



**United States House of Representatives
Before the House of Representatives Committee on Energy and Commerce's
Subcommittee on Oversight and Investigations
September 29, 2015**

**Written Testimony Submitted by:
Peter V. Lee
Executive Director
Covered California**

Good morning, Chairman Murphy, Vice Chairman McKinley, Ranking Member DeGette and distinguished members of the subcommittee. My name is Peter V. Lee, and I serve as the executive director of Covered California. It is an honor for me to be here in Washington, D.C., before this subcommittee, to speak with you about the successful implementation of the Affordable Care Act in California.

This landmark legislation has dramatically changed health care in California and America by expanding desperately needed coverage and putting in place new protections for all Americans. In California, we have moved beyond talking about "Obamacare" or the Affordable Care Act, we are now talking about the new era of health care in California that is woven into the fabric of our state and our country.

Today I am pleased to address how Covered California is working, what we consider to be the keys to our success and how we are actively improving the future of health care in California. Before I begin my testimony, I would like to give you the highlights of where Covered California stands now.

- ***California Embraced the Affordable Care Act:*** California formed the first state-based health exchange following the law's passage and began to effectively use all the tools available under the Affordable Care Act, including:
- ***Active Purchaser:*** Covered California chooses which plans participate in the exchange and then negotiates the rates, networks and quality elements to get the best value for consumers.
 - ***Standard Benefit Design:*** Covered California sets which benefits must be offered to consumers, which requires carriers to compete with one another based on premium, network, quality, consumer tools and service.
 - ***Expanded Medicaid:*** California expanded Medi-Cal, opening the door to no-cost or low-cost health insurance for millions.

- **Covered California is Working:** A recent Field Poll survey shows 68 percent of registered voters believe California has been successful in implementing the new law.
- **Strong Enrollment:** Covered California is made up of 1.34 million active consumers as of March 2015, and the U.S. Census Bureau reports California has lowered its rate of uninsured from 17.2 percent to 12.4 percent, which is the fifth-largest drop in the nation.
- **Rates Under Control:** Covered California's weighted average change for 2016 is just 4 percent, which is lower than last year's change of 4.2 percent, and a fraction of the double-digit increases we saw before the Affordable Care Act. In addition, 20 percent of existing consumers will see their rates go down if they renew their existing health plan for next year.
- **Good Risk Mix Saves Money:** Covered California's enrollees are healthy, and we used our data to negotiate a total of more than \$300 million in premium savings over the past two years.
- **More Competition and More Choice:** Covered California will add two new plans in 2016, Oscar Health Plan of California and UnitedHealthcare Benefits Plan of California. Several current plans will also be expanding the areas in which they offer coverage so all consumers will have at least two plans to choose from, and 99.6 percent of consumers will be able to choose from three plans.

Now I will go in depth to give you a comprehensive look at Covered California's achievements, challenges and its future.

Covered California Successfully Enrolls Diverse and Healthy Mix of Consumers

Covered California's success is firmly rooted in the hundreds of thousands of consumers we have helped obtain quality and affordable health care coverage. As of March 2015, Covered California had 1,342,956 consumers actively enrolled in a plan offered by one of the 10 health insurance companies currently participating in our health exchange.

Even more important than the number of people we have enrolled is the mix of those consumers. Our mix of enrollees is diverse and healthy, proving that our extensive outreach efforts are working. During our second open-enrollment period (OE2), from Nov. 15, 2014 to Feb. 15, 2015, Covered California saw substantial gains in many key demographics, particularly among subsidy-eligible Latinos, subsidy-eligible African-Americans and millennial consumers. The breakdown below shows how Covered California hit nearly all of the marks estimated by the University of California's statistical

model (CalSIM 1.91) of California's subsidy-eligible population. (See Attachment: Exhibit 1.)

	<u>Open Enrollment 2</u>	<u>CalSIM 1.91</u>
Latino	37%	38%
Caucasian	34%	34%
Asian/Pacific Islander	18%	21%
African-American	4%	5%

In addition, an independent study by the Kaiser Family Foundation confirmed that Covered California enrollees are more racially diverse than the group of Californians with private coverage. According to the study, 60 percent of enrollees identify themselves as belonging to a race other than white, with 37 percent being Latino. That compares to 50 percent of those with private coverage, with only 26 percent being Latino.

Covered California's enrollees also got younger during our second open-enrollment period. Thirty-four percent of enrollees during this time were between the ages of 18 and 34, compared to 29 percent during our first open-enrollment period.

When it comes to health status, Covered California's innovative data analysis on health care usage by its enrollees found that many were healthier and presented less risk to insurance companies than anticipated. Also, a recent report from the Centers for Medicare and Medicaid Services (CMS) showed that California had one of the lowest average risk liability scores in the country, which means Covered California's enrollees are among the nation's healthiest.

This data played a significant role in helping Covered California negotiate the best premium rates for its consumers, which we will address later in this testimony. In many ways the debate about the volume and mix of those who have enrolled should be over — the actuaries of the 12 plans we will contract with have spoken, and their proposed rate increase of only 4 percent is an affirmation of our enrollment success.

California Experiences a Massive Drop in its Uninsured Rate

There have been many significant changes to California's insurance market since Covered California opened its doors in January 2014. The most recent data on California's uninsured rate comes from the U.S. Census Bureau, which found that the state's rate dropped from 17.2 percent in 2013 to 12.4 percent in 2014, the fifth-largest drop in the nation. Since it has been more than a year since the Census data was collected, and other surveys show an even greater reduction in the nation's uninsured rate, we are confident that number is even lower at this point.

One key reason is that California, under the leadership of Gov. Jerry Brown and a new Legislature, adopted the Affordable Care Act's provisions to expand the state's Medicaid program. Covered California serves as a single entry point to apply for both Medi-Cal, which is California's version of Medicaid, and Advanced Premium Tax Credits that can be used to support the purchase of a private plan through our marketplace.

Since opening our doors, 3.7 million Californians have enrolled in Medi-Cal, with 2.3 million doing so after becoming newly eligible through the program's expansion. Even though this represents a small slice of California's overall population, a recent Field Poll found that nearly half of registered voters under the age of 65 had personally visited Covered California's website, which is up 12 points from last year. We are becoming part of the fabric of health care in California and improving the quality of life for millions.

We also saw California's individual market expand from 1.5 million to 2.2 million people, with more than 1.3 million of those people currently enrolled in a Covered California health plan. It is important to note that Covered California requires health insurance companies who offer their products on the exchange to offer the same plans, at the same prices, to consumers who purchase their coverage off exchange. Consumers also benefit from the changes in the Affordable Care Act if they are insured through their employer.

Covered California estimates that there are 2.8 million remaining uninsured in our state, so we still have work to do. However, 1.5 million are ineligible for subsidies because of their immigration status.

Covered California Has the Size and Scope to Shape the Future of Health Care

Covered California is now the second-largest purchaser of health care for those under 65 in California, and that is having a big impact on the future of health care in our state. Since we opened our doors, a total of 1.8 million consumers have been covered through the exchange for at least one month. (See Exhibit 2.) We estimate that \$6.5 billion will be generated in health plan premiums through Covered California in 2015.

We have always known since day one that consumers would come in and out of Covered California as their needs change. Many of the consumers who left the exchange have gained coverage through their employer or Medi-Cal. Others are transitioning into Covered California if they are between jobs or moving out of Medi-Cal. No matter what their situation is, Covered California will be there for them, acting in many ways as the glue that holds together the employer, public sector and individual markets.

Together these elements give Covered California the clout to shape the health insurance market and enormous power to negotiate the best rates on behalf of our consumers.

Covered California Fights on the Consumer's Behalf as an Active Purchaser

The Covered California Board adopted the policy that we would be an “active purchaser” in this new era of health care. There are four key elements to being an active purchaser that allow Covered California to fight on the consumer's behalf.

First, Covered California puts every health insurance company that wants to be a part of the exchange through a rigorous review. Covered California health insurance carriers must meet high standards of quality, affordability and accountability as they compete in the marketplace. If they do not meet these standards, we will turn them away. Most other state exchanges and the federal marketplace have adopted the “clearinghouse” model, which means they sell any carrier that is compliant with the Affordable Care Act.

Currently we have 10 plans serving the state, including some of the biggest names in the health insurance industry, along with well-known regional entities and carriers that focus on California's Medi-Cal population. Covered California has 19 rating regions across the state and many of those regions are bigger than other states in the country. Currently each region has between three and six plans serving consumers.

We will be offering even more coverage options in 2016 when Oscar and UnitedHealthcare join the fold. In addition, several of our existing health plans will be expanding into new regions. As a result, every consumer in the state will have at least two carriers to choose from, and 99.6 percent of consumers will have three carriers to choose from. (See Exhibit 3.)

Second, after choosing which plans will participate in the exchange, Covered California vigorously negotiates the premiums they can charge. Prior to the Affordable Care Act, the California HealthCare Foundation found that the annual median increase for premiums in the individual health insurance market from 2011 to 2014 was 9.8 percent.

For the 2015 individual market, Covered California negotiated a weighted average change of 4.2 percent. This was achieved in part by having data that proved Covered California enrollees were healthier and presented less risk to insurance companies than anticipated, which helped drive down the cost of health premiums. Covered California enrollees saved an estimated \$100 million in premiums because of this innovative use of information.

We did an even better job negotiating rates for the upcoming year. In 2016 the average weighted change will be even lower, at just 4 percent. Again, we used data which proved we had a good risk mix to negotiate a better deal with the health insurance companies and save consumers approximately \$200 million in premiums. As a result, if they stay with their current plan, 56 percent of consumers will have a premium change of 5 percent or less, and 20 percent of consumers will see their rates go down. (See Exhibit 4.)

Consumers also have the ability to reduce the change in their plan by shopping around for a better deal within the same metal tier. For example, the average premium change in Los Angeles County is 1.8 percent. However, consumers can save an average of more than 10 percent if they switch to the lowest-cost plan within the same metal tier. (See Exhibit 5.)

All of this good news applies to the coverage our plans offer both inside Covered California and in the off-exchange individual market — benefiting the 900,000 Californians who are not in Covered California but get the benefit of our negotiating clout and work to expand the insurance pool.

These rates also help the tens of millions of Californians with employer-based coverage in two ways: First, by lowering the number of uninsured — we are reducing the cost shift to employers and their employees from hospitals and other providers needing to make up their uncompensated care in commercial premiums. Second, all Californians can know that if they lose employer-based coverage they will have affordable insurance available to them.

The third element of being an active purchaser is that Covered California developed standard benefit designs which detail which benefits must be offered to consumers. By requiring all carriers to have standard benefit designs for each metal tier, carriers are required to compete with one another based on premium, network, quality, and consumer tools and service. The result of this work has created a strong foundation of sound rates and stability in the ever-changing health insurance market. Even health

insurance plans that are not in Covered California's marketplace must offer a product that matches the standardized design in the individual market. (See Exhibit 6.)

Covered California also negotiated an increase in the number of services that are no longer subject to a deductible, which makes it easier for consumers to get the care they need. For example, none of the outpatient care available to anyone in a Silver, Gold or Platinum plan is subject to a deductible. Consumers will also have the cost of their specialty drugs capped at \$250 per prescription per month. These are huge benefits to consumers that remove barriers to getting care.

This system also benefits anyone in California's health insurance market, because the benefits offered on the exchange must also be offered in the private market, even by plans that are not in Covered California.

By offering standardized products, Covered California is providing consumers better options, even if these options are fewer in number. We looked at Silver health plans in Colorado and Florida. While Covered California offers seven Silver plans in Los Angeles, both Denver and Miami offer 35 Silver plans each. Some of those products with the cheapest premiums mean you do not get any coverage unless you have satisfied a deductible of several thousand dollars.

For example, Covered California will increase the number of benefits that are no longer subject to a deductible in 2016. This improves access to care and helps consumers get the medical attention they need without having to first spend thousands of dollars to meet a deductible. This is contrary to what you will see in places like Denver, where 15 of the 35 Silver-level plans require the consumer to meet a deductible before the copay or coinsurance applies to a primary care physician or specialist visit. Standard benefit designs are the right thing to do for consumers.

Finally, Covered California uses its role as an active purchaser to improve the delivery of care. We recognize in the end that health care is delivered by doctors, by nurses and by hospitals, and we think it is our role to be an agent in partnership with these clinicians and their patients by working with other purchasers — like CMS, our Medicaid agency and with private purchasers — to improve how care is delivered.

The negotiations and contract requirements we have with our health plans are specifically designed to achieve the “triple aim” of better quality, healthier consumers and lower costs. As a result, Covered California requires its plans to:

- Participate in payment reform and quality collaboratives.

- Develop programs that chart progress in reducing health disparities in meaningful and measurable ways.
- Have a process that determines, monitors and records the health status of consumers over the age of 18 and use the information to promote better health among consumers.
- Encourage consumers to use their insurance and seek health and wellness services.
- Help consumers select a primary care physician, find a federally qualified clinic or team-based center (medical home) to coordinate all health and wellness needs.
- Actively help consumers with chronic conditions manage their illness through providers specializing in coordinated care for ailments such as hypertension, diabetes, asthma and heart disease.
- Provide and update information showing total costs and out-of-pocket costs for the most-used and highest-cost services.

Covered California's unique model helped it receive the highest overall grade from the National Health Council in its recent "State Progress Reports" which examined which exchanges were "beneficial for patients." The report stated Covered California "has led other states in its efforts to improve the comparability of exchange plans. Key protections in the state include the standardized benefit designs across all metal levels, including the cost-sharing reduction versions of Silver plans that are available to people with limited income. The state does not allow any non-standard plans in the exchange, which is unique among states with standardized plans. These requirements mean that all people enrolled in the same metal level plan in the state encounter the same cost sharing for the same benefits; in effect, it levels the playing field." (See Exhibit 7.)

Covered California Increases Access to Care While Maintaining Affordability

New studies provide some very early indicators that California's efforts to expand coverage are dramatically improving health care access for both Covered California's enrollees and those in Medi-Cal.

A Kaiser Family Foundation study found that 91 percent of Covered California enrollees found it was "very" or "somewhat easy" to travel to their usual source of care, which is identical in the private market. (See Exhibit 8.)

Fifty-nine percent of Covered California enrollees had a checkup or preventive visit by the fall of 2014, which is nearly twice the rate for preventive visits among the uninsured. This is not significantly different from other private markets, and if extrapolated over

time, this means more than 800,000 preventive visits have been provided through Covered California since January 2014.

A study by The Commonwealth Fund found that 86 percent of those newly covered were satisfied with their care. We are seeing people in California getting the care they need, when they need it, and that is only going to get better as time goes on.

We also have a requirement that every plan give every piece of their claims data to a third-party vendor, where it will be kept secure and analyzed to determine how plans are doing when it comes to treating specific illnesses. We will look at how the data changes for specific ages or incomes. We think this is a critical role for Covered California and something that every state-based exchange and the federal government should do to ensure that their consumers are getting the right care at the right time.

This is all being done while ensuring that Covered California enrollees can choose between health plans that offer both low premiums and low out-of-pocket costs. Our most recent data shows that (See Exhibit 9.):

- More than 69 percent of Covered California's subsidy eligible enrollees selected Silver plans, which have no deductibles for any outpatient services.
- 58 percent of all subsidy-eligible enrollees qualified for an "Enhanced Silver plan" which means even lower out-of-pocket costs when accessing care.
- More than 120,000 enrollees pay less than \$10 per month, per individual.
- Twenty-five percent of enrollees in an Enhanced Silver 94 plan pay less than \$25 per month, per individual, while more than half pay less than \$50 per month, per individual. In addition, these enrollees pay only \$3 for a doctor visit.
- Seventy-seven percent pay less than \$150 per month, per individual. (See Exhibit 9.)

Fiscal Planning and Strong Enrollment Put Agency on Solid Financial Footing

Earlier this year Covered California's Board approved its budget for the upcoming fiscal year. Thanks to our prudent fiscal planning and strong enrollment, Covered California is on solid financial footing and well positioned to serve consumers for years to come.

From day one we used federal establishment funds to get Covered California up and running. At the same time, we began saving the fees collected from our health plans and banking that money to build our future. At the start of the upcoming fiscal year, Covered California will have approximately \$200 million in unrestricted reserves. We will also have the ability to use \$100 million in remaining federal establishment funds, as allowed by law, to complete our initial launch.

When our federal funding comes to an end this year, Covered California will be totally financially independent. We will be able to maintain our momentum, remain nimble and make adjustments from year to year if necessary. If enrollment is larger than anticipated, we will look to lower the assessment we charge health plans. If enrollment were to be lower, we would look at reducing costs, reducing our reserves, raising the assessment we charge health plans or a combination of all three options. The bottom line is Covered California's business model is one that guarantees ongoing support. (See Exhibit 10.)

Core Functions of a State-Based Marketplace

Finally, we are looking ahead to the future and how state-based exchanges can maintain their own marketplace. Covered California is responsible for all the core functions of running its exchange. However, some functions require more of a local focus, while others can be done on a regional or national level. There are four key functions of what an exchange does that need to be supported:

- **Plan Selection, Contracting and Retention:** Exchanges need to offer quality plans that offer a good value. They should leverage their purchasing power to help consumers and promote consumer-friendly benefit designs and delivery system reform. This is very specific to each state.
- **Marketing, Outreach and Retention:** Exchanges must effectively reach potential consumers and support the retention of those consumers. This includes conveying the value of subsidies, supporting informed choice and support enrollment and education. These are specific to a state or locale, but there are opportunities for coordination among states that share media markets.
- **Conduct Enrollment and Plan Selection:** The website and information technology (IT) system for each exchange will conduct enrollment, determine subsidy eligibility and interface with health plans. This can be done regionally or nationally, but requires significant state-specific integration with Medicaid programs.
- **Customer Service:** Representatives who can provide clear and concise answers, over the phone or online, can be handled regionally or at the national level. However, they would require training relative to state law and plans.

As you can see, state-based exchanges have many options. They can share responsibilities with the federal exchange, or each other, to support the implementation of these functions.

Thank you for having me here this morning. California will continue to make fundamental changes to its health care system as we strive to improve the lives of millions of people. We are grateful for your support and I look forward to answering your questions and doing whatever we can at Covered California to help implement this new era of health care in our state and across the country.