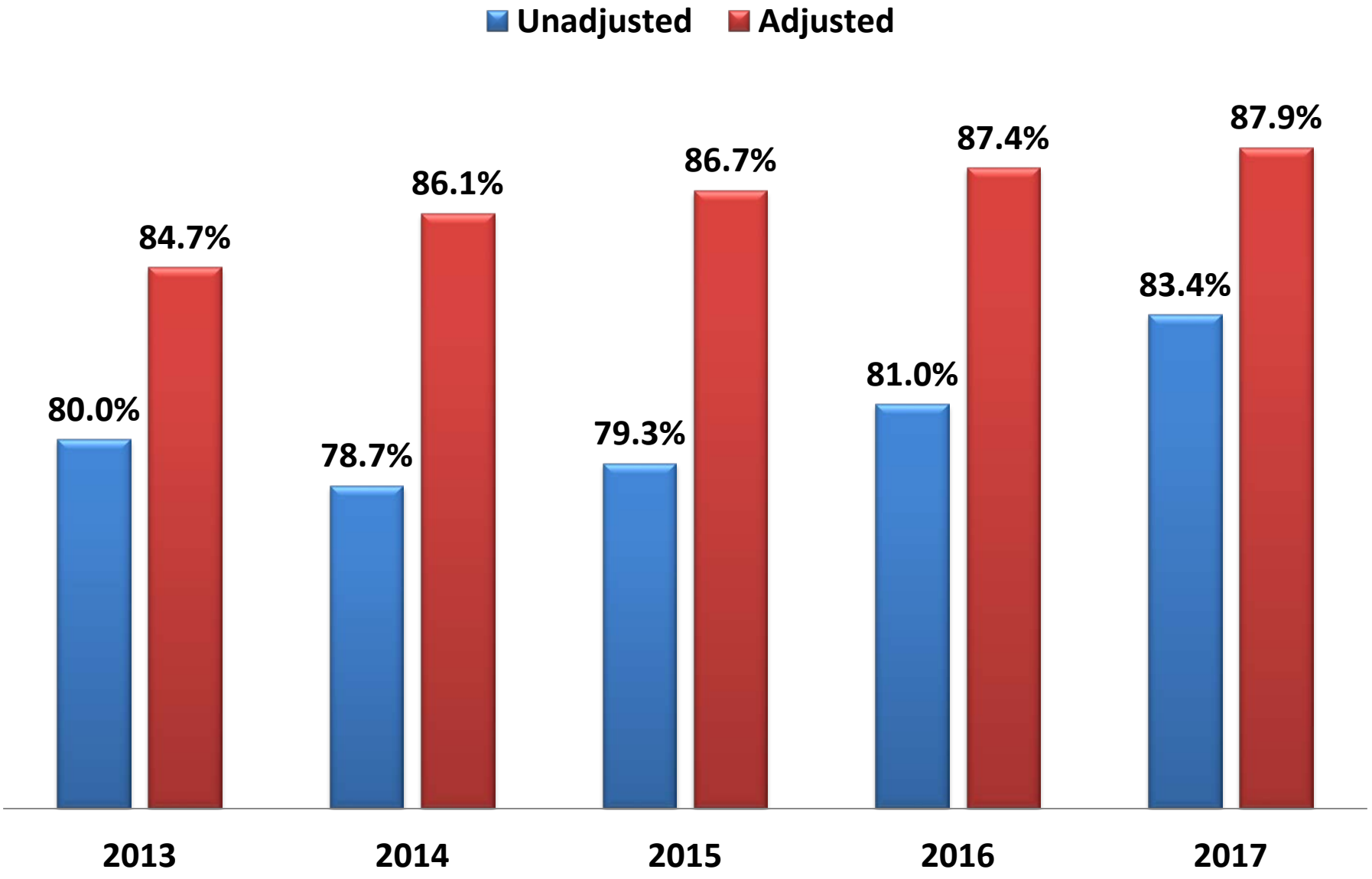
Weighted Average Annual Rate Increase (unadjusted)

Company	2017 Reporting Year	2018 Reporting Year
Aetna	9.5%	9.8%
Anthem	5.9%	6.1%
Blue Shield	6.8%	11.7%
Cigna	8.2%	8.8%
Health Net	4.2%	6.9%
KPIC	2.4%	7.1%
National	7.4%	7.1%
Nippon	6.4%	10.7%
UnitedHealthcare	9.4%	12.8%

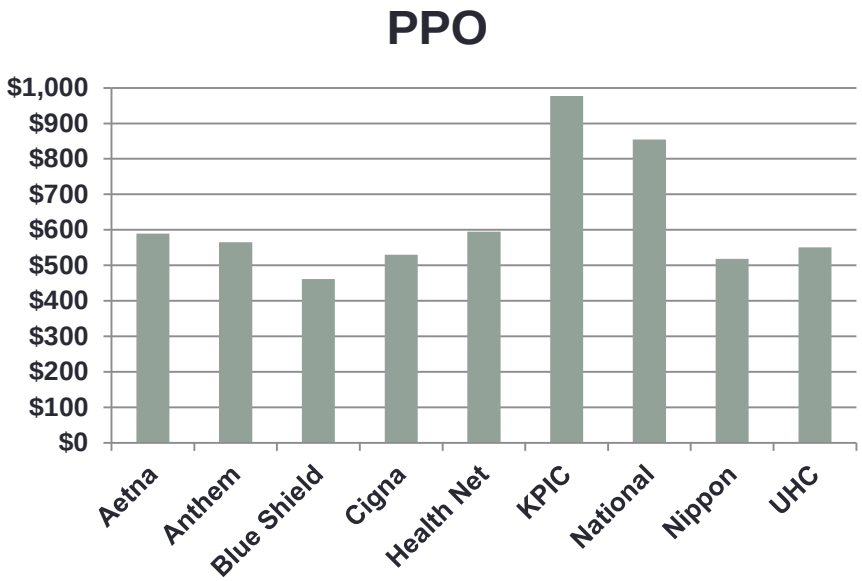
Rate Changes by Product Type

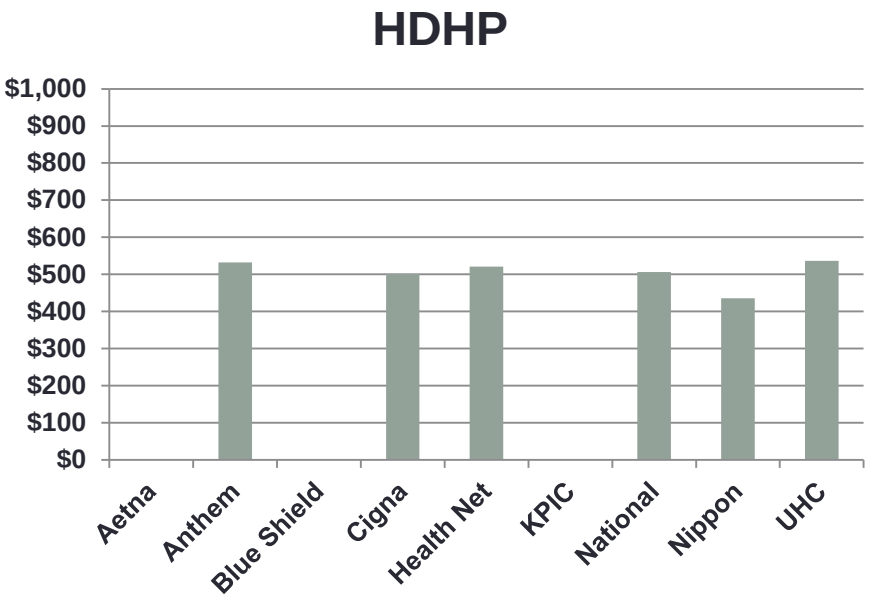
Product Type	2017 Reporting Year	2018 Reporting Year
PPO	8.0%	9.7%
EPO	5.5%	8.3%
HDHP	8.9%	10.8%

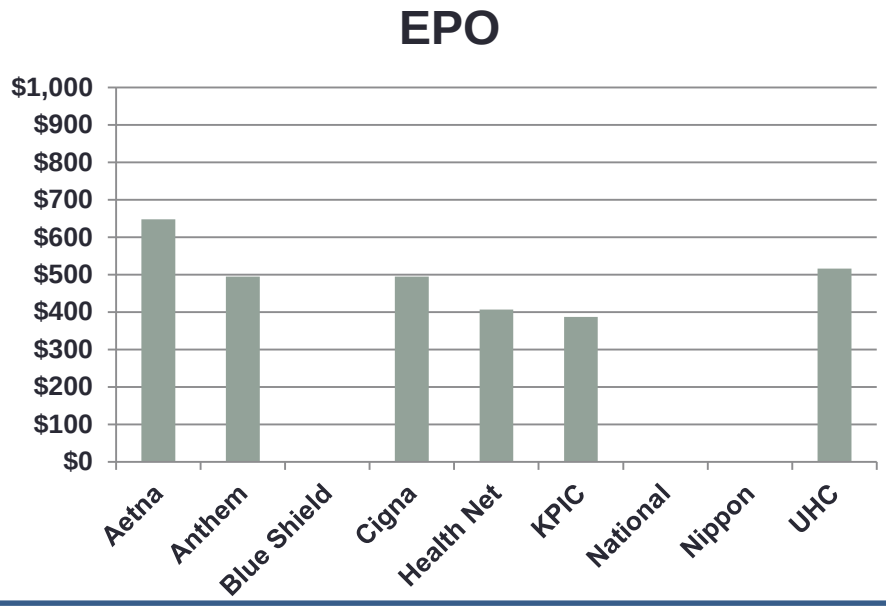
EPO/PPO Unadjusted and Adjusted MLR



2018 Weighted Average Monthly Premium by Product



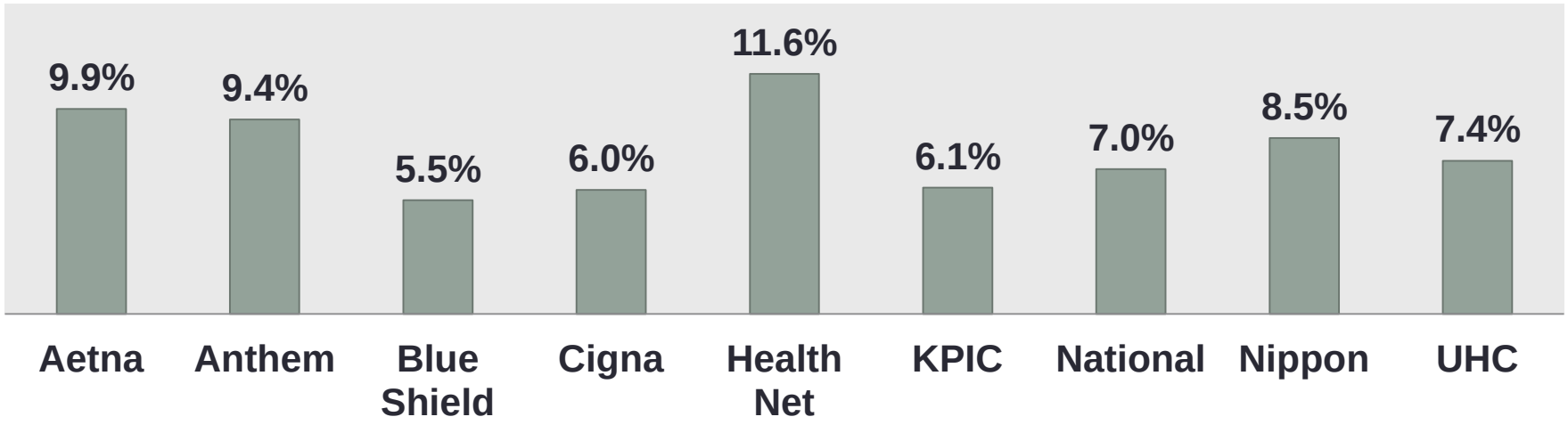




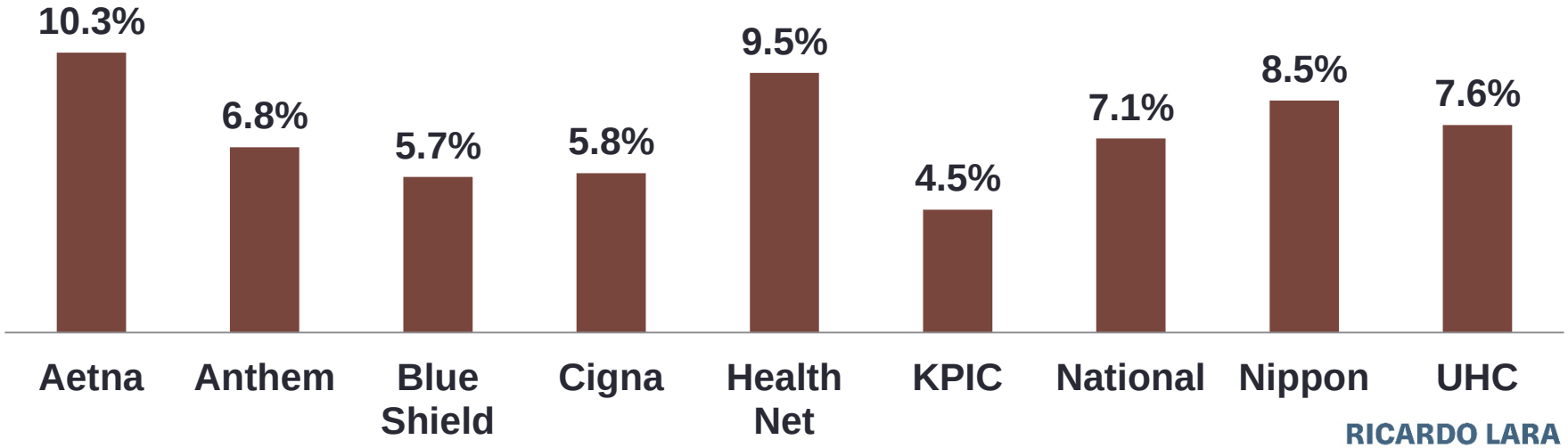
Membership distribution:

- **PPO: 73%**
- **EPO: 7%**
- **HDHP: 20%**

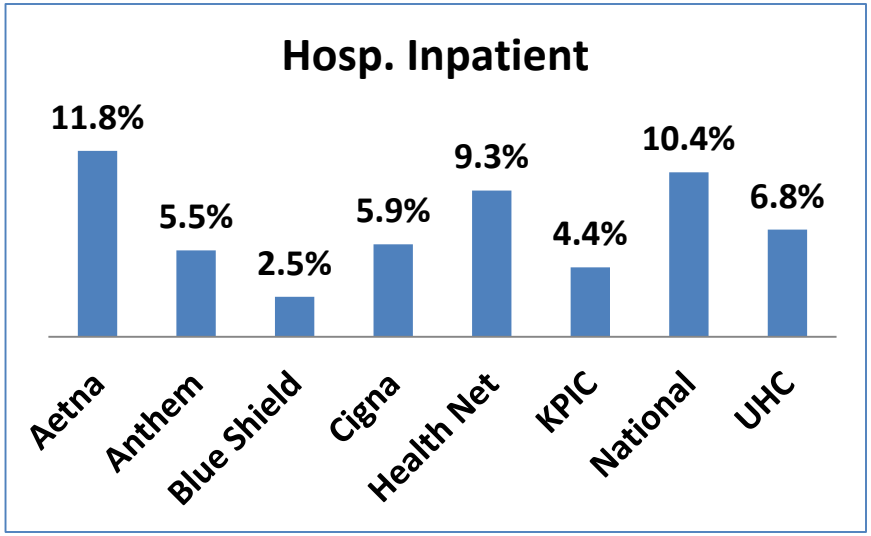
Overall Medical Trend - 2018/2017

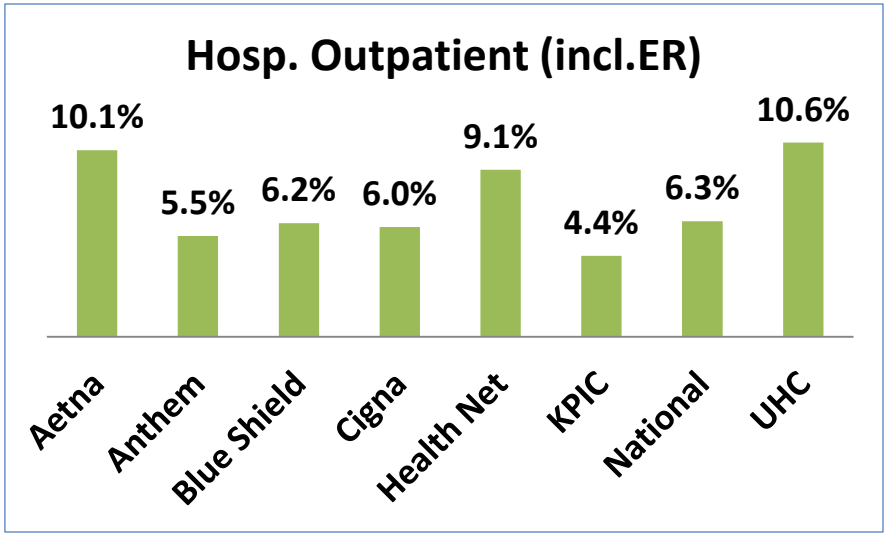


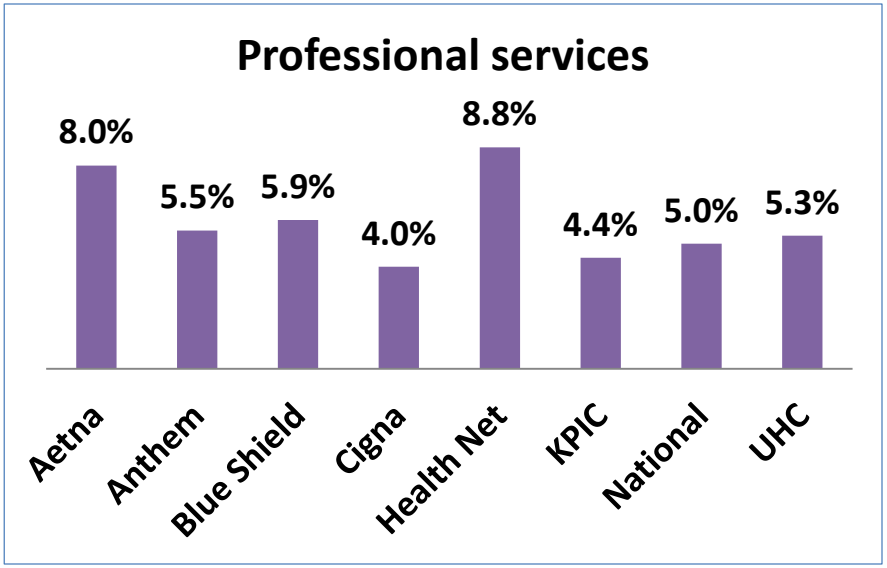
Projected Trend - 2019/2018

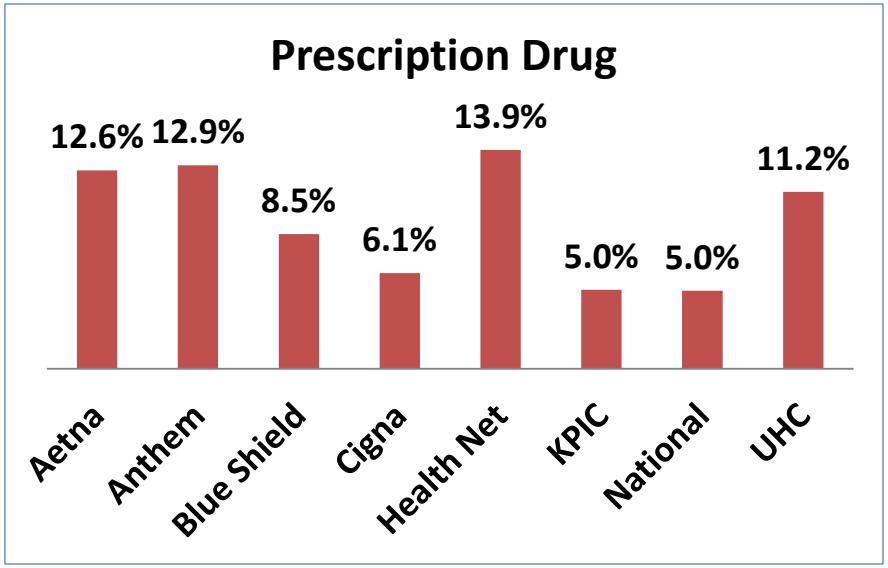


Projected Trend for Service Category for 2019/2018

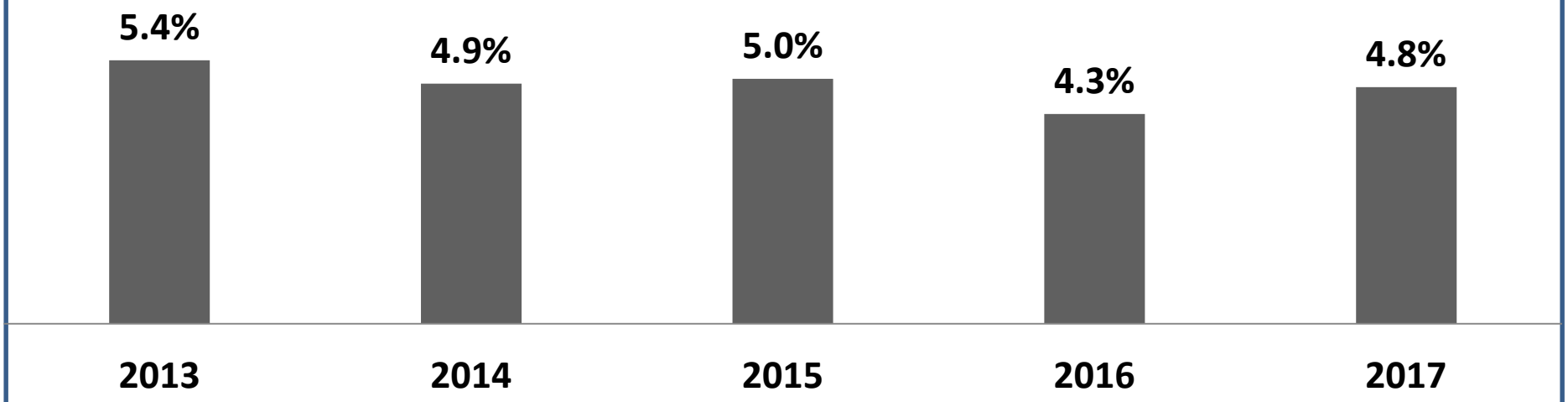




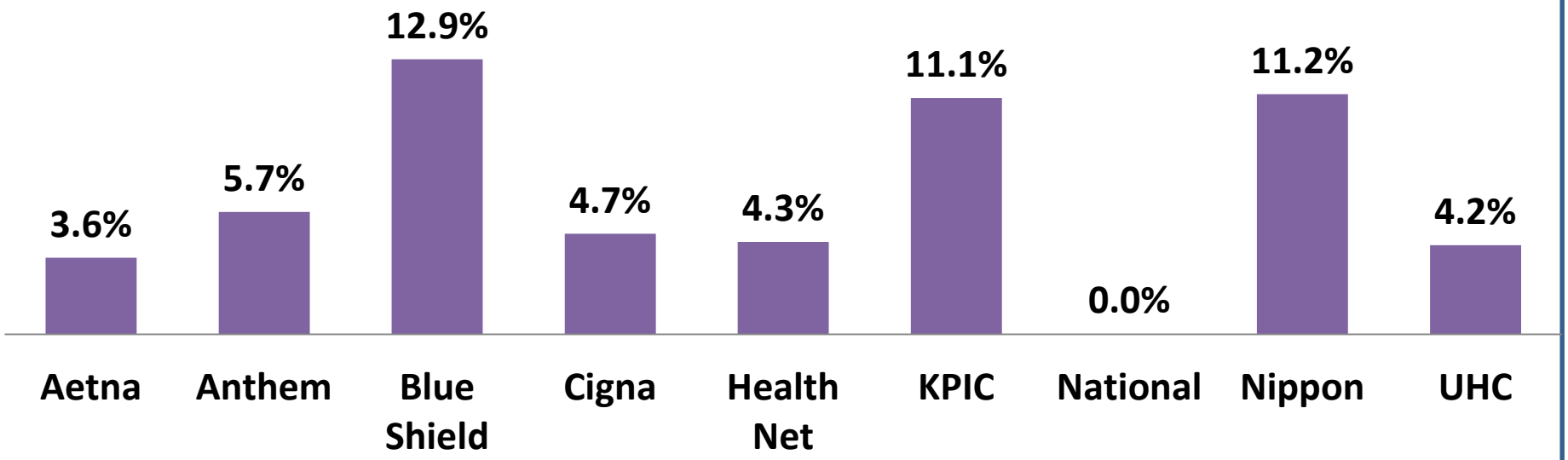




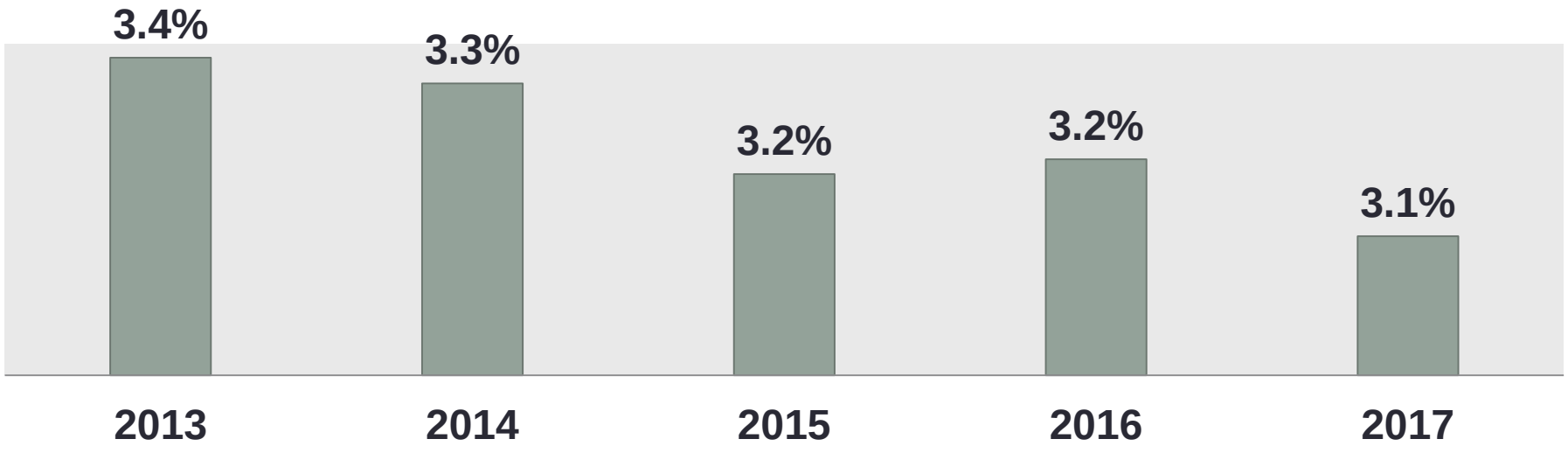
EPO/PPO Average Admin. Expenses (% Premium)



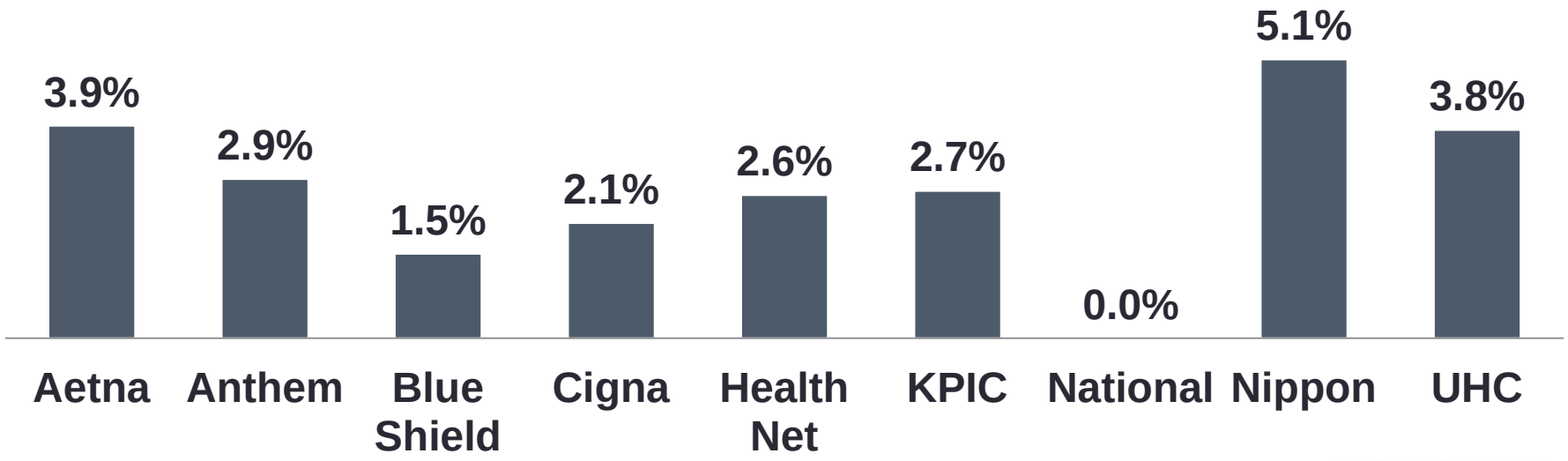
2013-2017 Average Admin. - By Insurer (% Premium)



EPO/PPO Average Commissions (% Premium)



2013-2017 Avg. Commissions - By Insurer (% Prem.)



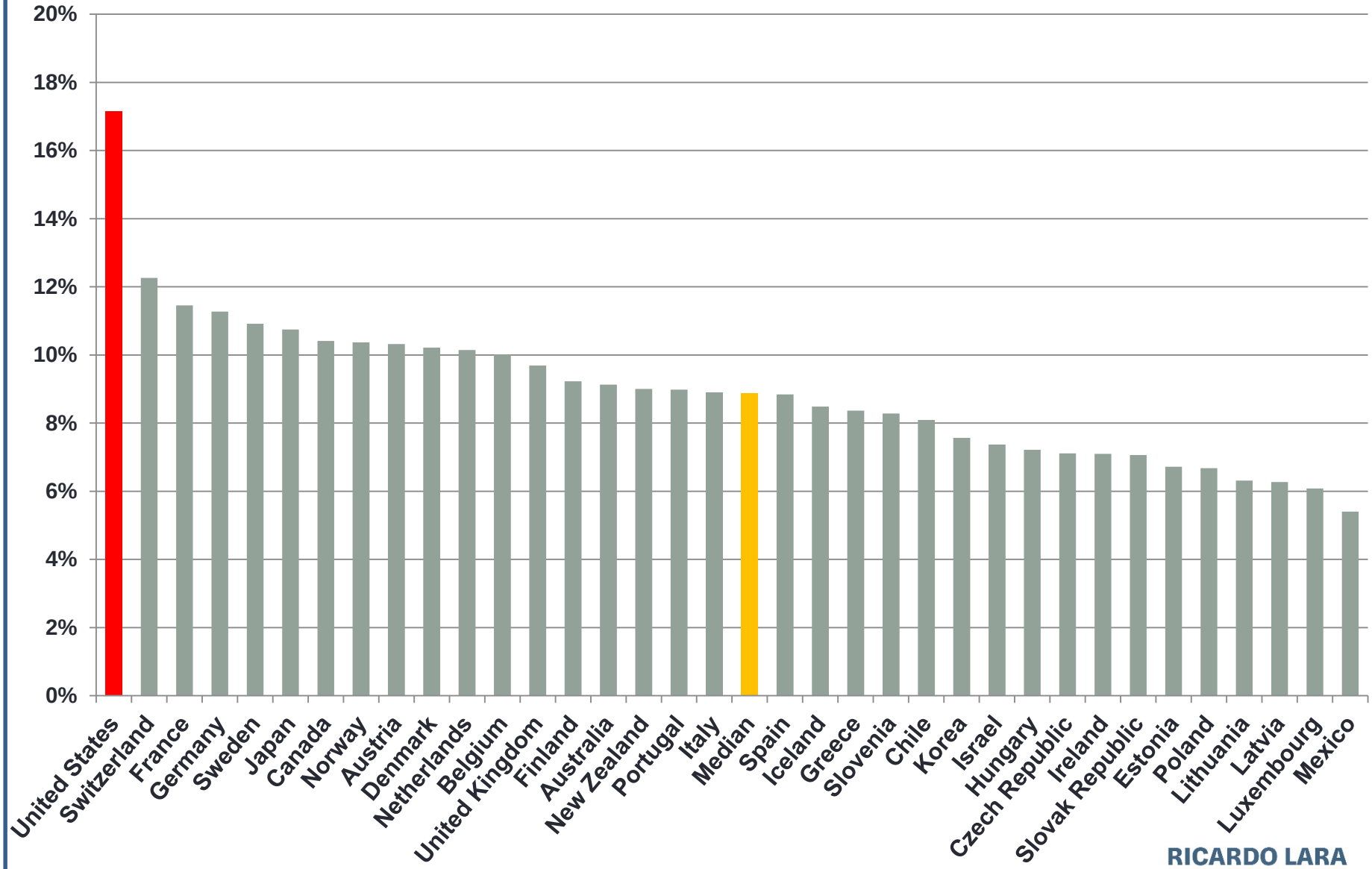
Administrative costs – International Comparison

Administrative costs include the costs for finance, governance, and service delivery in a health care system. Amongst the OECD countries, the US has the highest measured as a percent of overall health spending:

- ***US:* 8%**
- ***France:* 2nd highest, 6%**
- ***OECD average*: 3%**
- ***Portugal, Hungary, Italy, Finland, Japan, Sweden, Iceland*: < 2%**

***The above statistics are from the 2017 OECD report "Tackling Wasteful Spending on Health."**

2017 Health Expenditure and Financing as a Percentage of Gross Domestic Product (GDP)



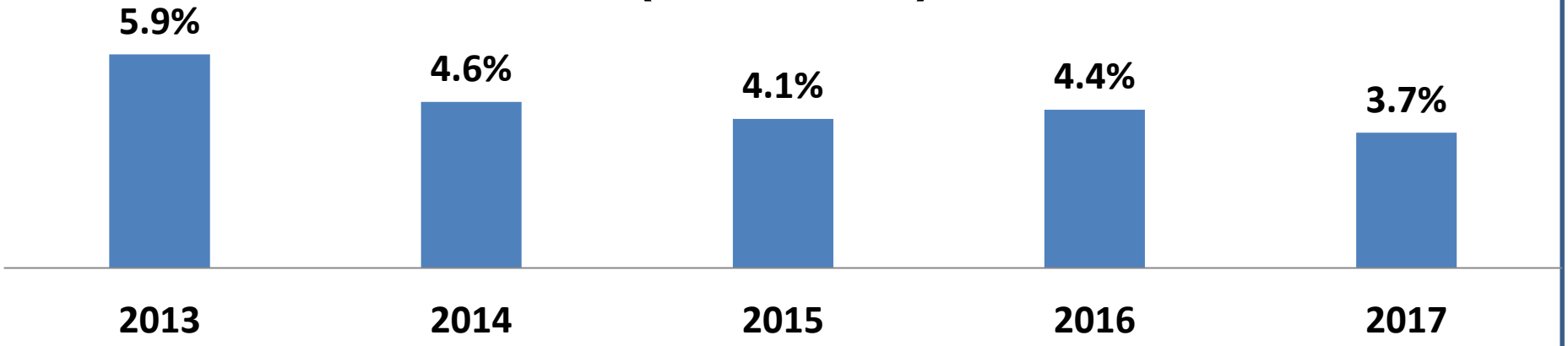
Administrative costs- Comparison to Medicare

Administrative costs for Medicare Program: < 2% of program expenditure. Costs include:

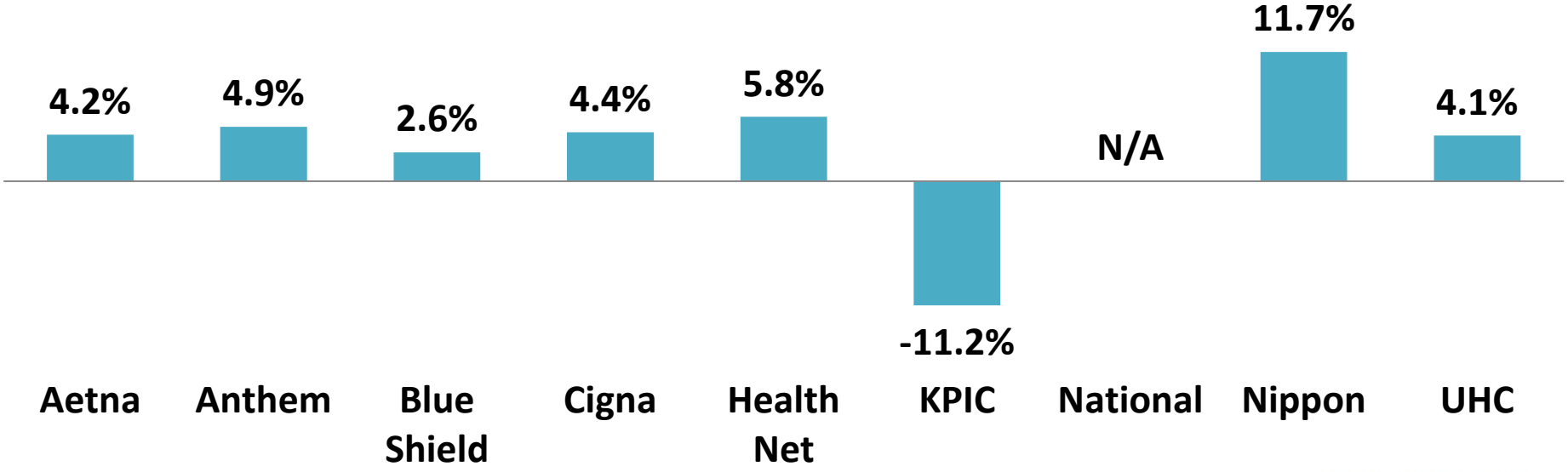
- ***Expenses by government agencies***
- ***Claims contractors***
- ***Other costs in the payments of benefits***
- ***Collection of Medicare Tax***
- ***Fraud and abuse control activities***

*data from Kaiser Family Foundation report “Medicare Spending and Financing”

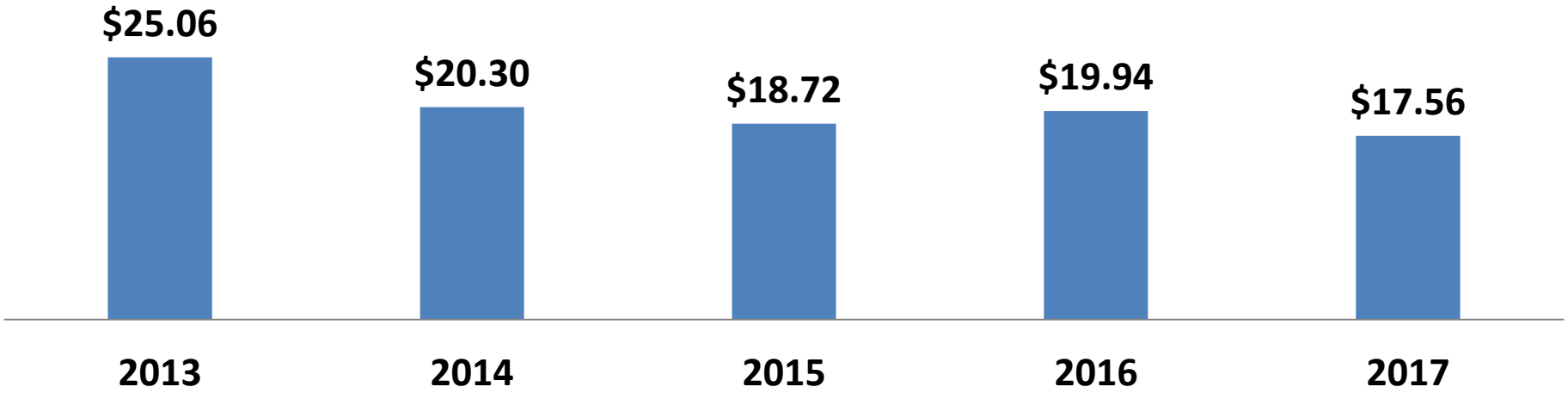
EPO/PPO Average Estimated Post-Tax Margin (% Premium)



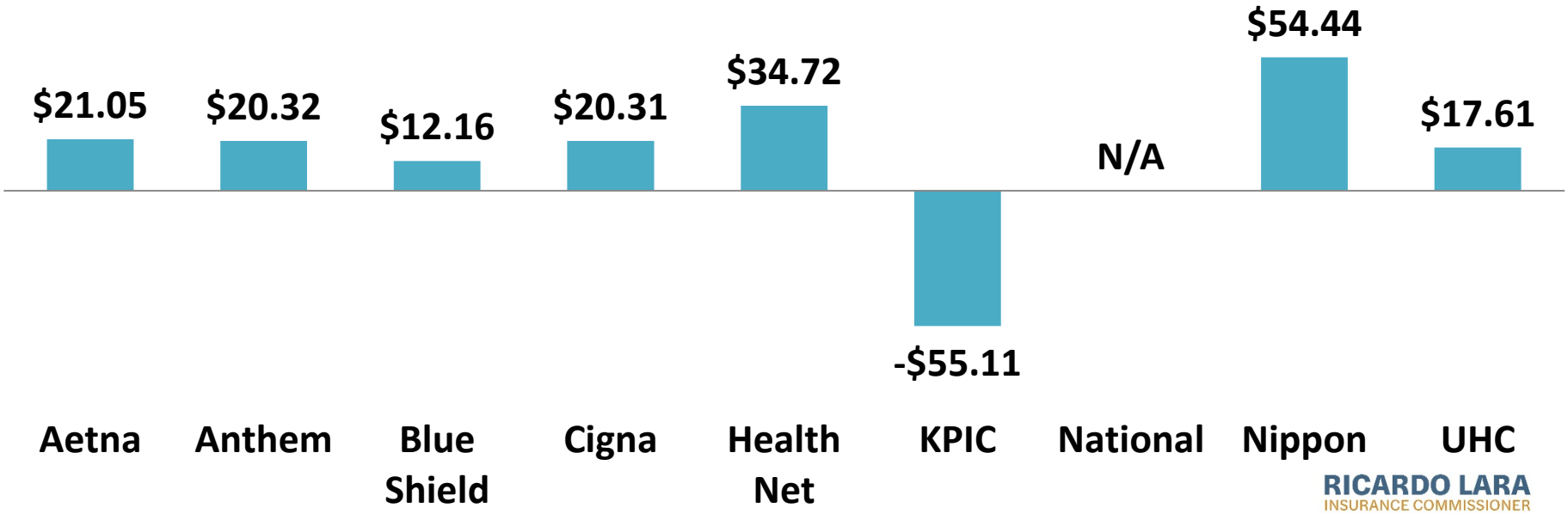
2013-2017 Avg. Est. Post-Tax Margin - By Insurer (% Prem.)



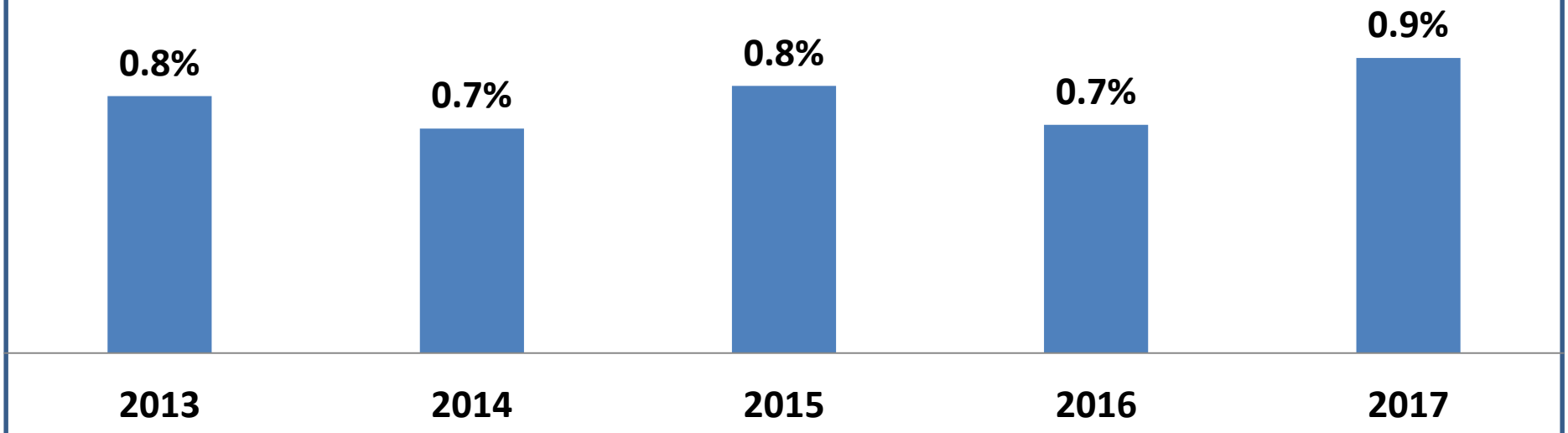
EPO/PPO Average Estimated Post-Tax Margin PMPY



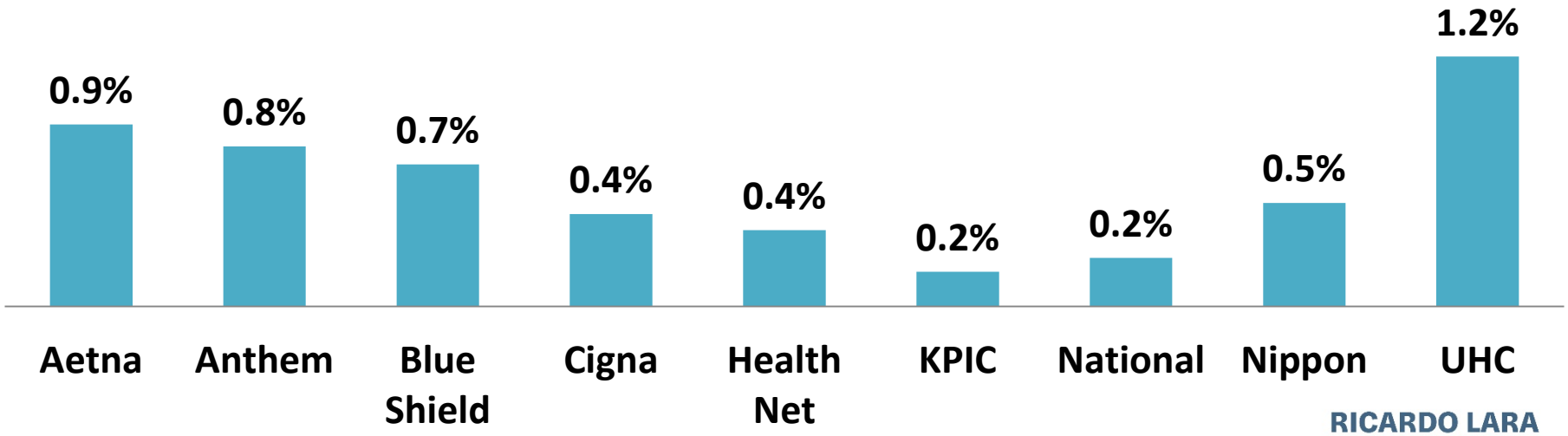
2013-2017 Average Estimated Post-Tax Margin PMPY



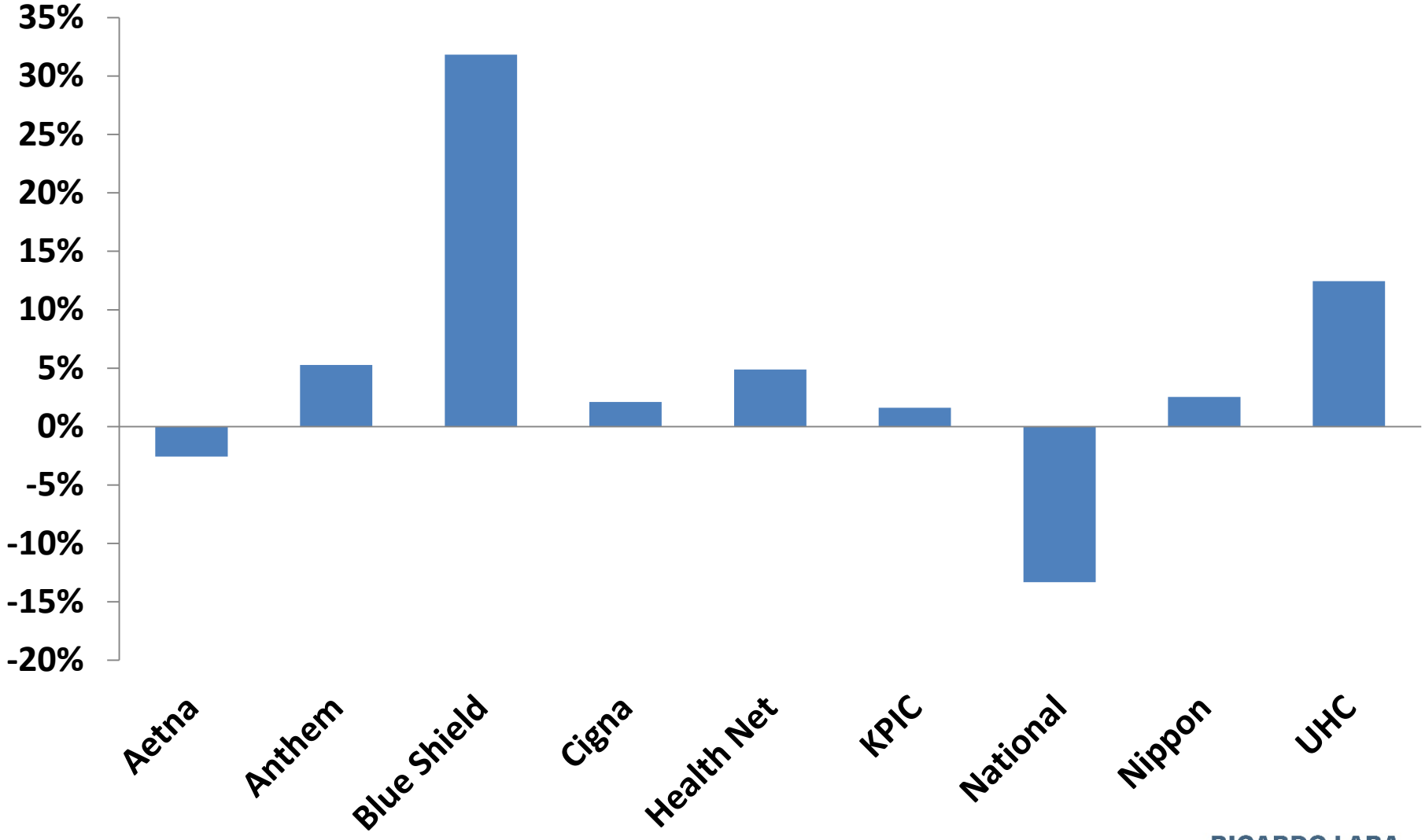
EPO/PPO Avg. Quality Improvement Expenses (% Prem.)



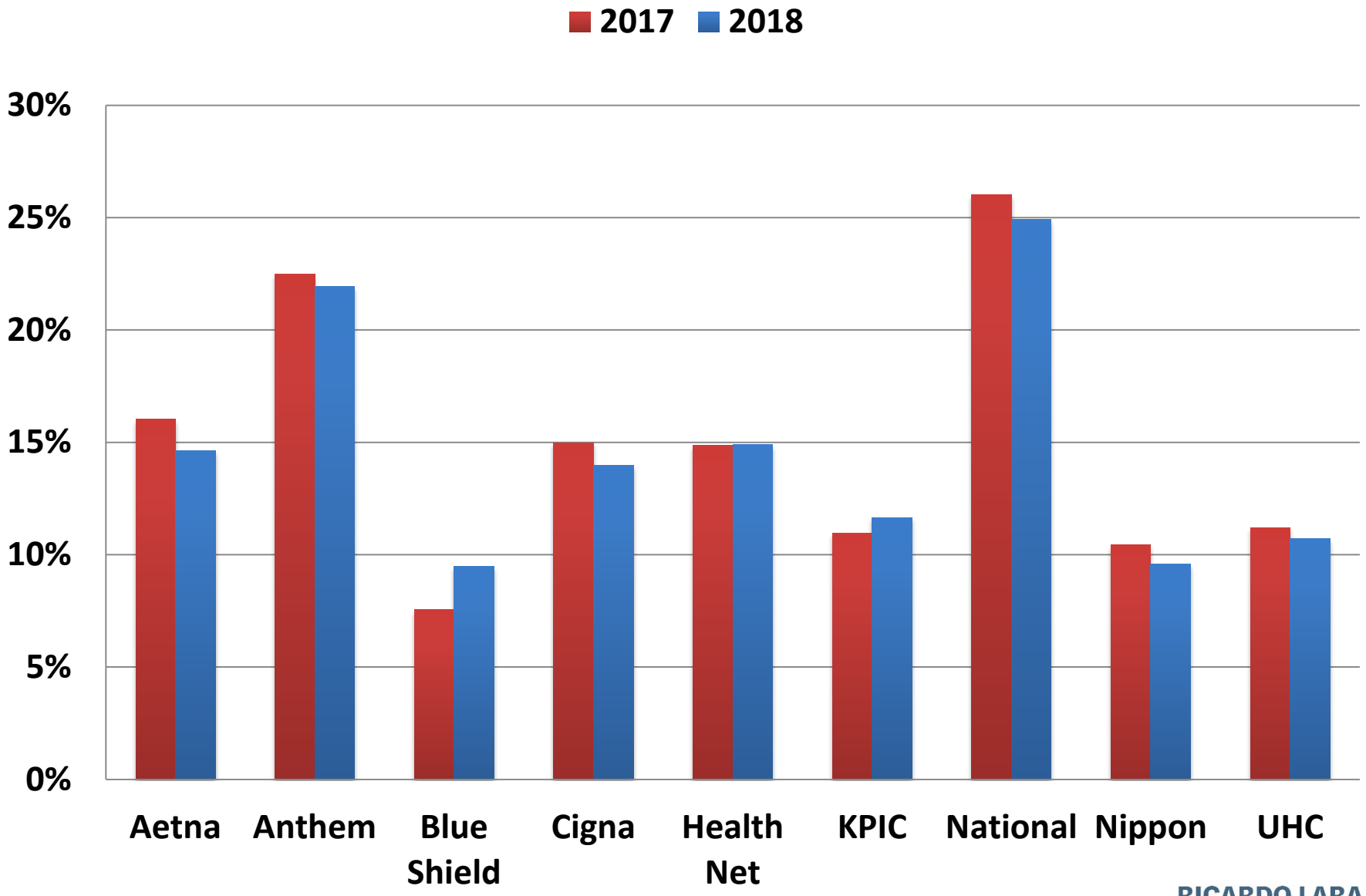
2013-2017 Avg. Quality Improvement Expenses - By Insurer



2018/2017 Increase in Drug Spending



Insurer Drug Spending as a % of Total Premium



Cost Sharing and Benefit Changes

Cost sharing and benefits are determined, to some extent, by choices by the purchaser

- **A common category of benefit changes involved pharmacy benefits, including changes to**
  - **Tiering**
  - **Pharmacy access**
  - **New drugs**
- **Pharmacy benefit changes, such as partial fill programs, combined with utilization review to address drugs with high abuse potential**

Cost Containment and Quality Improvement

Theme 1: Drug Cost-Containment

- **Reduce high-cost drugs:**
  - **One insurer reported $23.4 million in CA savings after substituting Marvyret for Harvoni in treatment of Hepatitis C.**
  - **Another insurer reported $11 million in savings from removing 2 drugs from formulary, with 2-3% decrease in overall trend.**
- **Maximizing Generic Use**

Cost Containment and Quality Improvement

Theme 2: Focus on Outcomes, Safety

- **Counsel at-risk insureds**
- **Shared health risk data**
- **Information provided to insureds, providers**
- **Care integration**
- **Specific disease strategies for high-cost conditions (Hepatitis C, multiple sclerosis)**
- **Value-based initiatives with providers to promote outcomes, safety**
- **Decrease variation in service delivery, track hospital-acquired conditions, “never” events**
- **Transparency initiatives re: hospital safety**

Cost Containment and Quality Improvement

Theme 3: Other Cost Reduction

- **Contract with providers**
  - **One insurer reported savings in converting non-contracting to contracting providers of $2.7 million/year**
- **Provider payment accuracy**
  - **One insurer reported savings of $4.4 million**
- **Evidence-based medicine measures to profile providers in directory**
- **Analytics to identify best practices, high-low outliers**
- **Identify under-care situations**
- **Value-based, episode-of-care, bundled payments for specialty care, rather than fee-for-service**

Cost Containment and Quality Improvement

Theme 3: Other Cost Reduction, continued

- **Complex psychiatric, substance abuse management**
  - **One insurer reported savings of $3,800 per participant in psychiatric management, $2,300 per participant in substance abuse management, through avoided outpatient and ER visits.**

PUBLIC COMMENTS

RICARDO LARA

CALIFORNIA INSURANCE COMMISSIONER

THANK YOU

RICARDO LARA

CALIFORNIA INSURANCE COMMISSIONER

March 14, 2019