



1301 Fifth Avenue
Suite 3800
Seattle, WA 98101-2605
Tel +1 206 504 5603
Fax +1 206 682 1295
Email: tim.barclay@milliman.com

January 28, 2009

Mike Kreidler
Insurance Commissioner
Office of the Insurance Commissioner
P.O. Box 40258
Olympia, WA 98504-0258

Re: Guaranteed Health Benefit Plan

Dear Commissioner Kreidler:

In response to your request, we have summarized key aspects of the Guaranteed Health Benefit Plan.

The Guaranteed Health Benefit Plan (GHBP), as presented by the Washington State Office of the Insurance Commissioner (OIC), provides universal coverage for Washington residents with a basic benefit package. The GHBP benefit package includes a specified set of preventive services and full coverage for catastrophic health expenditures, defined as allowed charges in excess of \$10,000 per year. The benefit is designed to complement existing employer-based coverage, with a goal of minimal disruption to the existing market, while at the same time ensuring a portable, universal benefit package.

The OIC has proposed a broad-based funding mechanism, with the stated purposes of equity, shared responsibility and the recognized need for sufficient revenue to support the program. The initial funding concept includes a 1% payroll tax on all residents and a payroll tax on employers that ranges from 3% to 5% based on employer size. OIC economic analyst Jim Keogh has concluded that the projected revenue from these taxes will adequately cover the estimated cost of the program.

Milliman has supported the OIC in their efforts to model the financial aspects of the GHBP. In addition, Milliman has advised OIC's GHBP work group during their policy deliberations on the plan. This work continues with some details still being fine tuned, as briefly discussed throughout this summary. This overview summarizes the following major components of the GHBP:

- Covered benefits
- Coordination with existing coverage
- Large employer case study findings
- Impact on various market segments
- Details actively being analyzed

Covered Benefits

The covered benefits are expected to include a package of preventive health services requiring no cost sharing for Washington residents. The specific list of services initially modeled mimics the list



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of covered preventive services for the Uniform Medical Plan as offered to State employees. Examples of covered preventive services are physical exams, mammograms, pap smears, colonoscopies, and other screenings.

The catastrophic benefit covers all allowed charges in excess of \$10,000 per year for each resident. This benefit also proposes no cost sharing for the member beyond this point. The GHBP does not include coverage other than preventive services that are below this \$10,000 cost threshold, but defines this remaining coverage corridor as an opportunity for insurance through a “routine benefit plan.” Typical routine benefit plans would likely include many of the cost sharing features of current products in the market (deductibles, copays and coinsurance).

Coordination with Existing Coverage

A primary goal of the GHBP is to avoid unnecessary disruption to the existing health insurance marketplace, while offering a universal, portable benefit package. In support of this objective, several features of the proposal are worth noting.

- For those with existing benefits that exceed the minimum coverage of the GHBP, the expectation is that they will see no change in their coverage. From a funding perspective, such a comprehensive benefit package in the current market would be split into the GHBP (funded by the payroll tax receipts) and the routine benefit package (funded through premiums paid by the resident and their employer). For these residents, the GHBP will be provided by the same health insurer as the routine benefit package in order to maintain the coordination of care and to minimize administrative costs.
- For those with existing coverage that does not meet the minimum coverage requirements of the GHBP, residents would see a coverage enhancement to meet this minimum level. This situation is common in the current individual market, where member cost sharing provisions often exist in excess of the \$10,000 threshold.
- For insured programs, whether employer-sponsored or individual, the GHBP payroll tax would pay the health insurer of choice for the value of the GHBP coverage (approximately 37% of the cost of a comprehensive benefit package in the current market).
- As a result, routine benefit packages would have a premium of roughly 63% of the cost of a comprehensive benefit package in the current market.
- Self-insured employers would be eligible to receive the GHBP funding, much like a health insurer, thereby avoiding disruption to the self-funded benefit plan. Self-funded plans will be required to meet the GHBP minimum coverage threshold in order to receive the GHBP funding.
- It is important to note that the GHBP provides funding for premium payments to cover the expected costs of preventive and catastrophic services. The GHBP is not a reinsurance program. Therefore, the risk bearing entity, whether a health insurer or a self-funded employer, will continue to be exposed to the same risks regarding high cost claims as in the

current market. The GHBP does not change the need for these organizations to acquire reinsurance protection, as appropriate.

Large Employer Case Study Findings

Several large employers, both public and private, have generously contributed the experience of their health benefit programs for analysis under the GHBP model. In addition, they have provided valuable feedback regarding the program mechanics. The following is a sample of the findings from these case studies.

- Benefits generally exceed the GHBP minimum.
- It is not uncommon, particularly for collectively bargained benefits, for employees to directly pay less than the proposed 1% payroll tax amount in current premium contributions.
- The financial results under the GHBP concept compared to current costs vary by employer group. Several key factors improve an employer's financial picture under the GHBP:
 - Coverage of a high percentage of employees, because the payroll tax is assessed on all payroll including those not currently offered coverage.
 - Lower average wages. Since current health insurance premium costs are largely independent of income, the GHBP funding mechanism based on a percentage of payroll produces a different outcome.
 - Coverage of dependents. Because of the payroll tax funding mechanism, current coverage of dependents produces a more favorable relative outcome under the GHBP with direct premiums reduced while dependents do not add to the taxable payroll of that employer.

The large employers contributing to these case studies also provided feedback regarding the mechanics of the program. Comments and critiques included the following:

- Employers were generally supportive of the concept, particularly the emphasis on minimizing disruption and requiring broad participation.
- For some, a payroll based assessment presents a flavor of inequity, because an employer offering relatively higher wages for comparable positions is "punished" by paying higher GHBP payroll taxes.
- Multi-state employers view the GHBP, or any other state specific health insurance reform, as administratively burdensome. They prefer a national solution.
- Concerns were presented as to whether the cost reductions introduced through the GHBP would be fully reflected in carrier pricing of the routine benefit package.
- The payroll tax may create a disincentive to locate high wage employees, such as corporate officers, in Washington.



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Impact on Various Market Segments

Those most significantly affected by the implementation of the GHBP would be the uninsured. The primary objective of the GHBP is universal coverage. With the only requirement for eligibility being a minimum period of state residency, the number of Washington citizens without coverage will be nearly eliminated. In addition, the availability of a lower cost routine benefit package may make comprehensive coverage more feasible.

At the same time, those currently insured will also see an impact of the GHBP. Those covered in the individual market will realize a significant reduction in their monthly premiums, as the GHBP funds the preventive and catastrophic components. In addition, many will see coverage enhancements, as member cost sharing is eliminated for the GHBP covered services. It should be acknowledged that for many in the individual market, employers not currently contributing to their health insurance premiums will be assessed the payroll tax. For some, this could impact future wages.

For those covered in the employer markets, the GHBP would likely only create modest reductions in member cost sharing, resulting in little change to their benefit package. Funding requirements would be reconfigured, as employers would modify current premium contribution requirements in response to the GHBP payroll tax for individuals and employers. For some, collective bargaining agreements would need to be revised. In some cases, employers would be expected to fund the costs of the 1% employee payroll tax.

The GHBP does not cover those enrolled in a Federal health insurance program, such as Medicare or Medicaid.

Details Actively Being Analyzed

The OIC's GHBP committee continues to actively work on several issues important to the functionality of the program. The first is the funding mechanism. The equity concern presented during the large employer case studies has motivated additional research into alternative approaches to the assessment. The OIC is currently evaluating a fixed assessment rate based on job class and FTE status. A payroll tax wage cap similar to Social Security is also being considered.

Another feature being explored, particularly for the benefit of large, multi-state employers, is a waiver option. Through certification of meeting the minimum benefit requirements of the GHBP and payment of a minimum assessment, such employers could be excluded from the broader transfer of funds proposed through the payroll assessment and GHBP premium payment process.

The OIC continues to work on the GHBP premium distribution methodology. At this time, high priority concepts include premium adequacy, equity in the distribution of payments through the use of risk adjustment, and administrative simplification. As the model moves forward, the OIC will continue to engage the health insurers and other stakeholders in the design of this process.



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The OIC also recognizes that the program needs to be flexible going forward and has constructed a model where the ultimate administration of the program is managed by an appointed and representative board. This board would need to manage the administrative processes and ensure the financial solvency of the program.

Caveats

The information contained in this letter has been prepared for the Washington State Office of the Insurance Commissioner (OIC) and their consultants and advisors. It is our understanding that the information contained in this letter may be utilized in a public document. To the extent that the information contained in this letter is provided to third parties, the letter should be distributed in its entirety.

Actual results will vary from these estimates for many reasons, including program modifications, medical inflation, and plan design changes, as well as other random and non-random events. The details of the GHBP operation are not completely settled at this time. The analysis should be revisited as the details of the program become final.

Please let me know if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Timothy S. Barclay". The signature is written in a cursive, flowing style.

Timothy S. Barclay, FSA, MAAA
Principal & Consulting Actuary

/kcp