



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

Insurance Carriers	Market Share in 2014
Anthem Blue Cross of California	30%
Blue Shield of California	27%
Health Net	19%
Kaiser Permanente	17%
L.A. Care Health Plan	3%
Chinese Community Health Plan	<1%
Contra Costa Health Plan*	<1%
Molina Healthcare	<1%
Sharp Health Plan	<1%
Valley Health Plan	<1%
Western Health Advantage	<1%

*Contra Costa Health Plan did not return to the market in 2015.

Covered California and the Individual Market Premium Rate Increases

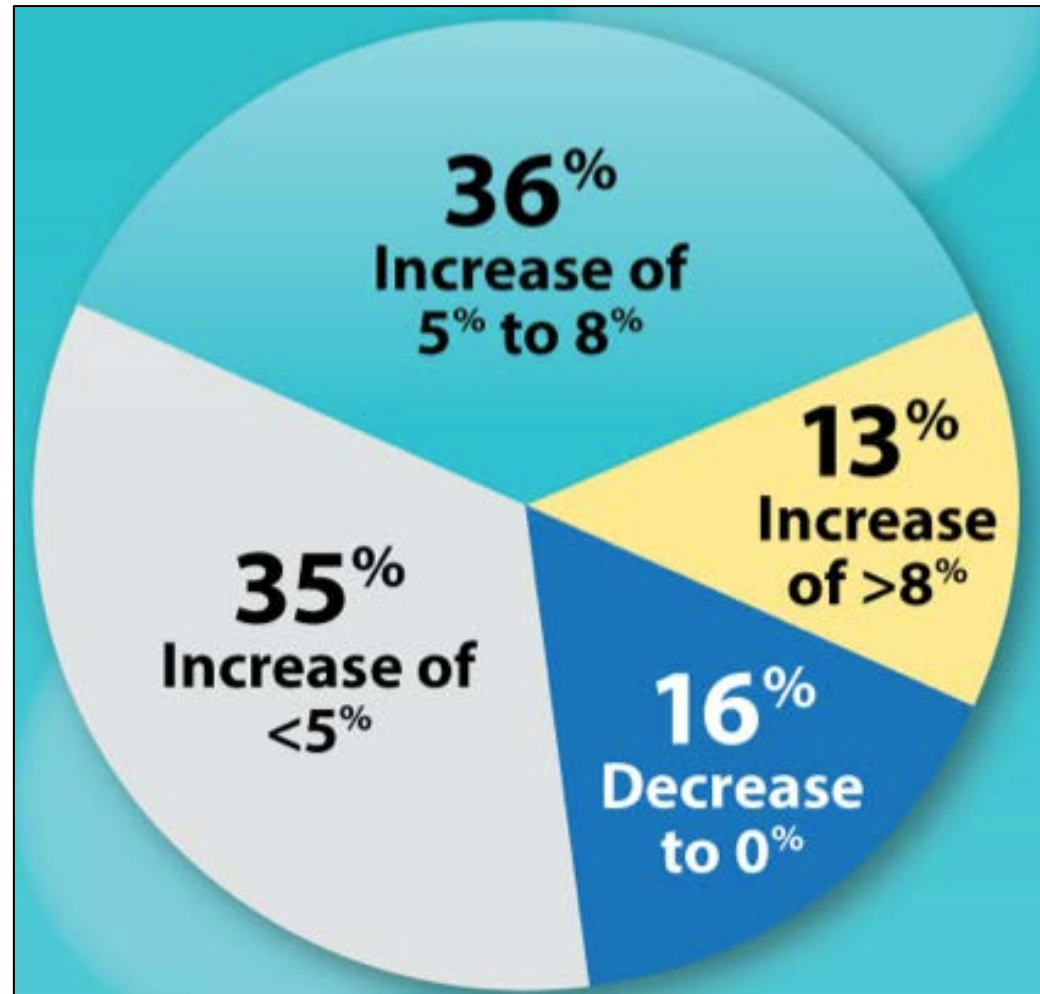
Covered California

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

Covered California Premium Rate Increases



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



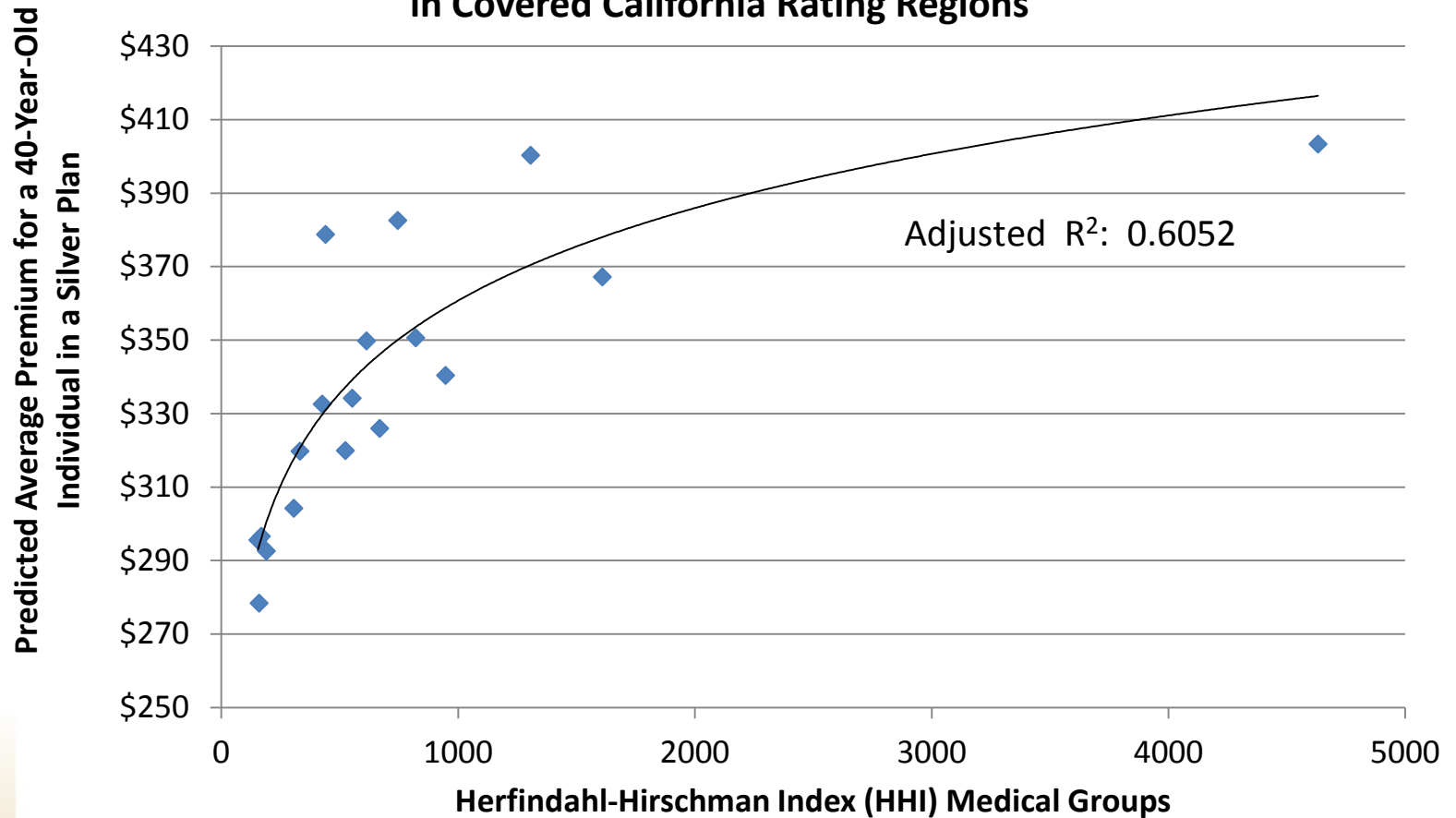
Selected Markets: 2015 Average Premium Rates for Covered California Silver Health Plans for a 40-year-old Individual and Herfindahl-Hirschman Index (HHI)

Rating Region	Average Silver Plan Total Premium	Herfindahl-Hirschman Index (HHI) Range: 0 – 10,000		
		Medical Group HHI	Hospital HHI	Health Plan HHI
1 – Northern Counties	\$327	669	5,574	8,363
3 – Greater Sacramento	\$354	821	2,651	3,294
4 – San Francisco County	\$387	1,306	1,398	2,304
6 – Alameda County	\$360	613	965	3,405
11 – Central Valley	\$303	159	2,437	4,005
12 – Central Coast	\$339	190	2,606	4,314
15 – Los Angeles County	\$255	155	149	2,880
16 – Los Angeles County	\$278	155	149	2,300
18 – Orange County	\$299	169	485	2,986
19 – San Diego County	\$318	332	481	2,236



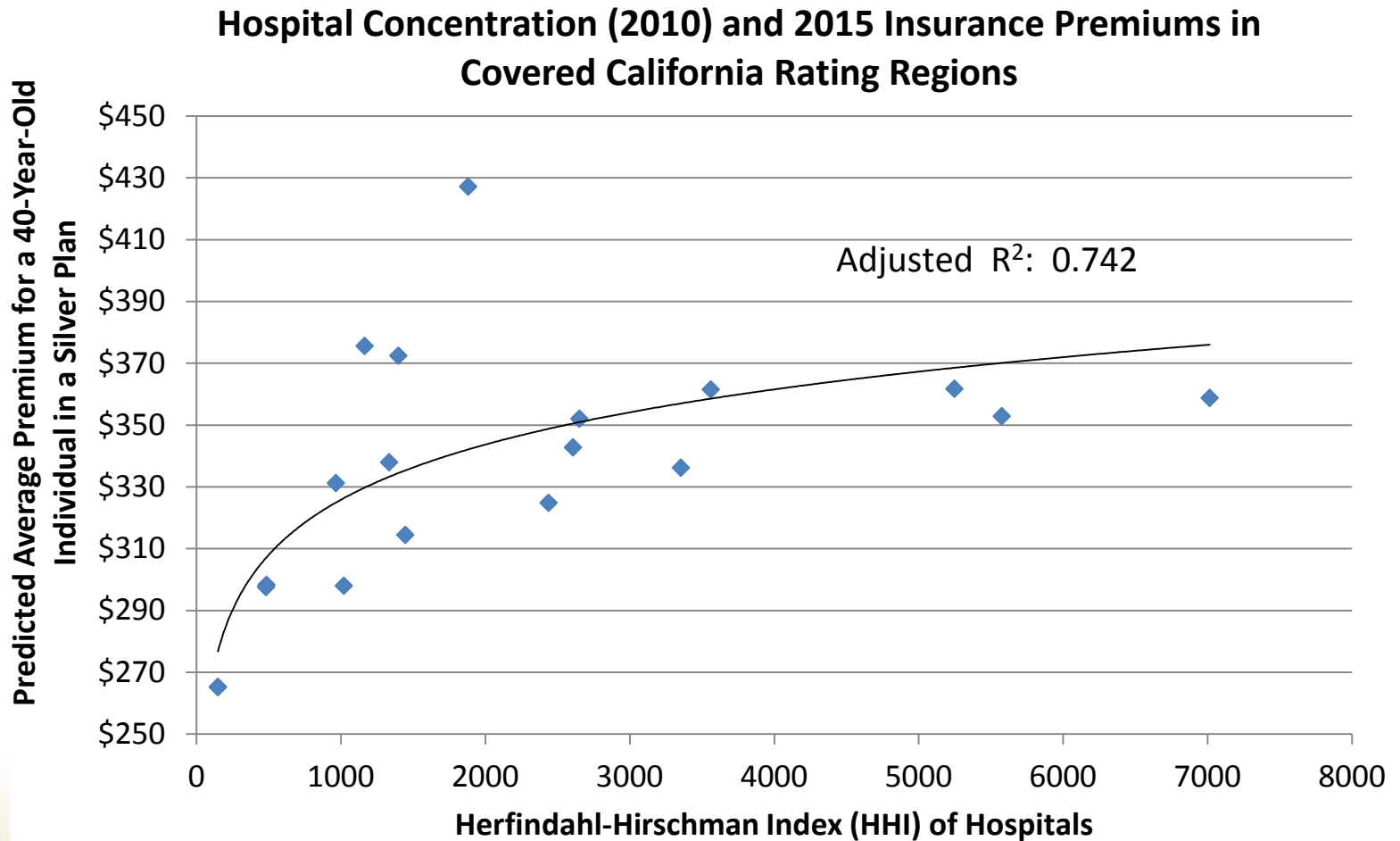
Covered California: The Impact of Provider and Health Plan Market Power on Premiums

Medical Group Concentration (2011) and 2015 Insurance Premiums in Covered California Rating Regions



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; IMS Physician Insights database, 2011

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



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

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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

	Unadjusted Model		Wage-Adjusted Model	
	Parameter	t-value	Parameter	t-value
Adjusted R²	0.522		0.783	
Health Plan HHI	-0.0122	-1.31	-0.0557	-0.86
Medical Group HHI	0.0654	1.94 ^c	0.0510	2.20 ^b
Hospital HHI	0.0722	1.98 ^c	0.0883	3.55 ^a
Average Monthly Wage			0.208	4.36 ^a

a = statistically significant at the 1% level using a two-tailed t-test. b = statistically significant at the 5% level using a two-tailed t-test. c = 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!

Richard Scheffler Ph.D., Eric Kessell Ph.D., and
Margareta Brandt. *Covered California: The
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