Comprehensive

High Risk

Pool- 1/23/96

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Mark Boyer, Commissioner
Department of Administration
PO Box 110200
Juneau, Alaska 99811-0200

Dear Commissioner Boyer:

Aetna is compelled to bring to your attention a worsening problem with the financing of Alaska's Comprehensive Health Insurance Association (CHIA) plan. The financial problem has a direct bearing on the State of Alaska Health Insurance Plan as well as to CHIA itself.

As you recall, CHIA was established by legislation in 1993 to provide health insurance to persons not otherwise eligible for private insurance. To qualify, individuals must have been denied coverage by at least two prior carriers (or have certain diagnosed medical conditions regardless of carrier denial status) and be a current resident of Alaska. Assessments for any losses in the program are borne proportionally (based on market share) by health insurers writing fully insured or partially insured policies in Alaska. CHIA is based on a model which has been enacted in about half of the other States. Aetna, along with other insurers, supported the legislation as a way of covering individuals who would otherwise be uninsurable.

CHIA is managed by a Board of Directors, which include members of various insurers operating in Alaska. Aetna was the sole bidder for administration of the plan and has served in that role since 1993. For this reason, Aetna has first hand knowledge of CHIA's performance, and was first to see the developing problem.

It was originally assumed that CHIA would be managed to be self supporting, or at least as close to break even as possible. Because CHIA rates can be set up to 200% of the statewide average of individual policy rates of the 5 largest individual policy writers (current rates are 175% of that average), it was thought that even though participants are high risk, the established rate would be sufficient. After two and one half years of experience, that assumption has proved to be wrong. Even though there are only 190 members of the plan at present, total deficits through 1995 were $1,700,000. The deficit is projected to rise by an additional $3,871,800 for 1996.

Aetna, with its large share of the Alaska indemnity market pays 37% of these losses. Blue Cross is second at 33%. The remaining insurers pay a combined total of 30%. The losses have become too large to bear in a small market and will soon make Aetna's business untenable. We assume that any other insurer in the same position would come to the same conclusion.

How is this problem related to the State of Alaska Health Plan?

The primary reason that Aetna pays the largest share of losses from CHIA is that it insures the State of Alaska. Any insurer which provides coverage in its current form to the State automatically incurs this liability. While this liability has not been factored into past health insurance rates to the State, it must be in the future due to its rapidly increasing size. In 1995 Aetna's assessment for CHIA was approximately $600,000, three quarters of which was due to the State of Alaska account. Next year, Aetna's share of the assessment could double if CHIA's loss ratio continues according to current trend.

Why are losses so high in CHIA?

The current CHIA premium ranges from $135 to $694 /month per individual (see attached schedule) with an average enrollee premium of $261. Claims payments are running at $1100/month per individual. This figure compares to an average high risk pool cost of approximately $400/month in the rest of the United States. The Alaska high risk plan is one of the only plans in the country not based on a managed care point-of-service (POS) or HMO offering. Additionally, many of the other plans contain some form of aggressive case management to control medical costs. Therefore, Aetna assumes that lack of managed care is at least partially responsible for the high cost of claims. It may also be that the small number of participants in the plan results in too little risk sharing; however, as more participants are enrolling, the losses are becoming greater rather than smaller.

What can be done administratively to reduce claim costs?

Aetna has proposed to the Board that a case manager be system be employed to play an active role in each case involving expensive treatments. This normally results in more cost effective treatment with the same or better outcomes for patients. Aetna has also proposed that a hospital only PPO plan be offered in addition to the current offering as an option to plan members. If adopted by the Board, these changes should have some beneficial impact on claim experience, but will not be sufficient to solve the financial crisis.

What can be done to maintain CHIA as a viable plan?

Some form of equitable funding mechanism needs to be adopted by legislation. A broad based tax to directly fund CHIA losses would be most equitable, however that would be politically difficult to enact. A premium tax offset for health insurers would be a limited solution, but may be difficult to enact due to the diversion of existing premium tax receipts from the General Fund and is further complicated by the fact that the State of Alaska does not pay the premium tax on its own health plan. A premium tax increase would raise additional funds which could be informally dedicated to cover CHIA losses. That approach avoids the loss of existing revenues to the State, but raises the question of who pays the premium tax. (The State and self insured companies do not pay premium taxes under current law). A medical services provider based tax would be a way to indirectly spread any assessment obligation to both insured plans and self-insured plans otherwise protected by ERISA from direct assessment, but would likely be politically unpopular and be more expensive to collect than a premium based tax.

What is the "State's share" of the CHIA assessment and how might it be paid?

As stated above, the CHIA assessment attributable to the State account was approximately $450,000 in 1995 and could increase substantially in 1996 and beyond. Upon agreement by the State, this could be handled by an explicitly itemized plan retention charge. The charge could be offset against interest credits which accrue to the State as part of the annual plan experience accounting. The most recent interest credit to the State was just over $3,000,000.

What will happen if nothing is done to solve this problem?

The losses for the high risk pool will likely exceed the profits for the underlying indemnity business in Alaska. There will be little or no incentive for insurers to provide indemnity coverage in Alaska unless the insurers build a "CHIA assessment" into their rates. The higher this assessment becomes, the more businesses and public entities will be forced into self insured plans, and the higher the rates will become for businesses too small to self insure. And we don't believe it is equitable to force insurers to consider such a significant cost of doing business to be absorbed in administrative overhead, thereby creating the impression that administrative costs are too high.

Enclosed for your review are the CHIA claim experience trend line and comparative data on Alaska's high risk plan along side other state plans. Any other data which would assist in your review will be provided upon request.

We wish to enlist your cooperation in working on an appropriate solution to this issue this coming legislative session. Please let us know which option would be deemed most appropriate by the State solve the problem.

Sincerely,

Jim Hickey

CHIA Comparative Benefits - By State				Updated 11/13/95 using Ninth edition CHHI analysis manual				
		Benefits						
State	Participants	Lifetime Max.	Deductibles	Waiting Period	Pre-existing	Stop Loss / Out of Pocket	Premium Cap	Co-Insurance
Alaska	128	$1,000,000	$500/$1,000/$1,500	6 months	3 months	$2,000/3500/7500/10.000	200%	80%
California	19,353	$500,000 / $50,000 ann.	$500 PPOs, $0 HMOs	90 days	6 months	$2,000/Indiv. $3,000/Fam.	125%	
Colorado	1,921	$500,000	$300/$750/$2,000	6 months	6 months	No Limitations	150% Initial 175% Max.	
Connecticut	1,364	$1,000,000	$0/$200/$500/$1,000	12	6 months	HMO: $2,500 PPO In-network: $2,500 PPO Out of network: $5,000	125% Initial 150% Max.	HMO. 100% PPO: 80/60
Florida	2,387	$500,000	$1,000/1,500/2,000/ 5,000/10,000	12	6 months	Deductible + $10,000 of eligible charges	200% low risk 225% medium risk 250% high risk	Case Mgt: 90% to $10000, then 100%. PPO Network: 80% to $10000, then 90%. Out of network: 60% to $10000, then 70%.
Georgia	*0*	*$500,000 / $100,000 ann.*	*$500/$1500*	*6 months*	*6 months*	*$2,000*	*125% Initial 150% Max.*	
Illinois	4,755	$500,000	$500/$1,000/$1,500	6 months	6 months	$2000/2500/4000	135%	80%
Indiana	4,638	None	$500/$1,000/$1,500	6 months	6 months	$1000/2000/2500	150%	80%
Iowa	1,341	$250,000	$500/$1,000/ $1,500/$2,000	6 months	6 months	$1500/2000/2500/3000	150%	80%
Kansas	619	$500,000	$1,000/$5,000	90 days	6 months	$5,000	Varies	70% (90% after $5000)
Louisiana	386	$500,000 / $100,000 ann.	$1,000/$2,000	6 months	6 months	$3500/4500	150% Initial 200% Max.	75%
Maine	*307*	*$500,000*	*$500*	*90 days*	*90 days*	*$1,500*	*150%*	
Minnesota	33,471	$1,500,000 / Medicare is unlimited	$500/$1,000	6 months	90 days	Med/Surg: $3,000 Medicare Sup: $1,000	125%	"Coverage for the Rider for 80% of U&C."
Mississippi	610	$250,000	$500/$1,500	6 months	6 months	$0 With Exception: $5,000 cap on charges to "fair market price" hospitals	150% Initial 175% Max.	80%
Missouri	931	$1,000,000	$500/$1,000	12	6 months	$2500/5000	150% Initial 200% Max.	80% in network 50% out of network
Montana	268	$250,000	$1,000	12	5 years	$5,000	150 - 400%	80%
Nebraska	3,331	$500,000	$2,000 (PPO: $250/$2,000)	6 months	6 months	$2,000	135%	80% in network 70% out of network
New Mexico	1,124	$750,000	$500/$1,000/$2,000	6 months	6 months	$2000/3000/5000	150%	80%

State	Participants	*Benefits* Lifetime Max.	Deductibles	Waiting Period	Pre-existing Period	Stop Loss / Out of Pocket	Premium Cap	Co-Insurance
North Dakota	1,422	$1,000,000	$500/$1,000	180 days / 270	90 days	$3,000	135%	
Oklahoma	0	$500,000	$500/1000/1500/ 2000/5000/7500	12 months	6 months			
Oregon	4,313	$1,000,000	$500	6 months	6 months	$1500 indemnity/PPO $2000 MC	150%	80% in network 60% out of network
South Carolina	1,264	$250,000	$500	6 months	6 months	$1,500 indemnity $2000 PPO	200% Initial 300% Max.	
South Dakota	*0*	*$500,000*	*$500/$1,000/ $5,000/$7,500*	*6 months*	*6 months*	*Not yet determined*	*150%*	
Tennessee	1,782	None	$250/1000	None	None	$0/1250/5000	150%	80% in network 50% out of network.
Texas	*0*	*$500,000*	*$250+(Indiv.) $500+(Fam.)*	*6 months*	*6 months*	*$2,000*	*150 - 200%*	
Utah	710	$500,000 / $150,000 ann.	$500/$1,000	6 months	6 months	$1500/2000	150%	80% in network 60% out of network
Washington	1,307	$500,000	$500/$1,000/ $1,500	6 months	6 months	$1000/1500/2500/3500	150%	80%
Wisconsin	10,864	$500,000	$1,000 or $500 w/ Supplement	6 months	6 months	$500/2000	0%	80%
Wyoming	200	$250,000	$500/$2,000/$3,000	12 months	6 months	$3,000	150 - 200%	80%/70%

What are the Rates?

Major Medical Rates/1993-1995

Deductible	$500		$1,000		$1,500	
Out of Pocket Maximum	$2,000		$2,000		$2,000	
Adult Age	Monthly	Quarterly	Monthly	Quarterly	Monthly	Quarterly
<18	$135	$405	$ 98	$294	$ 89	$267
19-24	$240	$720	$175	$525	$159	$477
25-29	$243	$729	$180	$540	$163	$489
30-34	$289	$867	$212	$636	$193	$579
35-39	$306	$918	$225	$675	$204	$612
40-44	$363	$1089	$268	$804	$243	$729
45-49	$418	$1443	$308	$1924	$279	$837
50-54	$510	$1530	$380	$1140	$344	$1032
55-59	$586	$1758	$438	$1314	$397	$1191
60-64	$694	$2082	$520	$1560	$471	$1413

Deductible	$2,500		$5,000		$10,000	
Out of Pocket Maximum	$3,500		$7,500		$10,000	
Adult Age	Monthly	Quarterly	Monthly	Quarterly	Monthly	Quarterly
<18	$74	$222	$52	$156	$38	$114
19-24	$131	$393	$92	$276	$67	$201
25-29	$135	$405	$94	$282	$68	$204
30-34	$159	$477	$112	$336	$81	$243
35-39	$169	$507	$118	$354	$86	$258
40-44	$201	$603	$141	$423	$102	$306
45-49	$230	$690	$162	$486	$118	$354
50-54	$284	$852	$199	$597	$145	$435
55-59	$328	$984	$230	$690	$167	$501
60-64	$389	$1167	$273	$819	$198	$594

Medicare Supplement Rates/1993-1995

	Plan A		Plan I	
Adult Age	Monthly	Quarterly	Monthly	Quarterly
69 & under	$79	$237	$182	$546
70-74	$90	$270	$205	$615
75-79	$96	$288	$222	$666
80+	$102	$306	$236	$708

Note: All premiums are payable quarterly. Monthly rates are shown for comparison purposes only. Rates have not changed since inception of Plan

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HIA RATES