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BILL ANALYSIS

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House Bill 4280 (Substitute H-1 as passed by the House)
House Bill 4281 (Substitute H-2 as passed by the House
House Bill 4282 (Substitute H-1 as passed by the House)
Sponsor: Representative David Robertson (House Bill 4280)
Representative David Farhat (House Bill 4281)
Representative Edward Gaffney (House Bill 4282)
House Committee: Health Policy
Senate Committee: Health Policy

Date Completed: 6-11-03

CONTENT

The bills would amend the Nonprofit Health Care Corporation Reform Act which governs Blue Cross and Blue Shield of Michigan (BCBSM), to do the following:

-- Provide that BCBSM's sale of long-term care coverage would not be tax-exempt.
-- Permit BCBSM to elicit the health history of an applicant for long-term care coverage, and to vary rates based on age.
-- Require BCBSM to provide prescription drug coverage in a pilot nongroup and group conversion certificate.
-- Permit BCBSM to enter into contracts with health care facilities inside or outside the State.

The bills are tie-barred to House Bill 4279, which would subject BCBSM to a new chapter of the Insurance Code governing small group insurance, permit BCBSM to own an insurance company authorized to sell long-term care insurance, provide that BCBSM could include age as a factor when determining nongroup and group conversion rates for prescription drug coverage, and make other changes.

House Bill 4280 (H-1)

The bill provides that, if BCBSM offered long-term care coverage in Michigan, the sale of that coverage would not be exempt from taxation by this State or any political subdivision of the State. The bill would to permit BCBSM to use an application form for long-term care coverage that was designed to elicit the complete health history of an applicant.

The bill provides that BCBSM could charge a different rate based on age for the same long-term care coverage, if the rate differential were based on sound actuarial principles and a reasonable classification system, and were related to actual and credible loss statistics or, for new coverage, related to reasonably anticipated experience.

House Bill 4281 (H-2)

The bill would require BCBSM, beginning January 1, 2004, to establish a pilot project that would offer to provide or include prescription drug coverage in at least one nongroup and group conversion certificate. The project would have to continue through July 1, 2006. While in pilot project status, the coverage would not be subject to the guaranteed renewability provisions of Section 401e of the Act (which requires BCBSM to renew group and nongroup coverage at the request of the insured).

A certificate that included prescription drug coverage under the pilot plan would have to include all of the following:

-- At a minimum, a prescription drug benefit that included a co-pay of not more than 50% of BCBSM's approved amount for the payment of prescription drugs, with a minimum co-pay of $10 and a maximum co-pay of $100 per prescription.
-- An annual per-person benefit maximum of at least $2,500.
-- A provision that members would be entitled to purchase prescription drugs at a discount under the affinity program offered by BCBSM once their annual per-person prescription drug benefit maximum had been reached.

By July 1, 2005, BCBSM would have to issue an interim report to the Commissioner of the Office of Financial and Insurance Services regarding the claims experience of the market segment under the bill and the ongoing viability of the pilot project. By July 1, 2006, BCBSM would have to issue a final report to the Commissioner regarding the claims experience and the ongoing viability of the pilot project.

By September 30, 2006, the Commissioner would have to determine if the nongroup and group conversion certificate providing the prescription drug benefit provided a useful benefit to its subscribers. If the Commissioner determined that the certificate did not provide a useful benefit to its subscribers, he or she could order the termination of the pilot program and terminate the offering of prescription drug coverage in the nongroup and group conversion certificates. If the Commissioner determined that the certificate did provide a useful benefit to its subscribers, he or she could order the termination of the pilot project designation and order that the program continue indefinitely. If the program were continued beyond September 30, 2006, then the certificate would be subject to the guaranteed renewability provisions of Section 401e.

House Bill 4282 (H-1)

The bill specifies that BCBSM could enter into contracts with health care facilities in the State, or with health facilities in any other jurisdiction. Currently, the Act provides that BCBSM may enter into contracts with health care facilities.

The bill would prohibit BCBSM from entering into contracts with out-of-State facilities for the purpose of disadvantaging a Michigan licensed health care facility or replacing a contract with a Michigan licensed health care facility. Contracts with health care facilities licensed in the State would be subject to Sections 504 and 518 of the Act (which set forth the goals of BCBSM's reimbursement arrangements with subscribers, and make an appeals process subject to the Administrative Procedures Act).

Proposed MCL 550.1420a et al. (H.B. 4280) Legislative Analyst: Claire Layman
Proposed MCL 550.1401i (H.B. 4281)
MCL 550.1501 (H.B. 4282)

FISCAL IMPACT

House Bill 4280 (H-1)

The bill would have an indeterminate fiscal impact on State or local government. While it might be assumed that an increase in the availability of long-term care (LTC) insurance may reduce pressure on future Medicaid LTC expenditures, it is not clear that this bill would increase that availability. Although the ability to vary rates by age and "reasonably anticipated experience" should help assure the solvency of such products, subjecting this business activity to taxation at both the State and local levels, as the bill apparently would do, could retard BCBSM's entry into this product line.

House Bill 4281 (H-2)

The bill would have an indeterminate fiscal impact on State or local government unless the proposed pilot project resulted in a systemic collapse of BCBSM, which could result in significant cost increases to all State-funded health care programs. Nongroup prescription (Rx) programs are almost nonexistent due to their high risk from adverse selection. While it is unlikely that this bill actually would result in such an outcome, as the company could limit the maximum benefit to as low as $2,500, there are two more realistic outcomes. The first is that the premium could come close to par, which would mean that the "average" person could be better off self-insuring. One reason that premiums could come close to the average maximum is that there is a potential hidden cost in this pilot project. This produces the second potential outcome, which is the dissolution of BCBSM's Affinity program. Basically, the program provides Rx discounts to seniors, in conjunction with pharmacies, due to large volume of Rx purchases by BCBSM. Because individuals in the pilot also could use this discount, these purchases could begin to erode the benefit of the volume purchases to the pharmacies, resulting in their pulling out of the program. Admittedly, these outcomes are theoretical, though logically sequenced, and can be proved or disproved only after the fact.

House Bill 4282 (H-1)

The bill would have no apparent fiscal impact on State or local government.

Fiscal Analyst: John Walker

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