



News

For Immediate Release

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OHIC Denies Blue Cross' Direct Pay Rate Increase

Average requested increase was 5.9%

Cranston, RI February 19, 2009 — The Office of the Health Insurance Commissioner (“OHIC”) today announced the decision by Commissioner Christopher F. Koller to deny a rate increase requested by Blue Cross & Blue Shield of Rhode Island for its Direct Pay subscribers. The requested rate increase, averaging 5.9%, would have been effective for all new and renewal coverage beginning April 1, 2009. In his ruling, Commissioner Koller cited two reasons for his denial: the inappropriateness of Blue Cross funding its reserves through Direct Pay subscribers and favorable enrollment trends among healthy subscribers driving down costs.

About Direct Pay

Direct Pay is individual and family health insurance for subscribers who have no access to employer-based health insurance. Currently there are approximately 14,000 Direct Pay subscribers and dependents. Subscribers have a choice of four products and can be

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enrolled one of two pools, depending on their medical history. Subscribers who pass a medical screen are enrolled in Pool II and pay a lower premium. Subscribers who do not pass a medical screen are enrolled in Pool I and pay a higher premium. Blue Cross is the only health insurance provider in this market, and the rates they charge are approved by OHIC.

About the Filing

In its filing for rates effective April 1, 2009, Blue Cross asked for an average rate increase of 6.8% for subscribers in Pool I and 4.3% for subscribers in Pool II. Written and oral testimony were collected and a public hearing on the filing was held last month.

About the Ruling

In his decision, Commissioner Koller accepted the recommendation of the hearing officer that Blue Cross was not entitled to charge Direct Pay subscribers a rate increase in order to make a contribution to its reserves. Koller noted that:

- Almost half of Blue Cross' requested rate increase was to pay for increasing its reserves.
- Blue Cross' overall reserves are within the range previously deemed sufficient by OHIC.
- Direct Pay members, who purchase their insurance entirely with their own after-tax money, should be the last group of subscribers who should be asked to contribute to Blue Cross' reserves.
- In spite of a decision by the Commissioner specifically rejecting contributions to reserves in the last two rate hearings, favorable trends resulted in Blue Cross still making money on this product over the last two years.

“No conditions concerning the issue of Blue Cross' contribution to reserves have changed since last year,” Koller wrote. “Therefore there is no basis to alter the decision on reserves resulting from last year's Direct Pay hearing.”

Commissioner Koller also accepted the recommendation from the hearing officer that no further increase in rates was necessary at this time because Direct Pay had benefited from “positive selection,” in which a higher proportion of subscribers than budgeted were in fact healthy, and thus generating fewer medical expenses.

“Blue Cross may be correct in asserting that additional premium increases are needed for the Direct Pay product, however, based on the evidence presented at this hearing, I am not confident that this is the case,” Koller wrote in his decision. He continued, “Blue Cross has a history of conservatism in budgeting its rate needs for this product. Such caution is beneficial for the company but not for the Direct Pay enrollee. As this Office has noted before, if there is a risk to be borne in the rate setting process, that risk must be borne by the insurer, not the insureds.”

Koller’s ruling was based only on these two considerations. “Direct Pay subscribers will see their premiums go up in the future,” he warned. “While the current pricing appears to be adequate to cover Blue Cross’ Direct Pay expenses for this year, Direct Pay is subject to the same cost pressures as all other health insurance programs. Health care expenses continue to rise at two to three times the rate of general inflation. Addressing that phenomenon remains the central challenge for all of us concerned with health care affordability and accessibility.”

The full text of the filing and the decision is available at www.ohic.ri.gov. Previous Direct Pay decisions can be viewed at http://www.ohic.ri.gov/Insurers_OrdersDecisions.php.

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About the Office of the Health Insurance Commissioner

The Office of the Health Insurance Commissioner (OHIC) was established by legislation in 2004 to broaden the accountability of health insurers operating in the state of Rhode Island. Under this legislation, the Office is dedicated to:

1. Protecting consumers
2. Encouraging fair treatment of medical service providers
3. Ensuring solvency of health insurers
4. Improving the health care system's quality, accessibility and affordability

The Office sets and enforces standards for health insurers in each of these four areas.

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