

Senate Bills 61 and 62: Modernizing Michigan's Health Insurance Market

Testimony

SB 61 & 62 would modernize Michigan's health insurance market

These are the key points we would like to cover with you today regarding Senate Bills 61 & 62:

1. Regulates all health insurers under the same set of rules – creating a **level playing field** to increase competition, reduce health care costs, improve quality and give customers more choices while also ensuring that **BCBSM pays state taxes**
2. Establishes an **unprecedented \$1.56 billion contribution** from BCBSM for the health of Michigan's people
3. Ensures that BCBSM will continue to be a **nonprofit, Michigan based health insurer** providing access to high-quality, affordable health insurance for Michigan citizens

LEVEL PLAYING FIELD

SBs 61 & 62 regulates all health insurers under the same set of rules, giving Michigan modern regulations that encourage a stronger marketplace

A level playing field would increase competition, reduce health care costs, improve quality, and give customers more choice

- This proposal **levels the playing field** because:
 - All health insurers would be regulated under the Insurance Code and will play by the same rules
 - BCBSM would have to pay state and local taxes like commercial insurance companies
 - BCBSM will not have any special regulatory advantages or burdens – it will be regulated under the same rules as commercial insurers

UNPRECEDENTED CONTRIBUTION

The \$1.56 billion contribution is an unprecedented opportunity for Michigan

BCBSM will make a \$1.56 billion contribution in support of creating a healthier Michigan

- BCBSM would **contribute \$1.56 billion** over 18 years to a nonprofit endowment established to invest in key health care priorities for the people of Michigan
- Funds from the non-profit Michigan Health and Wellness Endowment will not be controlled by BCBSM
- The 9-member non-profit board will be appointed by the Governor with appointee recommendations from each caucus leader
- Key interest groups will be represented on the board including representatives of minor children, seniors, the general public and business.
- Board meetings will be open to the public and accounts will be subject to audit
- Between Medigap coverage rates, taxes and the Endowment, **BCBSM will contribute more than \$4 billion to Michigan families** over the next 18 years.

UNPRECEDENTED CONTRIBUTION

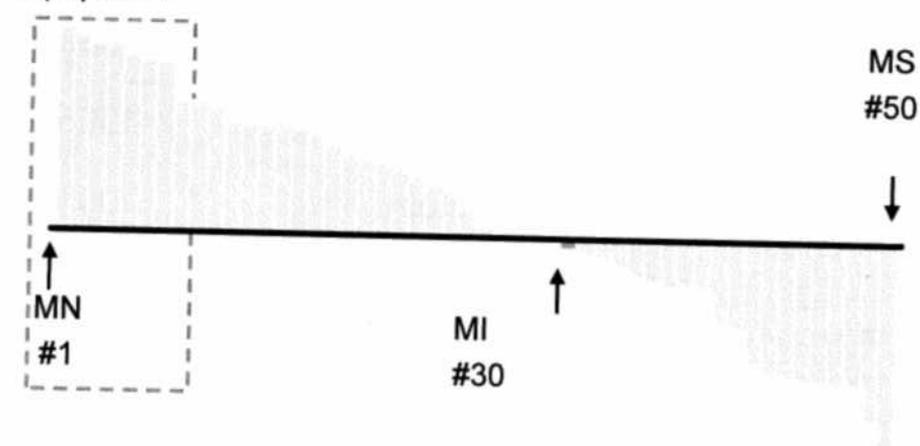
\$1.56 billion contribution can be used for health care programs to make a significant impact on Michigan health

Michigan is currently ranked 30th out of 50 states on its overall health status ...

State health status indicator composite score relative to national weighted average

Average ranking, 2000-2009

Top quartile



- Michigan is ranked number 30 based on its overall health status indicator; ranking lower on key health care areas are as follows:
 - Number 39 on diabetes
 - Number 33 on smoking
 - Number 42 on obesity
- Focused, outcome driven spending could result in significant improvements even by attaining national average**

... and improvements to health status can drive significant economic competitiveness

- Poor population health drives significant labor force productivity and economic performance loss
 - Lost economic output due to health reasons represents \$260 billion per year in the United States¹
- Given Michigan's health status ranking, it is likely to bear a disproportionate share of this economic loss
- BCBSM's contributions can drive a significant reduction in the economic loss by:
 - Improve the citizens' health
 - Improve overall productivity
 - Create a more competitive business climate with lower health care costs
- Even a modest improvement (e.g., 5%) can drive as much as a half-billion dollars in annual improvement in productivity, encouraging a more competitive business climate**

¹ Health reasons include not working, sick days, and subpar productivity

Source: The Commonwealth Fund (2005), www.americashealthrankings.com

UNPRECEDENTED CONTRIBUTION

BCBSM's \$1.56 Billion contribution would far exceed any other contribution from nonprofit to nonprofit transitions

EXAMPLES

<u>Not for profit mutuals</u>	<u>Total contributions USD millions</u>	<u>Membership at mutualization Millions</u>	<u>Type</u>	<u>Year of mutualization</u>
Idaho	0	0.6	Mutual	1994
Illinois ¹	124	2.4	Mutual	1982
North Dakota	0	0.4	Mutual	1998
New Mexico ²	55	0.2	Mutual	2001
Oklahoma	0	0.6	Mutual	2005
Texas	10	4.8 ³	Mutual	1998
Proposed Michigan	1,500	4.3		2012

- Contribution would be larger than any other nonprofit mutualizations
- BCBSM is committed to nonprofit status and to retain jobs within Michigan

1 Illinois mutualized to join HCSC in 1984. In 1998, BCBS Illinois merged with BCBS Texas (then a non-mutual non-profit) to form HCSC under mutual structure.

2 Total contributions of \$55M; \$20M endowment to its foundation and \$35M towards existing liabilities.

3 Represents current membership, membership at mutualization not available.

COMMITMENT TO MICHIGAN

Senate Bills 61 and 62 guarantee that BCBSM will continue to be a nonprofit, Michigan-based health insurer

Remaining nonprofit allows us to retain our focus on providing access to affordable care by keeping costs and margins low -- not maximizing profit

BCBSM has been and will always be committed to being a Michigan company serving the people of Michigan

- The legislation **specifically will NOT allow** BCBSM to become a for-profit company
- BCBSM would not be sold to an out of state company, preserving jobs and growth opportunities here in Michigan
- BCBSM will continue to be governed with members on its board of directors representing diverse health care stakeholders
- BCBSM will continue to serve as insurer of last resort until 2014, when all insurers will share that responsibility

COMMITMENT TO MICHIGAN

BCBSM cannot be sold or convert to a for-profit

- In cases where a nonprofit converts to a for-profit company, it is tradition to do a “valuation” of the assets of the nonprofit organization before those assets are sold
- **BCBSM is neither being sold nor being converted to a for-profit company. In fact, these bills prohibit BCBSM from becoming a for-profit company**
- In the unlikely event of a sale, however, the “Schuette” amendment adopted in the Senate ensures that the people of Michigan would then be entitled to proceeds equal to the fair market value of Blue Cross and its subsidiaries at the time of the transaction

The legislation now assures that the assets of Blue Cross will be protected with a security provision which "locks in" the assets to ensure that the people of Michigan will remain the owners of those assets forever. Forever.... Should Blue Cross decide to go public or merge with another company in the future, all the proceeds of that sale, potentially billions of dollars, would be paid over to the people of Michigan.

– Attorney General Bill Schuette (Detroit News, 10/30/12)

COMMITMENT TO MICHIGAN

SBs 61 & 62 ensure Seniors will continue to have access to affordable, high quality care

- The legislation ensures the AG agreement to freeze Medigap Rates for the next four years will stay in place
- After the freeze, the endowment will be required at least until 2021 to continue to subsidize the Medigap program to help seniors in need, and \$120 million will be dedicated in the new nonprofit fund to subsidize Medigap coverage.
- This new Medigap structure will not require small business to pay more for BCBSM insurance to fund the subsidy – which harms their ability to provide insurance for their employees and create jobs
- Medigap alternatives for seniors, like BCBSM Medicare Advantage, are similar in cost, yet offer more comprehensive benefits. Medicare Advantage is also community rated and guaranteed issue.

COMMITMENT TO MICHIGAN

Seniors have health coverage alternatives to Medigap that are similar in cost, yet offer more comprehensive benefits

	Medigap package		Medicare Advantage package		
	Coverage	Included?	Coverage	Included?	
Health benefits offered	▪ Medicare Part A	✓	▪ Medicare Part A	✓	Most Medicare Advantage plans provide at least the same coverage and often at a lower cost (including some with Part B subsidy)
	▪ Medicare Part B	✓	▪ Medicare Part B	✓	
	▪ Prescription benefits	✓	▪ Prescription benefits	✓	
	▪ Vision	✓	▪ Dental	✓	
			▪ Vision	✓	
			▪ Coverage for conditions excluded under Medigap (infusion therapy, etc.)	✓	
Oakland county example	Medicare Part B	\$99.90	Medicare Part B	\$0	In many cases, Medicare Advantage provides better coverage at a meaningfully lower cost
	BCBSM Legacy Medigap	\$122.86	BCBSM Medicare Plus PPO (Inc. Part B Premium)	\$112.40	
	BCBSM PDP B Premium	\$87.30	Total OOP	\$243.0	
	Total OOP	\$75	Monthly total	\$355	
	Monthly total	\$385	Yearly Total	\$4,260	
	Yearly Total	\$4,620			MA plan includes dental ¹

¹ Dental coverage is approximately \$35 to \$40 per month in total costs if purchased separately

COMMITMENT TO MICHIGAN

BCBSM will remain committed to Michigan

Michigan jobs:
BCBSM
supports over
7,000 jobs

Michigan cities:
97% of Blue
workforce is
located in the
downtown areas
of Detroit,
Lansing and
Grand Rapids

*Michigan
economy:*
BCBSM has
spent over \$331
million in 2010
with Michigan-
based suppliers

Michigan health:
Provides health
insurance to
over 4 million
people
regardless of zip
code

- BCBSM is a **nonprofit Michigan company**, an independent licensee of the Blue Cross and Blue Shield Association, that represents our members to ensure they have access to the health care they need, when they need it and at a price they can afford.
- For the past 70 years, BCBSM has worked as a **committed partner** with health care providers, businesses, labor, state government and consumers to improve Michigan all around

BCBSM's goals and purpose would remain the same:
Remain committed to Michigan, expand access to health care,
control health care costs, and improve health care quality

Senate Bills 61 and 62 represents countless hours of hard work and compromise that has earned the support of leaders across Michigan. Join them in supporting the modernization of Michigan's insurance market:

Michigan Association of Health Plans:

"We are pleased that the final version... addressed the key issues that we advocated... We continue to believe that these changes are critical in moving Michigan toward a more competitive health insurance market place."

Frank Kelley, Former Attorney General:

"...gives Blue Cross a mission that isn't dictated by thirty-two-year-old needs, but that is right for the future."

Small Business Association of Michigan:

"We are encouraged that this legislation will drive Michigan toward a level playing field for BCBSM, commercial insurers and HMOs, and will streamline the outdated insurance regulatory system."

Job Providers:

- Small Business Association of Michigan
- Michigan Chamber of Commerce
- Detroit Regional Chamber
- Lansing Regional Chamber of Commerce
- Grand Rapids Area Chamber of Commerce
- Traverse City Chamber of Commerce
- Northern Michigan Chamber Alliance
- Michigan Business and Professional Association

Providers:

- Ascension Health
- Beaumont Health System
- McLaren Health System
- Sparrow Health System
- Trinity Health System
- University of Michigan Health System
- Michigan Osteopathic Association

Newspapers

- Detroit Free Press
- Detroit News
- Port Huron Times Herald

Other

- Michigan Municipal League

Editorial: Streamlined Blue Cross bills deserve support

January 24, 2013

Last year, Gov. Rick Snyder announced a plan to reconfigure Blue Cross Blue Shield of Michigan, a charitable nonprofit, as a mutual insurance company.

The Blues have served as Michigan's insurer of last resort for 29 years, but the Affordable Care Act, which requires all insurers to offer certain basic insurances of last resort, makes that status obsolete.

Hence the plan to reformat the Blues, a plan supported on this page.

Then came the Michigan Legislature's lame duck session, and the votes of head scratchers that resulted. Among them was the convoluted insertion of abortion language into the Blue Cross bills. Legislators sought to force women to purchase an optional abortion in order to have such services covered by insurance.

The requirement would have affected all insurance coverage in the state, not just coverage offered by Blue Cross.

An unwanted pregnancy is, almost by definition, an unforeseen circumstance, requiring women to purchase additional coverage well in advance was nothing more than a crass attempt to hijack the Blue Cross bills for ideological purposes.

That maneuver by thoughtful members of the Legislature elicited what Snyder, who supports the reformation of Blue Cross, voted in a bill on grounds that the abortion language was an unnecessary intrusion into the private market. Snyder also objected to the bill's no-exception-for-abortion case-trap, in case it were to save the life of the mother.

Now, the Legislature is taking a second crack at reforming Blue Cross with a new package of bills that are, in the form of ideological camouflage.

A provision revoking the organization's tax-exempt status would provide a needed influx of tax revenue to the state but also to local governments, and would bring Michigan into compliance with a provision of the Affordable Care Act that requires states to regulate all insurers the same way. The move would also make BCBS more competitive by freeing it to set rates and respond more quickly to market changes.

Under Snyder's plan, Blue Cross would pay about \$100 million a year to state and local governments while retaining its nonprofit status. It would pay about \$1.5 billion over 18 years into a separate nonprofit foundation that would continue Blue Cross' charitable mission.

It also would spread high-risk patients around, freeing the Blues from a disproportionate share of that market.

As we've written before, the move makes sense for everyone.

Legislators need to make sure that others currently covered by the Blue Cross Medicaid program aren't left at a financial disadvantage if the bills can be further improved in that regard. They should do

For the Blues really needed this reform by the turn of the new year, to be able to compete fairly with other insurers. With that deadline passed, lawmakers should move quickly to make this necessary reform a reality.

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Detroit Free Press editorial, 1/24/2013

We should act now to modernize Michigan's health insurance market

Key features of Senate Bills 61 and 62:

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2. Establishes an **unprecedented \$1.56 billion contribution** from BCBSM for the health of Michigan's people
3. Ensures that BCBSM will continue to be a **nonprofit, Michigan based health insurer** dedicated to guaranteeing that all Michigan citizens have access to high-quality, affordable health insurance

Questions?