MEMO
To: John Walsh
From: Jamie Zaniewski
Date: January 29, 2016
Subject: Medigap

BCBSM Prior to 2014:
BCBSM was regulated under The Nonprofit Health Care Corporation Reform Act (PA 350) and was considered a charitable and benevolent institution. Its funds and property were exempt from taxation. As part of its charitable mission BCBSM was required to subsidize Medicare Supplemental coverage (Medigap) for eligible individuals. Per BCBSM this subsidy costs around $200 million each year (around $70 per member, per month).

Under PA 350, BCBSM was authorized to seek rate increases (similar to insurers regulated under the Insurance Code) for its Medigap coverage. However, in 2011 BCBSM entered an agreement with the Attorney General to freeze its Medigap rates for the following 5 years at the rate of $123.00 per month (the freeze ends 7/31/2016).

Mutualization of BCBSM (2014 and forward):
Effective January 1, 2014 BCBSM converted from a charitable and benevolent institution to a nonprofit mutual insurer; regulated under the Insurance Code. Under PA 4 (2013), BCBSM is required to make annual social mission contributions to the newly created Michigan Health Endowment Fund (newly created in the bill) totaling 1.56 billion dollars over the next 18 years. According to PA 4, one of the many purposes of the Fund is to continue to subsidize the cost of individual Medigap coverage to Medicare eligible Michigan residents who demonstrate financial need. According to the law, the Director of DIFS must develop a "means test" which will be used to determine who is eligible for the new subsidy; the Attorney General must approve the means test. Per the law, over the next 5 years (beginning August 1, 2016 through December 31, 2021) the Fund shall disburse in total $120 million for Medigap subsidies.

Where We Stand Today:
Between the rate freeze ending (7/31/2016) and BCBSM no longer providing the on average $70 per member, per month subsidy (effective 1/1/2017) it's estimated that around 200,000 Michigan seniors will incur a large increase in their 2017 premium for BCBSM Medigap coverage.

Currently all seniors who have BCBSM Medigap receive the generous subsidy; regardless of their income level. Because of this, you have seniors who in no way should be receiving a financial subsidy paid for by BCBSM's entire membership, and on the other end of the spectrum you have some seniors who could most likely qualify for Medicaid as their secondary insurer but don't look because BCBSM is semi-affordable for them right now. The changes to BCBSM Medigap program beginning 1/1/2017 will "true-up" these two groups.

There are numerous commercial insurers in Michigan who sell Medigap policies, however, because they do not offer a subsidy their rates are not competitive with BCBSM. For example, Michigan's second largest Medigap provider (UnitedHealthcare – AARP) charges an 85 year old individual $346 per month for the same coverage that BCBSM currently offers for $123.00. DIFS' legal team has determined that all

Medicare eligible residents choosing a Medigap policy will be eligible for the income based subsidy called for under PA 4, regardless of the insurer (no longer limited to BCBSM). Therefore, the Medigap insurance market will be competitive for the first time in Michigan.

Lastly, health insurers such as BCBSM would prefer their senior population move to Medicare Advantage plans. Because Medigap polices will most likely be more expensive than Medicare Advantage plans, we can anticipate many of the current Medigap population moving to Medicare Advantage plans.

Next Steps:
After consulting with the Governor, DIFS recommended the adoption of a Means Test of 200% of the Federal Poverty Level (FPL). There reasoning behind choosing 200% FPL was that more seniors could receive a meaningful subsidy. DIFS' final determination regarding the Means Test was submitted to the Attorney General for approval on November 4, 2015. DIFS is currently awaiting a written response from the Attorney General's office, although the Attorney General's office has verbally rejected the proposed Means Test. The Attorney General is said to prefer a Means Test of 150% FPL.