Repeal efforts disrupt insurer efforts to cover Texans

By Renuka Rayasam and Paul Demko

To view online:
https://www.politicopro.com/health-care/story/2017/04/repeal-efforts-play-havoc-with-insurer-efforts-to-cover-texans-155406

04/18/2017 10:53 AM EDT
Updated 04/18/2017 11:28 AM EDT

AUSTIN, Texas — Insurers lost hundreds of millions of dollars figuring out how to cover Texans under Obamacare. The industry's painful lesson could be for naught if Republicans make good on their promise to scrap the law and upend the plans' carefully calibrated remedies.

The insurers have had to tweak their offerings and raise premiums to adjust to an unexpectedly sicker, more expensive population. Until now, that process assumed Obamacare subsidies that offset the cost of premiums and regulations for underwriting coverage would largely remain in place.

But conservative efforts in Congress to scrap those parts of the law have dramatically scrambled the calculus while enrollment in the state continues to rise. Some experts believe the added instability — and the prospect of continued losses — will prompt more plans to flee the state or focus on serving fewer markets, potentially creating big coverage losses.

"It's still a fragile market, and it needs time to mature," said Deep Banerjee, author of a Standard & Poor's report that found emerging signs of stability in the market.

The Texas experience could prove instructive for other red states with large uninsured populations and demonstrate how national efforts to scrap the health care law may conflict with local attempts to shore up individual markets.

A POLITICO analysis of financial filings found insurers in the Lone Star State struggled to price premiums and estimate health care costs of new enrollees in the state's Obamacare exchange. Many Texas insurers spent more paying medical claims than they collected in premiums in 2015 and 2016, leading to big losses.

"Collectively insurers got it wrong," Ken Janda, CEO of Community Health Choice, a nonprofit Texas health plan, told POLITICO. "They didn't know how much pent up demand there was and how sick people were."

That story has played out nationwide as health plans struggled to price Obamacare exchange plans. Insurers lost $10.6 billion in the individual market during the first two years of exchange operations, according to McKinsey.

Still, Texas stands out because of its politics and demographics.

Officials here have been openly hostile to the ACA's coverage expansion. They are now hoping that the Trump administration will let them wiggle out of ACA requirements and subsidies that have kept the market afloat and helped people gain coverage.

Texas is the biggest of the 19 states that have refused to expand their Medicaid programs under Obamacare, forgoing billions of dollars in federal cash to cover more people and potentially taking some of the heat off private insurers. The state's insurance regulator doesn't review private health plans' rate filing to determine if provider networks are adequate or if premiums are reasonable.

"Texas is much more out on the extreme of not wanting to facilitate the ACA," said Michael A. Morrisey, a professor in Texas A&M University's school of public health.

Despite that, Texans have flocked to the federal portal Healthcare.gov to sign up for coverage. As of March 2016, 1.2 million residents got insurance through the marketplace. Nearly 84 percent of Texans got a subsidy, in the form of a tax credit that averaged about $271 a month, according to CMS.

"Even now you talk to people who say that they don't understand Obamacare, but they are getting insurance through the exchange," said Mario Molina, CEO of Molina Healthcare, which offers exchange plans in Texas.

Despite Obamacare's lingering unpopularity, nearly 10 percent of health law enrollees nationwide are Texas residents. Even so, the state has the highest uninsured rate in the country, with one in five residents lacking coverage, according to Gallup, nearly double the national average. That's down from an uninsured rate of 27 percent prior to implementation of the ACA.

Last year marked a tipping point for health insurers in the state. Armed with a more accurate profile of new enrollees, insurers changed tactics. The state's dominant carrier, Blue Cross and Blue Shield of Texas, scrapped its popular, broad-network PPO plan and dramatically reduced losses. Some carriers that gained significant market share — including Centene, Molina and Community Health Choice — either turned a profit or avoided steep losses. Scott & White Health Plan, Aetna and Cigna departed the state altogether. Others pulled back in all but a handful of markets.

But though markets are starting to stabilize, the remaining players are bracing for another wave of changes.

In the first years of the exchange, insurers struggled to set prices for new enrollees.

“We all had to bid without knowing what we were going to get,” said Community Health Choice’s Janda. In 2014, his company set rates 30 percent above Blue Cross’ rates in Houston, but Janda said the firm didn’t discover the difference until two days before it went live with enrollment.

By early 2016, the health plans were discovering they were insuring people who were far sicker and financially strapped than they first realized. Some would drop coverage, then try to re-up as their health needs changed.

“I would sign people up and they would get their bypass surgery done and get through rehab and cancel their policy,” said Kelly Fristoe, a health insurance broker who has worked in rural Wichita Falls for three decades.

The insurers retrenched.

In 2017, 10 insurers offered coverage on the Texas health insurance marketplace, down from 16 a year earlier. A half-dozen of the insurers that are still selling coverage operate in fewer than 11 of the state’s 254 counties, according to a report from Texas A&M University.

Premiums have skyrocketed, as the remaining insurers try to cut their losses. A 27-year old nonsmoker paid 80 to 90 percent more for the lowest priced BCBS plan in each of five metro areas studied for 2017 compared to 2014, according to the Texas A&M report.

The biggest shakeup in the market was triggered by Health Care Service Corporation, which operates the Blue Cross Blue Shield plan — the only company with individual market plans in all of the state’s counties this year. In 2015, the Texas Blue dominated the state’s exchange market, with nearly 900,000 customers. But that book of business was a financial albatross: medical costs exceeded premiums for individual market plans by more than $700 million, according to financial filings.

That unsustainable path led Texas Blue to eliminate its PPO plan and hike premiums. Enrollment dramatically decreased — roughly 320,000 fewer individual market customers. So did the red ink. Last year, the Texas Blue spent 93 percent of premiums on medical claims — down from 120 percent the previous year.

That’s almost exactly in line with the experience of carriers nationwide. The improvement in the Texas Blue’s bottom line wasn’t enough to stop the red ink: HCSC says it still lost nearly $200 million on its individual market business in Texas last year — more than a third of its losses nationwide.

Other insurers boosted enrollment. Molina’s individual market business grew sixfold last year, topping 100,000 customers. Community Health Choice nearly doubled its enrollment, with roughly 116,000 customers.

Yet enrollment growth isn’t always a positive development. Scott & White Health Plan more than doubled its enrollment last year, with nearly 60,000 individual customers. But medical claims exceeded premiums by more than $100 million last year. That led the plan to drop out of the exchange market for 2017.

Community Health Choice said it had to pay back $6 million in 2015 earnings last year because of the health law's risk adjustment mechanism, designed to smooth earnings among insurers.

The changes have been difficult for state residents as well. Before the ACA, the uninsured in Texas were people likely to run up big medical bills, since insurers denied people with expensive medical conditions**.** About 5 million Texans lacked health insurance in 2014.

But now the uninsured are Texans whose incomes are too high to qualify for subsidies, but too low to buy individual policies.

"It's the new face of the uninsured," said Fristoe. "I have a lot of people say 'I'm done.'"

With the June 21 deadline to file rates and plans for federal exchanges looming, insurers operating in Texas are applying lessons learned. Humana, which offered exchange plans in 10 Texas counties last year, said it's sitting out exchange next year. Other insurers that are sitting on the sidelines don't look likely to jump back in.

Efforts to repeal and replace Obamacare are complicating insurer calculations in Texas where new enrollees heavily depend on subsides to cover costs. Now that they've figured out what works, even small changes to the law could have a major impact on who signs up for coverage.

"We still have a long way to go to get back to a place of stability," said Carl McDonald, HCSC's senior vice president for treasury, investments and business development. "We're not going to be able to operate at those kinds of losses forever."