CITY OF BEVERLY HILLS
STAFF REPORT

Meeting Date: May 4, 2010

To: Honorable Mayor & City Council

From: Cheryl Friedling, Deputy City Manager for Public Affairs

Subject: Resolution in Support of Legislative Initiatives to Curtail Excessive Health Insurance Premium Rate Increases

Attachments:
1. Proposed Resolution
2. Senator Feinstein Press Release
3. Representative Waxman Press Release
4. AB 2578
5. Newspaper Article

INTRODUCTION

Legislation has been introduced in the U.S. Congress and California State Legislature to prevent health insurance companies from enacting substantial premium rate increases.

These legislative bills have resulted from recent actions by certain health insurance companies which would result in policyholder rate increases up to 39%.

S. 3078 has been introduced by Senator Dianne Feinstein (for herself, Senator Barbara Boxer and others) termed the Health Insurance Rate Authority Act of 2010.

H.R. 4757 has been introduced in the House of Representatives by Representative Jan Schakowsky (D-IL) as a companion bill to S. 3078.

AB 2578 has been introduced by Assembly Members Jones and Feuer to provide for the licensure and regulation of health care service plans in California by the State Department of Managed Health Care. The bill would place health insurers (and health maintenance organizations) under the same regulation that covers automobile and other types of property insurance.

A proposed Resolution is scheduled for Council review on the City Council's formal meeting agenda as requested by the City's Legislative Committee.

This proposed Resolution would convey the City Council's support of legislative initiatives to curtail excessive health insurance premium rate increases.

DISCUSSION

Lawmakers in Sacramento and Washington, D.C. have introduced several legislative initiatives to require government approval of health insurance rate increases. These bills have been introduced in response to recent premium rate increase announcements by insurance companies.

Currently, existing law does not require that health insurers seek government approval of a premium increase (or copayment, deductible or other charges). These bills would provide authority to the U.S. Secretary of Health and Human Services (federal bills) or the California State Insurance Department (state bill) to approve, deny or modify rate increases.

FISCAL IMPACT

The City of Beverly Hills would not be impacted directly by this legislation.

However, residents and businesses within the City who purchase health insurance directly (because they do not have coverage through employers) could be severely impacted by potential rate increases.

In particular, over 800,000 California customers purchase policies through Anthem Blue Cross (a subsidiary of WellPoint.) Anthem Blue Cross recently announced a proposed 39% premium increase. For those Californians with Anthem policies, the fiscal impact of the proposed 39% rate increase is significant, and even more so since critics have pointed out that double-digit rate increases vastly exceed the rise of national healthcare costs.

RECOMMENDATION

Staff recommends that the City Council review and discuss the Legislative Committee's request to adopt a Resolution in support of state and federal legislative initiatives to curtail excessive health insurance premium rate increases.

If the City Council desires to support this Resolution, the item can be adopted at the Council's formal meeting.

Cheryl Friedling
Approved By

Attachment 1

RESOLUTION NO. 10-R-

RESOLUTION OF THE COUNCIL OF THE CITY OF BEVERLY HILLS IN SUPPORT OF LEGISLATIVE INITIATIVES TO CURTAIL EXCESSIVE HEALTH INSURANCE PREMIUM RATE INCREASES

WHEREAS, health insurance companies have requested dramatic premium increases over the past year. In California, the proposed rate increases have been up to 39 percent; and

WHEREAS, both the federal and state governments have introduced legislation to require health insurance companies to limit and/or obtain government approval to institute premium rate increases; and

WHEREAS, the City of Beverly Hills (or "City") supports the efforts of the United States Congress and State of California legislature to enact legislation which will limit health insurance premium increases by health insurance companies.. The City also supports legislation which will require health insurance companies to obtain government approval for premium rate increases.

Now, therefore, the Council of the City of Beverly Hills does hereby resolve as follows:

Section 1. The City of Beverly Hills hereby supports legislation to curtail excessive rate increases.

Section 2. The City Clerk shall certify to the adoption of the resolution and shall cause this resolution and his certification to be entered in the Book of Resolutions of the Council of this City.

Adopted:

_____
JIMMY DELSHAD
Mayor of the City of Beverly Hills, California

ATTEST:

_____ (SEAL)
BYRON POPE
City Clerk

APPROVED AS TO FORM:

LAURENCE S. WIENER
City Attorney

APPROVED AS TO CONTENT:

CHERYL FRIEDLING
Deputy City Manager/Public Affairs

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Attachment 2

FOR IMMEDIATE RELEASE:
Friday, February 19, 2010

Senator Feinstein to Introduce Legislation to Prevent Health Insurance Companies from Enacting Unfair Premium Rate Increases

Washington, DC – U.S. Senator Dianne Feinstein (D-Calif.) today announced plans to introduce legislation that would prevent insurance companies from enacting unfair health premium rate increases.

The legislation would create a national Medical Insurance Rate Authority to prevent such increases. Senator Feinstein's announcement follows news that Anthem Blue Cross would hike premiums for certain policyholders in California by up to 39 percent.

Additionally, a report published Thursday by the US Department of Health and Human Services revealed that health insurance companies have requested dramatic premium hike increases over the past year - for instance, by up to 56 percent in Michigan, 24 percent in Connecticut and 23 percent in Maine - and will likely continue to do so in the future.

Following is Senator Feinstein's statement:

"I intend to introduce legislation soon to create a Medical Insurance Rate Authority to prevent egregious premium rate increases, like the one recently announced by Anthem Blue Cross of California, which will raise certain medical insurance premiums by up to 39 percent.

This is unconscionable. It places a huge burden on people who are already struggling in these tough economic times, including the estimated 700,000 Anthem Blue Cross policyholders in California.

The insurance industry reaps soaring profits by piling massive financial burdens onto consumers. According to a recent study by Health Care for America Now, America's five largest insurance companies reported record profits of $12.2 billion in 2009, an increase of $4.4 billion, or 56 percent, from 2008. And WellPoint, the parent company of Anthem Blue Cross, reported earning $2.7 billion in the fourth quarter of 2009.

The Health Care for America Now study also reports that the five largest insurers had boosted enrollment in government-subsidized programs administered by private plans – including Medicare and Medicaid – by 688,000. The study noted that insurance industry executives see 'great opportunity' in serving public programs because private purchasers of insurance are being priced out of the market.

After a public outcry over this plan, Anthem Blue Cross has announced that it will delay the rate increases for two months to allow the State Department of Insurance to review their justification for these increases. I will be monitoring the Department of Insurance's investigation.

But it's clear to me that more needs to be done. A two-month reprieve is not enough for families who could lose their health insurance plans if they can't pay the skyrocketing premium costs.

This legislation would empower the Secretary of Health and Human Services to review premium cost increases in states where the Insurance Commissioner does not have the authority, or capability, to conduct such reviews.

Specifically, it would:

Require companies to justify unreasonable premium increases, using a process to be established by

the HHS Secretary.

Give the Secretary authority to deny or modify health insurance rate increases that are found to be unjustified.

Require the Secretary to determine whether states have the capability to conduct rate reviews. To assist the Secretary, the National Association of Insurance Commissioners will submit a report that examines current state authority, capabilities, and recent rate review actions.

Establish a Medical Insurance Rate Authority to advise the Secretary. It will have seven members -- two consumer representatives, one insurance industry representative, one physician, and three additional experts.

At least 25 states give their Insurance Commissioners some type of authority to review or regulate premium hikes and other charges, including deductibles and co-payments. California is not one of those states. That needs to change.

Bottom line: affordable health insurance should be a right, not a privilege. This latest move by Anthem Blue Cross is just another demonstration that the health insurance industry will not change its behavior until it is required to do so."

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Attachment 3

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Statement of Rep. Henry A. Waxman
Chairman, Committee on Energy and Commerce
Premium Increases by Anthem Blue Cross in the Individual Health Insurance Market
Subcommittee on Oversight and Investigations
February 24, 2009

Chairman Stupak, thank you for convening this important and timely hearing.

On February 4, the *Los Angeles Times* reported that Anthem Blue Cross, a subsidiary of WellPoint, intended to raise its rates as much as 39% for their 800,000 individual policyholders in California.

By any measure, this was a breathtaking increase in health insurance costs.

We are holding today's hearing to find out what is really driving these enormous rate increases.

WellPoint says the rate increases are a result of medical inflation and healthier policyholders dropping coverage. But the thousands of pages of WellPoint documents we have reviewed tell another story.

They tell a story not about costs, but about profits … not about increasing coverage, but about reducing benefits to policyholders … not about removing barriers to coverage, but about erecting new ones … not about covering more people who have illnesses, but about cutting them off and seeking out new customers who are healthier and wealthier.

The documents also tell a story of potential huge, new premium rate increases still to come.

WellPoint says that its rate increases have nothing to do with increasing company profits. But an internal company e-mail says that its rate increase would "return CA to target profit of 7 percent."

WellPoint says that its rate increases are absolutely necessary. But its internal company documents describe a plan to build in "a cushion" to "allow for negotiations." The company told its board of directors that its average "rate ask" would be 25%, but that its final "rate increase" would be only 20%.

Other documents raise the possibility that WellPoint may have manipulated its actuarial assumptions to keep its medical loss ratio, a key measure reviewed by California regulators, "flat."

The documents we have reviewed show WellPoint is proposing its highest increases on its more generous plans. At the same time, it is actively developing new products, called "downgrade options," that reduce benefits for its policyholders.

As we will hear from the witnesses on our first panel, this "purging" process cuts coverage for WellPoint policyholders when they need it most: when they get sick.

And the WellPoint documents point to a future of even higher rate increases. WellPoint told Committee staff that WellPoint voluntarily capped its maximum rate increases at 39%. If WellPoint had not done this, some policyholders could have faced rate increases of over 200%.

Mr. Chairman, we have circulated a memorandum to members describing these documents. At the appropriate time, after all members have had a chance to review the memorandum, I will move to put the documents and the memorandum into the hearing record.

One question we asked is where does all of this money go. We have learned that in 2008, WellPoint paid 39 senior executives over $1 million each. And the company spent tens of millions of dollars more on expensive corporate retreats. During 2007 and 2008, WellPoint spent $27 million on 103 executive retreats. One retreat in Scottsdale, Arizona cost over $3 million.

Corporate executives at WellPoint are thriving, but its policyholders are paying the price.

Ultimately, what this hearing will show is that the current system is absolutely unsustainable. If we fail to pass health reform, insurance rates will skyrocket and health insurance will become so expensive only the most healthy and the most wealthy will be able to afford coverage.

Health insurers like WellPoint may get richer, but our nation's health will suffer.

We cannot go down this road forever. It is breaking our middle class. And it will bankrupt our nation.

We will learn much from today's hearing, Mr. Chairman, and I hope we will apply those lessons when we meet at the White House tomorrow and in the days and weeks to come.

Attachment 4

CALIFORNIA LEGISLATURE—2009–10 REGULAR SESSION

ASSEMBLY BILL No. 2578

Introduced by Assembly Members Jones and Feuer
(Principal coauthor: Senator Leno)
(Coauthor: Assembly Member Brownley)

February 19, 2010

An act to add Section 1385.1 to the Health and Safety Code, and to add Section 10181 to the Insurance Code, relating to health care coverage.

LEGISLATIVE COUNSEL'S DIGEST

AB 2578, as introduced, Jones. Health care coverage: rate approval.

Existing law, the Knox-Keene Health Care Service Plan Act of 1975 (Knox-Keene Act), provides for the licensure and regulation of health care service plans by the Department of Managed Health Care and makes a willful violation of the act a crime. Existing law also provides for the regulation of health insurers by the Department of Insurance. Under existing law, no change in premium rates or coverage in a health care service plan or a health insurance policy may become effective without prior written notification of the change to the contract holder or policyholder. Existing law prohibits a plan and an insurer during the term of a plan contract or policy from changing the rate of the premium, copayment, coinsurance, or deductible during specified time periods.

This bill would require approval by the Department of Managed Health Care or the Department of Insurance of an increase in the amount of the premium, copayment, coinsurance obligation, deductible, and other charges under a health care service plan or health insurance policy.

Because the bill would specify an additional requirement under the Knox-Keene Act, the willful violation of which would be a crime, the bill would impose a state-mandated local program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: yes.

The people of the State of California do enact as follows:

1 SECTION 1. Section 1385.1 is added to the Health and Safety
2 Code, to read:
3 1385.1. (a) The following definitions apply for the purposes
4 of this section:
5 (1) "Applicant" means a health care service plan seeking to
6 increase the rate it charges its subscribers.
7 (2) "Rate" includes, but is not limited to, premiums, copayments,
8 coinsurance obligations, deductibles, charges, and the cost of
9 coverage per exposure base unit.
10 (b) No applicant shall increase the rate it charges a subscriber
11 unless it submits an application to the department, and the
12 application is approved by the department.
13 SEC. 2. Section 10181 is added to the Insurance Code, to read:
14 10181. (a) The following definitions apply for the purposes
15 of this section:
16 (1) "Applicant" means a health insurer seeking to increase the
17 rate it charges its policyholders.
18 (2) "Rate" includes, but is not limited to, premiums, copayments,
19 coinsurance obligations, deductibles, charges, and the cost of
20 insurance per exposure base unit.
21 (b) No applicant shall increase the rate it charges a policyholder
22 unless it submits an application to the department, and the
23 application is approved by the department.
24 SEC. 3. No reimbursement is required by this act pursuant to
25 Section 6 of Article XIII B of the California Constitution because
26 the only costs that may be incurred by a local agency or school
27 district will be incurred because this act creates a new crime or

1 infraction, eliminates a crime or infraction, or changes the penalty
2 for a crime or infraction, within the meaning of Section 17556 of
3 the Government Code, or changes the definition of a crime within
4 the meaning of Section 6 of Article XIII B of the California
5 Constitution.

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Attachment 5

latimes.com/business/la-fi-anthem-20100424,0,2564830.story

latimes.com

Anthem Blue Cross extends delay on premium increase

The insurer had postponed its planned hike for two months amid public outcry, and a spokeswoman says there won't be an increase in May.

By Duke Helfand, Los Angeles Times

9:27 PM PDT, April 23, 2010

Thousands of Anthem Blue Cross policyholders who faced steep rate hikes on May 1 will get at least a temporary reprieve after California's largest for-profit health insurer extended a two-month postponement prompted by public outrage over the proposed increases.

But there was no word from the insurance company on how long this new delay will be.

Anxious customers have been waiting to hear from the Woodland Hills company about a jump in their premiums of as much as 39%. A spokeswoman for Anthem's parent, WellPoint Inc., said this week that the insurer's 800,000 California members who buy individual policies will see no difference in their bills at this point.

"They should not experience a rate change beginning May 1," said Kristin Binns. "Members will receive adequate notification of any rate change. Until they receive information indicating otherwise, rates remain unchanged."

State law requires insurers to give policyholders at least 30 days' notice before altering rates, meaning Anthem could not impose higher premiums until the end of the May at the earliest.

Steve Shubitz, a healthcare analyst with Edward Jones in St. Lewis, predicted Anthem would eventually raise premiums to make up for rising medical costs and the losses it's incurring on policies sold to individuals. "The rate is certainly going up; its just a matter of how much," Shubitz said.

But Anthem isn't likely to make a move on rates until an outside actuary, appointed by California's insurance commissioner, issues a report on the insurer's spending practices, analysts said.

The actuary, Axene Health Partners, will determine whether Anthem meets a state requirement to spend at least 70% of premiums on medical claims.

In the meantime, Anthem customers welcomed the new delay.

"The people have won one here," said Doug Rosen, 60, whose individual premium was set to rise 27%.

The Calabasas resident said he did not object to rates going up with inflation, perhaps 3% to 5%. "If they want a rate increase," he said, "let them have one that is reasonable."

In January, Anthem notified many individual policyholders that their rates would rise March 1. After a vocal public backlash, however, the first delay was announced. Anthem and state Insurance Commissioner Steve Poizner — who is in a tough race to be the Republican candidate for governor — have both said that they wanted to see the Axene report, due any day, before deciding whether the rate hikes will go forward.

"We are still awaiting results from the third-party review to determine next steps," Binns said.

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