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NATURAL RESOURCES
DIVISION

Mr. Patrick M. McPharlin, Director
Department of Insurance and Financial Services
530 W. Allegan Street, 7th Floor
Lansing, MI 48933

Dear Director McPharlin:

Thank you for meeting with the Work Group on January 6th to discuss the proposed means test to be used to determine eligibility for the Medigap subsidy provided by the Michigan Health Endowment Fund under MCL 550.1653. In determining the means test for the limited subsidy under the statute, I believe there are several factors that should be taken into account:

(1) As opposed to the current Medigap subsidy, the reduced amount of funding in the new statutory subsidy starting next year will reduce the number of seniors who receive the subsidy. Accordingly, it is advisable to focus this reduced statutory subsidy to the seniors with the greatest financial need during the first transition year. The Endowment Fund could then expand the number of seniors eligible for the subsidy in subsequent years if funds are available. This would eliminate the concern of starting the first transition year with a larger number of subsidy-eligible seniors only to reduce the number a second time in subsequent years if actual participation was higher than projected;

(2) The current Medigap subsidy is approximately $73 a month. Accordingly, transition to the reduced statutory subsidy should follow the principle of gradualism and avoid rate shock as much as possible for those subsidy-eligible seniors having the greatest financial need; and

(3) The amount of the subsidy must be significant enough to generate interest by Medigap enrollees to ensure a successful subsidy program. Likewise, securing the full cooperation of insurance carriers offering Medigap in Michigan will benefit both the Endowment Fund and subsidy-eligible Medigap enrollees. Accordingly, the statutory subsidy amount must be meaningful enough to incentivize insurance carriers to fully cooperate and market the subsidy to Medigap enrollees, while encouraging Medigap enrollees to participate and apply.

Based on these factors and in consideration of the Endowment Fund's stated desire for a more conservative means test at the program's start, providing the Endowment Fund a flexible means test range between 150% and 250% of the federal poverty level (FPL) to determine eligibility for the statutory subsidy would be prudent. We anticipate that the Endowment Fund will want to start the program using 150% FPL in order to focus the limited subsidy dollars on the most financially needy seniors, maximize their subsidy and reduce potential rate shock. It also results in a meaningful subsidy amount that will encourage participation by subsidy-eligible seniors as well as insurance carrier cooperation and marketing of the subsidy. Finally, it allows the Endowment Fund to expand the number of seniors eligible for the subsidy in subsequent years if funds are available. In future years of the program, the 150% to 250% means test range will provide the Endowment Fund flexibility to adjust the means test within this range based on actual participation numbers and available program funding.

Thank you for taking the time to consider these factors in developing the statutory Medigap subsidy means test.

Sincerely,



Bill Schuette
Attorney General

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