



Michigan Association of Health Plans

June 9, 2009

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Representative Marc Corriveau
House Office Building, 699
124 N. Capitol
Lansing, MI 48933

Re: Economic Effects of Guaranteed Issue under HB 4934

Dear Representative Corriveau:

The Michigan Association of Health Plans (MAHP) wishes to submit, consistent with your recent request, a brief analysis of the economic effects of HB 4934, especially as it relates to premium rates under guarantee issue. MAHP has contracted with Ms. Fran Wallace, former Chief Deputy Commissioner of the Office of Financial and Insurance Regulation, to provide this analysis of HB 4934. The information she provided is set forth below and she will be available to discuss the basis of her analysis and her conclusions. MAHP now provides this information in conjunction with our earlier letters and position statements, all of which are incorporated here by reference.

Issue: How much would individual market premiums rise under HB 4934?

Answer: Individual market premiums of insurers and HMOs not affiliated with BCBSM would be an average of 22% higher under HB 4934 due to the MICAPP participation contribution. The low (\$25,000) MICAPP attachment point and the all-products guarantee issue requirement would also work to increase premiums for these carriers but data are not available to precisely quantify the amount.

Effect of Participation Contribution

Under HB 4943, each individual market carrier would have to pay a participation contribution equal to its market share based on earned premiums multiplied by the total dollar amount of all individual market paid claims paid that exceed \$25,000 per person per year. If the participation contribution turns out to be larger than what a carrier would

have paid out to cover only its own claims over \$25,000, that would increase its costs, which would, in turn, lead to a premium increase.

It is estimated that if HB 4934 had been in effect in 2008, non-Blues affiliated insurers and HMOs would have incurred \$30.6 million more in MICAPP participation contributions than they would have paid out to cover just their own claims over \$25,000. This would have raised total claim costs for non-Blues affiliated commercial insurers by 25% and raised total claims costs for non-Blues affiliated HMOs by 5%. These increases in claim costs would have led to premium increases of similar amounts. The table below illustrates this effect:

Carrier Type	# of carriers	Market Share Direct Premiums Written	Estimated paid claims > \$25,000 per person per year	Estimated MICAPP assessment	Difference due to MICAPP	Change in total claim costs
BCBSM & Affiliates	4	73%	\$243,115,303	\$212,499,917	\$30,615,385	-5%
Insurers unaffiliated with BCBSM	66	24%	\$41,479,468	\$71,198,404	\$29,718,937	25%
HMOS unaffiliated with BCBSM	8	3%	\$6,812,887	\$7,709,335	\$896,448	5%
Total individual market	78	100%	\$291,407,657	\$291,407,657	\$0	
Average % of paid claims >\$25,000		40%				

Effect of low attachment point

The low MICAPP attachment point is likely to raise claim costs (and consequently premiums) for the entire individual market, since claims over \$25,000 per person per year are a significant portion (an average of 40%) of the claims paid each year in the individual market. Each carrier will have a greatly diminished incentive to keep its own claims under the \$25,000 attachment point since it will be reimbursed for those claims by MICAPP. No carrier will have the ability to manage the claims of other carriers above \$25,000 for which it will end up paying a participation contribution, which will also tend to increase the number and amount of claims that exceed \$25,000 per person per year. An increase in such claims would lead to premium increases.

Effect of all-products guarantee issue requirement

The premium effect of the guarantee issue requirement will vary for each individual insurer and HMO. However, studies of the premium effects of all-products guarantee issue requirements enacted in other states can give some guidance about the likely effect of the all-products requirement in HB 4943. A summary of the findings of state-specific studies of individual market reforms included in Robert Wood Johnson Research Synthesis Report #4 issued in June

2004 is attached. The entire report can be accessed at http://www.rwjf.org/pr/synthesis/reports_and_briefs/pdf/no4_synthesisreport.pdf.

As you know, MAHP is committed to the ideal that the residents of the state of Michigan should have readily available and affordable health coverage. Indeed, if coverage is not affordable, then it is not, as a practical matter, available. We have seen no research or evidence that a plan like that set forth in HB 4934 will decrease premiums. We have, in fact, seen plenty of evidence to the contrary: that it will raise premiums and likely make coverage unattainable for many people.

We appreciate the opportunity to continue to work with your office and the Health Policy Committee members to develop meaningful health care reform to benefit Michigan citizens.

Sincerely,

A handwritten signature in cursive script that reads "Rick Murdock".

Rick Murdock

cc. House Health Policy Committee
MAHP Executive Committee
MAHP Reform Subcommittee