



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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February 27, 2013

GARY COHEN
CENTER FOR CONSUMER INFORMATION
AND CONSUMER OVERSIGHT
CENTERS FOR MEDICARE & MEDICAID SERVICES (CMS)
US DEPARTMENT OF HEALTH AND HUMAN SERVICES
200 INDEPENDENCE AVE SW
WASHINGTON DC 20201

Re: Proposed Rating Areas for Wisconsin's Individual and Small Group Markets

Dear Director Cohen:

The State of Wisconsin requests CMS approval of its proposal to implement a methodology for developing geographic rating areas that: (1) establishes 72 rating areas at the county level, and (2) requires each insurer to group the counties in its service area into 16 or fewer company-specific rating areas. Permitting each insurer to group the counties in its service area into rating areas that accurately reflect the cost of services is consistent with the Affordable Care Act (ACA) and CMS's Health Insurance Market Rules; Rate Review proposed rule (45 CFR Parts 144, 147, 150, et al.). Because of the significant variations in cost factors between carriers in Wisconsin's competitive health insurance market, requiring standardized rating areas would dramatically disrupt the health insurance market in Wisconsin, reduce competition and consumer choice, and undermine the goals of the ACA and the proposed rule.

Background – The Wisconsin Health Insurance Market

Rooted in the Wisconsin insurance laws is an approach to insurance regulation that supports a competitive marketplace in which all participants have access to the market on a level playing field. A commitment to this regulatory approach has facilitated the development and continuation of a health insurance market comprised of a mix of: (1) regional provider-owned and cooperative HMOs, (2) Wisconsin-only, regional and national indemnity carriers, and (3) national carriers offering individually-underwritten association group products. Because Wisconsin considers heavily the competitive nature of its health insurance market in policy decision-making, since 2011, it has invested significant resources in establishing systems and processes for monitoring its market to ensure this fundamental assumption is sound. Due to the significant presence of carriers that operate in limited regions of the state, these processes

include tracking of market share and rate change information at a regional level. Wisconsin is divided into six regions for reporting and market analysis purposes (see Exhibit 1: Market Analysis Regions). The number of active carriers at the statewide and regional levels is provided in Table 1 below.

Table 1

	Individual Market Active Carriers	Small Group Market Active Carriers
Statewide	30	31
Northern Region	20	19
Northeastern Region	21	22
Milwaukee Region	17	18
Southern Region	23	27
Southeastern Region	21	21
Western Region	20	21

The competitive nature of Wisconsin's health insurance market supports insurer pricing of health insurance products at premium rates that generally reflect the cost to provide services in each unique area of the state.

Proposed Methodology for Establishing Rating Areas

Wisconsin's proposed methodology is to: (1) establish 72 rating areas at the county level, and (2) require each insurer to group the counties in its service area into 16 or fewer company-specific rating areas. Insurers will submit with each rate change filing a list of all counties in their service area, the corresponding rating area, and the rating factor assigned to that rating area.

Rationale and Support for Proposed Methodology

Wisconsin's health insurance market is comprised of a mix of regional and statewide carriers that have widely varying contracted reimbursement rates. As a result, the true cost to a particular insurer of reimbursing a medical provider for services in a given area is often vastly different from the charges billed by medical providers in that area.

In exploring alternative approaches to the establishment of rating areas, Wisconsin engaged Milliman, Inc., to establish noncontiguous rating areas based on billed charges. The result of this study is represented in Exhibit 2: Standardized Rating Areas Based on Milliman Health Cost Guidelines. Wisconsin then surveyed six health insurance carriers, including four statewide indemnity carriers and two regional HMOs, to obtain geographic rating factors for each county. The geographic rating factors for each carrier were sorted

highest to lowest, and then grouped into seven or fewer rating areas comprised of counties with similar factors. The resulting company-specific rating areas are represented in Exhibits 3 – 8. The standardized rating areas represented in Exhibit 1 were then compared with the company-specific rating areas represented in Exhibits 3 - 8 to determine how well the regions identified based on billed charges correlate with the company-specific regions established based on geographic rating factors. The results of this study clearly indicate that rating areas developed based on billed charges do not correlate with rating areas developed using company-specific rating factors. In addition, as Table 2 shows the rating areas developed using geographic rating factors of any one of the carriers surveyed do not correlate with the rating areas developed using the geographic rating factors of any other carrier.

Table 2

	Brown	Dane	Milwaukee	Vernon
Standardized	Area 7	Area 3	Area 1	Area 6
Company I	Area 6	Area 2	Area 3	Area 3
Company II	Area 1	Area 7	Area 1	Area 5
Company III	Area 6	Area 2	Area 4	Area 3
Company IV	Area 7	Area 5	Area 3	Area 4
Company V	n/a	Area 6	n/a	Area 3
Company VI	Area 5	Area 6	Area 2	Area 5

Based on the results of this study, it is clear that the use of standardized rating areas in Wisconsin's competitive insurance market would prevent carriers from assigning counties with similar costs the same geographic rating factor without sacrificing the ability to price competitively. As a result, they will be unable to price at premium rates that pass on the savings realized through generous provider discounts to the consumers obtaining services. This could jeopardize Wisconsin's competitive insurance market by: (1) diminishing the incentive of medical providers to negotiate generous reimbursement rates with carriers in an effort to expand their customer base, (2) motivating insurers to make marketing decisions based primarily on their ability to price accurately in a given county, and (3) drive insurers to narrow their service area rather than offer products at non-competitive prices. If the competitive balance in the Wisconsin health insurance market is disrupted too severely, many insurers will likely exit the market in certain regions of the state or the state as a whole, leaving consumers with diminished coverage options, and carriers and providers unmotivated to negotiate the lowest possible reimbursement rates.

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Regulatory Review of Rating Areas and Factors

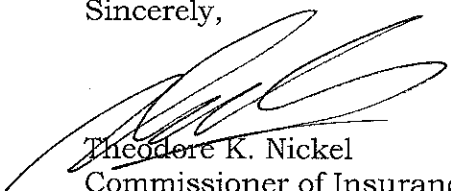
Wisconsin recognizes that rate restrictions in the ACA prohibit rating based on factors such as health status and claims experience, and limit rate variation based on age. It also recognizes that in developing the geographic rating factors used today carriers consider rating components other than provider charges and contracts, such as utilization patterns, health status of enrollees, and age of enrollees. The intent in offering carriers the flexibility to develop up to seven company-specific rating areas is to support a competitive environment in which premiums in a given area of the state accurately reflect the cost to provide coverage of services provided in that area, not to allow carriers the opportunity to circumvent federal rate restrictions. To ensure insurer rating practices in Wisconsin are in full compliance with the ACA, rating area factors and the methodology used in their development will be submitted and reviewed with each rate filing.

Conclusion

The proposed rating methodology is entirely consistent with the goals and rating restrictions of the ACA. Furthermore, requiring Wisconsin insurers to dramatically alter the manner in which they price their products will jeopardize the competitive balance that currently exists in the market. The proposed approach strikes a balance between the desire of the CMS to establish acceptable limits on insurer pricing and the need of Wisconsin insurers to develop premium rates that are consistent with the cost to provide coverage in each unique region of the state.

Thank you for considering this request. If you need additional information, please don't hesitate to contact me.

Sincerely,



Theodore K. Nickel
Commissioner of Insurance