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REPORT TO THE LEGISLATURE

PURCHASING ALLIANCE STOP-LOSS FUND REPORT

MINNESOTA DEPARTMENT OF COMMERCE

MARCH 2004

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Purchasing Alliance Stop-Loss Fund Report

Introduction

Minnesota Statute § 256.956, passed by the 2001 Legislature, required a report by the Commissioner of Commerce to evaluate the extent to which the Purchasing Alliance Stop-Loss Fund increases the availability of employer-subsidized health care coverage for residents residing in the geographic area served by the qualifying purchasing alliances. This report is an update to the July 2003 Minnesota Department of Health's Office of Rural Health Primary Care report on "Health Care Purchasing Alliances: A Small Employer Alternative for Minnesota." See attached report.

We believe this fund has been successful for the Northwest Purchasing Alliance (RuralCare Partners) and the Southwest Purchasing Alliance (Prairie Health Purchasing Alliance) to obtain health plan partners that is providing health care coverage to small businesses and family farms. With further modifications to this fund, we believe that other purchasing alliances will be able to be established. These changes would consist of increasing the fund amount of $1.7 million to a higher amount and changing the reimbursement amounts of 90 percent of $30,000 to $100,000 to 90 percent of $30,000 to $250,000 or $500,000.

Background

In 2001, the Minnesota Legislature and Governor agreed to establish a pilot project that is designed to "bring back" the many small, rural employers who no longer sponsor a health care coverage program for their employees. Based on national, state and local data, the employees of these small companies are those who make up the pool of working uninsured, with many of them residing in rural Minnesota. The 2001 legislation also included provisions to allow uninsured farm families and other businesses of one to qualify for this pilot.

Under the pilot project, the state serves as the back-up or "stop-loss" reinsurer for health care claims that are the hardest to predict, for someone who has been uninsured for 12 months or more. Requires the state to pay 90 percent of claims between $30,000 to $90,000. The cost of this program was estimated by an actuarial firm to be less than one tenth of what it costs the State for some MinnesotaCare enrollees. Administrative costs are low; fund eligibility ends after 24 months, and because the enrollees are in a commercial product (rather than a state program), rural providers are usually reimbursed at a sustainable rate. This program is administered by Department of Human Services (DHS).

Access to health care coverage is essential if a rural area is to stay economically viable. It is the working families who will leave a rural area if they cannot find a job with health care coverage. When they leave, other community resources are depleted. In essence, the pilot project is designed to help rural areas build a sustainable rural health care delivery infrastructure without expectation of perpetually growing government subsidies.

The 2001 stop-loss project includes health care purchasing alliances (PAs) in three areas of the state where the number of working uninsured is high: Northwestern, Southwestern and Central Minnesota. When combined with Minnesota's Community Purchasing Arrangements Act (62T), it allows employers in a geographic region to "purchase together as if one large employer with multiple sites." The law allows the PA to customize the health care product so it fits the needs of the types of businesses in that area and incorporates the area's unique health care providers arrangements. By banding together regionally, the employers and their employees also have the opportunity to improve the health risks that are prevalent in the area, thereby enhancing quality of life while reducing future costs.

Advocates for Marketplace Options for Mainstreet (AMOM) has provided technical assistance to the state's growing number of PAs, to help assure that reputable organizations and sound actuarial planning are part of the process. AMOM advises that small employers be especially careful with such arrangements, to assure the consumer protections of a "fully-insured" product are included. One important requirement is a long-term commitment of all involved (minimum of three years), so that stabilization of rates can occur. Disclosure of cost and utilization data is also important so members of the purchasing alliance can assess where improvements can be made to curtail future increases.

A small employer who has been uninsured for number of years usually has no experience (premiums paid and losses incurred) to predict the future losses. This can cause the health plan company (a licensed health carrier, a community integrated service network or an accountable provider network-62T) to be cautious about participating in this pilot project. However, by increasing the reimbursement amount from 90 percent of $30,000 to $100,000, to $30,000 to $250,000 or $500,000, this should provide incentives for the health plan company to partner with these purchasing alliances. Additionally, the fund amount of $1.7 million will only support between 1,500 to 1,700 employees/dependents. This amount needs to be increased to assure the health plan companies that there will be adequate funds to share the risk with the State, purchasing alliances and the health plan companies.

Maintaining an adequate fund will assure the purchasing alliances, the health plan companies, employers/employees/dependents that there will be continuous financial assistance each year. Local and state grants should continue too. This will provide incentives for the local community and purchasing alliances to start or continue their development.

UPDATES AND PROGRESS OF PURCHASING ALLIANCES

NW Pilot Site: RuralCare Partners (North of Hwy 2 and West of Bagley although the service area may soon expand). The Northwestern Health Care Purchasing Alliance was organized by the University of Minnesota-Crookston with the help of state grant monies, and grants from Robert Wood Johnson Foundation, the NW Initiative fund and significant donated time from the University, AMOM and board members.

Originally, the group worked directly with a local provider cooperative that had indicated its interest in obtaining an Accountable Provider Network (APN) license. After over two years of working together, the provider cooperative decided not to proceed and the PA was left without a licensed, insurance partner. The PA approached HealthPartners, which agreed to assist, if the Legislature would allow some regulatory changes. This led to the HMO Demonstration law changes passed in 2002 (62D.30). Since then, the two entities have worked to understand each other's concerns and design a customized product for this economically distressed area.

Three benefits designs have been offered since January 1, 2003. There has been some delay in obtaining all provider contracts but that is slowly being resolved. The provider network now includes key providers throughout the region and the benefits design has been modified. HealthPartners funded radio ads in fall of 2003 and this should produce increased enrollment. Polaris Industries recently showed its support by offering a "parallel" RuralCare Partners product to its employees. A challenge still before them is how to target seasonal workers who are "regular" workers at plants that shut down for the coldest months, and currently uninsured business. Legislation has been introduced this year to resolve this problem (HF 2504/SF 2504).

Contact person: Donna Larson: 866-281-8067.

SW Pilot Site: Prairie Health Purchasing Alliance (Minnesota's nine most Southwestern counties). Prairie Health Purchasing Alliance held a number of community forums in 1999 to determine if local employers would like the idea of "purchasing together" as one large employer at multiple sites. The organizing entity was the Southwest Regional Development Commission (SRDC), and development was funded by state grants plus donated time from the SRDC, AMOM and board members. The group chose to partner with Sioux Valley Health Plan, a licensed HMO. After over a year of discussions/negotiations with an area hospital, the PA and Sioux Valley are now moving ahead in targeting farm families and uninsured businesses.

Their health plan became available January 1, 2004. Businesses of one can join and be offered a guaranteed issue policy.

Contact person: Robin Weiss: 507-836-8547, ext. 112.

Central Pilot Site: Central Minnesota Health Care Purchasing Alliance. The Brainerd-Staples-Aitkin-Crosby area's PA is being fostered by the Brainerd Lakes Area Chambers of Commerce and development funds have come from the State. This group benefited greatly from the pioneering work of RuralCare Partners and Prairie Health Purchasing Alliance. For the past two years, they have worked closely with their area providers to develop an Accountable Provider Network (APN). Currently, they are working together with U-Care as the administrator and continue to assess their options. This area has a high number of small, uninsured businesses and seasonal workers, thus there are not any health plans currently willing to partner with the PA.

Contact person: Lisa Paxton: 218-829-2838, ext. 111.

Breakwater Healthcare Purchasing Alliance (Northeastern Minnesota): This PA was originally organized by a group of non-profit agencies in the area which has since partnered with the Arrowhead Regional Development Commission through a development grant from the state. Additionally, they have approached Robert Wood Johnson Foundation, about the possibility of expanding the stop-loss to this area, with a grant from the Foundation's State Coverage.

Breakwater has had several roadblocks, first in attempting to work with their local providers to develop an Accountable Provider Network (no capital), and then in trying to find a licensed partner. Currently, they have determined their only option is to set up the PA so that the employers "group self-insure" in a manner similar to what is done by Taft-Hartley plans for collectively bargained groups (unions). Taft-Hartleys are basically allowed to operate under federal ERISA rather than state regulations, as is the case for larger employers who remain outside state regulation and taxation.

They are also reviewing if they should become a Multiple Employer Welfare Arrangement (MEWA) under Chapter 62H. This is an option for employers, but it has some state and federal regulations to overcome. Breakwater is requesting some legislative changes of state statutes.

Contact person: Lynn Goerdt 800-232-0707 or Cathy VonRueden 218-722-8802.

Employers Association: This mainly metro group of (11 counties) mid-sized manufacturing employers has been a generous help to the rural purchasing alliances as it has pushed forward. The Employers Association is a 70 year old trade association focused mainly on HR-type support for its 1,700 employer members. It has faced similar roadblocks to those experienced in Greater Minnesota. After 9-11, the second attempt to form an Accountable Provider Network (APN) with providers evaporated because of the absolute absence of potential reinsurance partners. The only option left is a carefully-constructed MEWA. Last fall, the Association went back to its members and asked for guidance if they should become a MEWA, and if so, assurance they could obtain contributions to fund the MEWA. It received both. They too are pursuing state legislative changes to the MEWA statutes.

Contact person: Sue Eskedahl 763-253-9146

South Central Minnesota (west to Hwy 71, sough to I-90, east to I-35 and north to the southern edge of the metro) Led by United Farmers Cooperative, three area co-op of 30,000 are partnering together to bring group health insurance to their member/owners, many of who are businesses of one.

The Minnesota Association of Cooperatives has been successful in obtaining some small development grants for the effort but there has been a great amount of in-kind support both from the co-op's association and United Farmers Cooperative. AMOM has met with health plans and third party administrators, worked with U-Care, and had assistance from Mayo to identify any reinsurer or licensed health plan willing to work with the coops. No coverage has been found even when the co-ops have been willing to fund the risk. Because farm families do not carry worker comp coverage and because studies indicate a higher risk for ag-based groups, no partners can be found. Led by the MN and WI co-ops association, they have brought this to the attention of Minnesota and Wisconsin congressional leaders, but have not yet been able to identify a viable solution. One concept could be a stop loss fund, similar to that of the pilot project, funded by government.

Contact person: Jeff Nielsen or Cheri LeBrun: 800-642-4104.

West Central Minnesota (12 counties from Alexandria to the Dakota borders)

West Central Minnesota Purchasing Alliance: This Purchasing Alliance is moving ahead with help from their community leaders, the University of Morris, the University's Extension services and the Center for Small Towns. This developing PA has been successful in receiving grant support from Bremer and the two regional Initiative funds. It has just formed its Board and is reviewing the results of a survey conducted for it by the Center for Small Towns. This group will have specific requests such as tweaking of certain statutes once they determine their direction based on their community's needs.

Employers interested in participating in this planning process should contact Dorothy Rosemeir at 320-589-1711 (West Central Regional Sustainable Development Partnership) or Susan Brickweg at 320-269-8484.

THE CURRENT STOP-LOSS AND REINSURANCE MARKET IN MINNESOTA

The insurance industry is currently in the third year of a tight market, plaguing many insureds with availability and affordability concerns. Companies marketing stop-loss and reinsurance coverages have been very selective as to whom they will insure. The root of the problem was a steady deterioration in insurance industry capital during the 1990s, caused primarily by the industry's inability to adequately price their product. This was further exacerbated by stock market losses and a decline in interest rates, a major setback since two-thirds of insurance investments are in bonds. Additional problems developed as legal decisions expanded to the types of losses that insurance policies covered in ways not anticipated by the industry. Medical costs also rose dramatically, forcing insurers to increase the amounts they hold in reserve to pay for past losses. Finally, the World Trade Center attack resulted in a sudden, severe capital loss that focused sharp attention on the potential weaknesses of many insurers and re-insurers. When the capital of an insurance company decreases, regulators and rating agencies along with prudent business practices require the insurer to restrict or limit new policies until the capital is rebuilt. With the industry capital problems so widespread, many insurers were forced to be more selective and to raise prices. The market will remain tight until the capital position of the major insurers improves, but 2004 has shown some improvement.

COMMENTS FROM VARIOUS LICENSED HEALTH PLAN COMPANIES ABOUT THE PURCHASING ALLIANCE STOP-LOSS FUND

- Most local health plan companies do not market stop-loss coverage separately. Some will partner with a purchasing alliance, provided they can use their administrative services and the provider network (with discounted provider fees and adequate number of providers).

- Who will be the provider network? How deep are the discounted provider fees? Does the provider network have an adequate number of providers, including specialty care? What type of managed care system do they have?

- The purchasing alliance needs to keep employers within the group for an extended period of time (minimum of three years). This type of arrangement prevents the employer who has good experience (low losses and claims) from leaving the group and subsequently having the premiums increase for the remaining employers who might have more sicker employees and dependents.

- Need a large number of purchasing alliances to make it attractive and be able to spread the risk.

- A fund of $1.7 million will be able to fund between 1,500 and 1,700 employees/dependents. Any number over that will cause the fund to be over spent, and discourage health plan companies from providing the necessary stop-loss coverage.

- Premiums of these purchasing alliances should be based on the experience of the group.

- Companies that market only stop-loss coverage had many concerns. They can obtain between $1 million and $5 million worth of reinsurance coverage, but anything above $5 million is hard to purchase today.

CONCLUSION AND RECOMMENDATIONS

This pilot project has provided success in the ability for the NW purchasing alliance (RuralCare Partners) and the SW purchasing alliance (Prairie Health Purchasing Alliance) to form a partnership with HealthPartners in NW and Sioux Valley Health Plan in SW. With the added help of the stop-loss funds, both HealthPartners and Sioux Valley were encouraged to take on this risk and devote internal resources to set up a commercial product that targeted farm families and uninsured workers.

This fund has contributed to finding a solution to the acute problem of rural working uninsured. However, in other parts of the state where Purchasing Alliances have not been able to become operational, modification to the pilot project legislation and funds is key to have involvement of a licensed partner with the purchasing alliances.

Increasing fund limits from $30,000 to $100,000, to $30,000 to $250,000 or $500,000 should provide needed incentives for health plan companies to provided the needed stop-loss coverage for the purchasing alliances. These additional funds would reduce the health plan companies initial risk, since these types of claims are usually more numerous and costly when compared to a single high cost claim. Additionally, the fund amount of $1.7 million should be increased. Currently, the amount will support only 1,500 to 1,700 employees/dependents. Since the health plan company needs a higher number of employees/dependents to spread the risk, a higher amount would also provide incentives for them to provide the stop-loss coverage to these purchasing alliances.

This Study cost the Department of Commerce $3,256.00

John Gross, Department of Commerce