MEMO
To: John Walsh
From: Jamie Zaniewski
Date: February 23, 2016
Subject: Medicare Supplemental (Medigap) Subsidy Means Test

STATUS OF MEANS TEST

After consulting with the Governor, DIFS recommended adoption of a Means Test of 200% Federal Poverty Level (FPL). DIFS' reasoning behind choosing 200% FPL was the hope to increase the number of low income seniors who could receive a Medigap subsidy in 2017.

In a letter dated February 3, 2016 the Attorney General instead suggests providing the Health Endowment Fund with a "range" means test of 150% to 250% FPL. The AG anticipates the Fund will use 150% FPL for the 2017 means test. The AG believes that 150% FPL will allow the Fund's subsidy to focus "limited subsidy dollars on the most financially need seniors, maximize their subsidy and reduce potential rate shock." In his letter, the AG also mentions that the Fund could choose to increase the % FPL means test beginning in 2018.

I have several concerns I would like to bring to your attention:

1. **Statute requires the Fund to disperse $120 Million in subsidies over 5 years. Per BCBSM, subsidizing only BCBSM Medigap member's costs around $200 Million PER YEAR. Because the statute required subsidy amount is so low, ALL seniors whose Medigap coverage is through BCBSM will have their premiums increased; in some cases by hundreds of dollars per month.**

   Over 50% of Michigan seniors who purchase a Medigap plan are covered through BCBSM (204,771 seniors in 2014). BCBSM has held their Medigap premiums artificially low (freezing the rate) for the past 5 years. Therefore, unless BCBSM continues to keep their BCBSM Medigap premium artificially low (which I have been told by BCBSM they will not), seniors 85 years or older, who do not qualify for the subsidy in 2017, could have their premiums increase over $200 per month ($2,400 per year).

	BCBSM Legacy Medigap Plan C	UHC AARP Medigap Plan C	Difference
Age 65	$123	$184	$61
Age 75	$123	$268	$145
Age 85	$123	$346	$223

**Above numbers represent premiums for 2016*
**UHC represents second largest provider for Michigan Medigap policies (104,606 seniors in 2014)*

2. **Once the means test is agreed to, we should not go back and change it the next year**.
   The AG suggests starting the means test at 150% FPL for 2017 and then perhaps increasing the % FPL in following years; allowing additional low income seniors to qualify for some subsidy should the pool of seniors become smaller in 2018. The subsidy required in statute is ONLY for 5 years. If a senior does not qualify for the subsidy in 2017 they should not be re-introduced to a

subsidy in 2018, only to have the subsidy be taken away again in four years. I believe this would cause tremendous confusion and also continue to upset seniors throughout the 5 year process.

IMPORTANT STATS:

- 395,674[1] Michigan seniors had a Medicare supplemental plan (Medigap)
  - 204,771 purchased a subsidized BCBSM Medigap Plan (52%)
  - 104,606 purchased a UnitedHealthcare AARP Medigap Plan
- A BCBSM Medigap plan costs $123 per month (Seniors have paid this same rate for past 5 years)
- 228,190 Michigan seniors enrolled in a Medicare Advantage plan INSTEAD of a Medigap plan
- In 2015 for a family of 2: 150% of FPL = $23,895 200% of FPL = $31,860

IMPORTANT HISTORY

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 Medigap coverage 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 next 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 Michigan Health Endowment Fund totaling 1.56 billion dollars over the next 18 years. According to PA 4, one of the many purposes of the Fund is to help 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, on average, a $70 per member per month subsidy (effective 1/1/2017) it's estimated that around 200,000 Michigan seniors will incur an increase in their 2017 premium for BCBSM Medigap coverage.

Currently all seniors who have BCBSM Medigap receive the $70 subsidy each month, regardless of their income level. Because of this, we 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

[1] All stats provided by DIFS (2014 data)

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 several 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 should anticipate some of the current Medigap population moving to Medicare Advantage plans (although it's not possible to estimate how many).