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State-Based May 20, 2026

Dear Chairman Hertel & Members of the Senate Health Policy Committee:

On behalf of the nine health plans members of the Michigan Association of Health Plans (MAHP), I would like to express our gratitude for your willingness to solicit input and comments on Senate Bills 973-977, which seek to establish a state-based exchange (SBE) and reinsurance program in Michigan.

Our members appreciate your interest in exploring policies that can make health insurance more affordable in Michigan. Public policy discussions surrounding state and federal health care exchange platforms are vital to reducing health care costs.

Unlike other health care stakeholders in Lansing, MAHP has a unique and diverse membership of health insurance providers that operate in states with established SBEs and reinsurance programs. As such, our association is uniquely qualified to share its members' experiences and provide input on fundamental policy changes crucial to the successful implementation and operation of an SBE in Michigan.

Attached are a few policy suggestions MAHP would like the committee to consider as you deliberate on this legislation. These changes would position Michigan as a national leader in providing superior access to affordable health care in the individual marketplace.

Our members would like to thank Chairman Hertel for his continued interest in policies that help Michiganders find affordable health insurance. Your continued leadership on this particular issue is commendable.

Sincerely,

Christine Shearer
Deputy Director of Legislation and Advocacy
Michigan Association of Health Plans

Amendment #1 - Fund the Reinsurance Program with Existing User Fees

Background: Every state that has established an SBE has implemented a reinsurance program to make health care less expensive for customers. Reinsurance stabilizes the insurance market and makes health care more affordable and available for customers by creating a pool for high-cost claims. State reinsurance programs are typically funded by the fees assessed on health plans for participating in the SBE.

Section 217 of Senate Bill 973 allows revenue from user fees imposed on participating health plans to be used to operate the exchange and to fund a reinsurance program. However, the bill does not earmark any amount, let alone a percentage of fee revenue, for the reinsurance program. According to research [conducted](#) by DIFS, the costs of a Michigan claims-based reinsurance program could range from \$20 to \$70 million annually, lowering premiums by 3-10%. Instead of relying on annual general fund appropriations from the Legislature, which are unpredictable at best, MAHP strongly recommends that at least half of the revenue collected from health plan fees be used to fund the reinsurance program to make health care more affordable in Michigan. If such fee revenue is not earmarked for the reinsurance program, DIFS would have discretion to use all of it to operate the SBE, which would be entirely counterintuitive to the creation of an SBE where states use cost savings to lower premiums for consumers. Without a reinsurance program, the costs of a typical health plan offering could be the same or significantly higher on an SBE than the current federal exchange, especially if the state fee is higher than the federal exchange fee, which is allowable under SB 973

Suggested Amendments: Amend SB 973

1. Amend page 23, Line 12, after the period by inserting, “The monies collected under this subsection shall be deposited into the exchange fund established in Section 218.”
2. Amend page 23, line 28, after “do” by striking out “either of”.
3. Amend page 24, following line 4, by inserting “(c) To operate and fund a claims-based reinsurance program described in section 3406nn of the insurance code of 1956, 1956 PA 218, MCL 500.3406nn.”.
4. Amend page 24, following line 4, by inserting “(6) The department of insurance and financial services shall expend at least half of the revenue in the fund for purposes of operating and funding a claims-based reinsurance program described in section 3406nn of the insurance code of 1956, 1956 PA 218, MCL 500.3406nn.”.

Amendment #2 – Provide Defrayal Cost Recovery

Background: The Affordable Care Act (ACA) contains a provision ([45 CFR § 155.170](#)) known as the “Defrayal” provision, which imposes a critical check-and-balance on states, especially those with SBEs that have greater control over benefit designs that enact laws or regulations requiring state-mandated benefits on health insurance policies that exceed federally defined essential health benefits (EHBs).

Under the ACA’s defrayal provision, if states want to mandate additional services, treatments, or benefit coverages beyond the federal EHB requirements, they must defray the increased cost to insurers or customers. As such, states are required to make payments, either to the individual

customer or to the insurer on behalf of the enrollee, to defray the additional cost these state-mandated benefits impose on premiums.

- *Example of a State Defrayal:* Pursuant to a state law passed in 2023, which led to a subsequent DIFS [bulletin](#) issued on March 16, 2023, insurers were required to provide state-managed benefits that exceed EHBs this calendar year. As such, this state action has effectively triggered the ACA's defrayal provision, which requires the state of Michigan to defray the increased cost this benefit will impose on Michigan customers.

Under a new federal [rule change](#) beginning January 1, 2028, any state-mandated benefit for care, treatment, or services imposed after 2011 is to be considered defrayed, even if the state included it in DIFS's benchmark health plan. For the past two years, MAHP has been actively working with DIFS and the Michigan Department of Treasury to formalize an official cost-recovery mechanism for state-mandated defrayed benefits. With the creation of an SBE in Michigan, policymakers and regulators will have more opportunities and flexibilities to force new benefit and coverage designs that exceed federal EHB standards. As such, a cost-recovery mechanism must be built into an SBE framework to ensure customers are not subject to higher costs for new state-mandated benefits. MAHP would suggest adding language to allow revenue collected from SBE user fees and/or state appropriations to be used to offset state mandates, as required by federal law, and to make health care more affordable for users.

Suggested Amendments: Amend SB 973

Amend page 24, line 4, by inserting “(c) Reimburse insurers or customers for defrayed state-mandated benefits as proscribed 45 CFR § 155.170.”

Amendment #3 – Allow more choice on the SBE

Background: One of the benefits of developing a State-Based Exchange (SBE) is the ability to offer different types of qualified health plan offerings for customers to purchase. This month, CMS just approved new [rules](#) for health plans providing products on the marketplace in 2027. As part of these new rules, health plans are no longer required to offer a single standardized plan, nor are they limited to a set number of non-standardized plan options, enhancing choice and plan offerings for customers beyond what is currently available on the federal exchange. SB 973 limits health plans to 4 non-standardized plans (per metal tier), which is more restrictive than what is currently allowed under the federal exchange. As such, MAHP would suggest eliminating the cap on plan offerings on a future SBE.

Suggested Amendment: Amend SB 973

1. Amend page 14, line 22 by striking all of Subsection (6)

Amendment #4 – Ensure the Reinsurance Program is Claims-Based

Background: To optimize the affordability of qualified health plans offered on a state-based exchange (SBE), states with an SBE have sought and secured a federal 1332 waiver to run a state

reinsurance program. States can seek federal approval for claims-based or condition-based reinsurance programs. Of the 19 states that have implemented re-insurance programs under federal 1332 waiver approval, 16 run traditional claims-based programs, and only three run condition-based programs. DIFS has independently and extensively [analyzed](#) the operation and expenses of running a claims-based reinsurance program in Michigan, not a condition-based program. Senate Bill 977 does not describe which type of reinsurance program DIFS can operate. Since DIFS has conducted only independent research on developing a claims-based reinsurance program, MAHP strongly recommends that “claims-based” reinsurance be enumerated in the bill to provide market certainty and predictability.

Suggested Amendment: Amend SB 977

1. Amend page 2, line 2, after “a” by inserting “claims-based”
2. Amend page 2, line 4, after “the” by inserting “claims-based”
3. Amend page 2, line 20, after “a” by inserting “claims-based”

Amendment #5 – Fees Shouldn’t be Higher than the Feds

Background: Nearly every state that operates an SBE charges participating health plans a fee based upon a percentage of premiums collected on the SBE. The federal exchange fee charged to participating health plans on the federal exchange will be 1.9% of premiums collected in 2027. Senate Bill 973 sets the fee to be no greater than or less than 1% of the federal fee (so federal fee +/- 1%). However, language in Section 217(1) is unclear as to whether the SBE board can increase this fee beyond the +1% cap by a 3/4 affirmative vote of the board or within the scope of the +1% cap. Despite this ambiguity, MAHP recommends that any SBE fee imposed on participating health plans never exceeds the federal exchange fee, to ensure that health insurance purchased on an SBE is more affordable for customers than what would be available on the existing federal platform.

Suggested Amendment: Amend SB 973

1. Amend page 22, Line 29, after “policies” by inserting “at a rate not to exceed the user fee for the federally facilitated marketplace.” and striking the remaining text through the period on page 23, line 5.

Amendment #6 – Require a Reinsurance Public Hearing

Background: According to [regulations](#) from the Centers for Medicare & Medicaid, when a state seeks federal approval for a 1332 waiver, such as the one that would be sought under Senate Bill 977 for a reinsurance program, the federal government requires that a public hearing be conducted. The current version of SB 977 doesn’t require this due process. MAHP would encourage the adoption of a statutory requirement for a public hearing.

Suggested Amendment: Amend SB 977

1. Amend Page 2, Line 13, by inserting “(c) Hold a public hearing regarding the state’s draft application.”