STATE OF WEST VIRGINIA
Offices of the Insurance Commissioner

JOE MANCHIN III
Governor

JANE L. CLINE
Insurance Commissioner

February 26, 2008

The Honorable Early Ray Tomblin
Senate President and Lieutenant Governor
Bldg 1, Rm 227M
Charleston, WV 25305

The Honorable Richard Thompson
Speaker of the House
Bldg 1, Room 234M
Charleston, WV 25305

Dear President Tomblin & Speaker Thompson:

We respectfully submit the attached report "Financing Options for AccessWV", as the report to the Legislature required by §33-48-2 (j) of the Model Health Plan for Uninsurable Individuals Act.

With the hospital assessment methodology that is in place, AccessWV will have a surplus of about $2.3 million for 2008 and ample carry-over funds into 2009. The AccessWV Board of Directors is seeking additional actuarial advice and will review updated financials at its March 2008 meeting. At that time, the Board will consider whether the 2008 hospital assessment is needed.

A permanent source of financing will be needed for the risk pool when it begins to operate at a deficit, which is not projected until after 2011. However, the Board of Directors is cognizant that the financial situation of AccessWV may change dramatically if members start to present with catastrophic expenses.

The Board proposes to return to the Legislature in January 2009 with an updated financial report and recommendations for continued financing.

Thank you for your attention and support of West Virginia's high risk pool. Should you have any questions, you may contact AccessWV at 558-8264.

Sincerely,

Jane L. Cline, Insurance Commissioner
Chair, AccessWV Board of Directors

Sincerely,

Alfreda Dempkowski, Executive Director
AccessWV

JLC/AD/ew

attachment

cc: The Honorable Joe Manchin III, Governor
Virgil T. Helton, Cabinet Secretary, Department of Revenue
Aaron Allred, Legislative Services Manager

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Financing Options for AccessWV

January 2008

Presentation by the Board of Directors to the West Virginia State Legislature

Summary Sheet
Report to the Legislature on Financing Options
AccessWV Board of Directors

Background and Previous Reports

The "Model Health Plan for Uninsurable Individuals Act" of 2004 provided for hospital assessments to finance West Virginia's high risk pool (known as "AccessWV"). It also required the Board of Directors to report to the Legislature in January 2006 on alternative funding mechanisms. In 2006, the Board recommended continuation of the hospital assessment and proposed to return to the Legislature in 2007 with an updated report. In its 2007 Report, the Board recommended continuing the hospital assessment for 2007 and noted that "a permanent source of funding at an increased level should be identified before AccessWV begins to operate at a deficit".

Plan Performance in 2007

Enrollment. AccessWV continued its gradual but steady growth during 2007, netting a 46 percent enrollment increase for the year. As of December, the program had 436 policyholders (representing 497 members). Members include those unable to obtain coverage in the commercial market due to pre-existing medical conditions as well as persons with guaranteed access to coverage through the federal Health Insurance Portability and Accountability Act (HIPAA). The latter, despite their right to coverage, often face excessively high rates in the private market owing to their health status. AccessWV is also a state qualified plan for the Federal Health Coverage Tax Credit (HCTC) program.

AccessWV members suffer from such serious conditions as diabetes, cancer, psychosis, and hemophilia. While the population of insureds is relatively small, AccessWV provides a critical service to these West Virginians, who might otherwise go without necessary health care or add to the burden of uncompensated care in the State. The introduction of an agent referral fee in 2008 is expected to assist the program in reaching additional eligibles. Members pay significant premiums for their coverage. The major deterrent to enrollment growth is the costliness of the premiums relative to the incomes of West Virginians who might qualify for the program.

Financial Results. To date, AccessWV's financial experience has been more favorable than anticipated. The Plan is projected to end 2007 with an operating surplus of almost $2.3 million and with carry-over funds of $8.3 million. The policy loss ratio for 2007 is 86%. These results are due mainly to lower than anticipated medical and pharmaceutical claims costs.

Revenue Sources. In 2007 AccessWV was supported through member premiums ($2,678,523), hospital assessments ($1,899,164) and interest ($364,731), constituting 55 percent, 38 percent and 7 percent of total revenues respectively. By law, AccessWV must set premiums at 125-150 percent of the standard market rate. As of December 2007, policyholders were paying an average monthly premium of $622 with 37 percent paying in excess of $700. To hold down premium costs, 46 percent of policyholders select the least expensive product which carries a $2,000 medical deductible and $1,000 pharmacy deductible.

The hospital assessment is authorized for "an amount not to exceed a maximum of 25 percent above the 1/10th of one percent" assessed on hospitals to support the Health Care Authority". The assessment was taken at the maximum in 2007. There was no opportunity to apply for federal funding during 2007.

Financial Plan: 2007-2011

Assuming that external financing of about $2 million will be available each year, the **Financial Plan: 2007-2011** shows AccessWV operating with a period surplus through 2011. The size of the surplus will decline slowly. Ending funds available will continue to be substantial.

Financial Plan: 2007 - 2011

	2007	2008	2009	2010	2011
Revenues	$4,942,418	$6,271,659	$7,624,772	$8,750,322	$9,706,890
Expenses	$2,655,492	$4,023,029	$5,567,887	$7,012,566	$8,403,195
Period Surplus/(Deficit)	$2,286,926	$2,248,630	$2,056,884	$1,737,756	$1,303,695
Ending Funds Available	$8,318,976	$10,567,606	$12,624,490	$14,362,247	$15,665,942

Enrollment projections in the Financial Plan are conservative and are based on the pool's experience to date and reflect an eventual tapering off. The ultimate capacity of the program is unknown due to uncertainties surrounding the total size of the eligible population. Enrollment projections are shown below.

Dec '07	Dec '08	Dec '09	Dec '10	Dec '11
436	602	715	792	845

Additional enrollment and utilization experience will yield even more credible projections and a more accurate determination of the long-term financing needs of the program. The Financial Plan will continue to be updated as the Plan acquires more experience.

Options for Alternative Financing

Approaches used in other states to cover deficits faced by high risk pools include:

- Insurer assessments, which may include reinsurers and third party administrators (28 states)
- State revenues from a variety of sources (9 states)
- Assessments on providers (4 states, including WV)

Some states use more than one mechanism, thus the counts shown exceed the 34 risk pools currently in operation. Each approach has pro's and con's. No one mechanism is ideal, and states with risk pools continue to explore different financing approaches.

Guiding Principles

- The financing mechanism should spread costs as broadly as possible.
- The funding mechanism should be secure and not depend on a yearly appropriation process.
- If necessary, consideration should be given to using a blend of sources to spread costs broadly.

Underlying Philosophy

- The high risk pool stands to play a vital role in the State's overall strategy for increasing health insurance levels. As such, financing for the pool should be as broad-based as possible so that the cost burden is distributed widely.
- Ideally, financing would come from an allocation of state funds.
- Cognizant of the many demands on state monies, the Board recognizes that an alternative source of funding continues to be necessary at this time.

Board Recommendations

- The hospital assessment remains the financing mechanism of choice, until financing from this source is no longer adequate to cover the Plan's operating needs.

- The Board is seeking additional actuarial advice and, at its March 2008 meeting, will consider whether the 2008 hospital assessment is needed, after updated financials are reviewed.

- The Board notes that there is no guarantee that AccessWV's favorable financial results will continue. The situation could change dramatically, if members start to present with catastrophic expenses.

- The Board continues to support an operating plan that limits expenditures to the funding level that has been available historically. This includes:
    - *Limiting enrollment to the number of participants that can be supported*
    - *Amending benefits as necessary*

- A permanent source of funding at an increased level should be identified before AccessWV begins to operate at a deficit. Once a period deficit is projected, the Board will return to the Legislature with a determination of the amount of financing needed and with recommendations for the permanent source of this financing. Meanwhile, the Board will continue to report to the Legislature annually on the financial status of the Plan.

Financing Options for AccessWV

January 2008

Presentation by the Board of Directors to the
West Virginia State Legislature

Background

Enabling Legislation	**Article 48 "Model Health Plan for Uninsurable Individuals Act" enacted July 2004**
Provision for External Financing	**Hospital assessments**
Legislative Mandate to Board	**Study and recommend alternative funding mechanisms to the Legislature in January 2006**
January 2006	***Situation:*** **Five months of operational experience inadequate for credible financial projections** ***Board Recommendations:*** • **Continue hospital assessment in 2006** • **Return to Legislature in January 2007 with recommendations for future financing**
January 2007	***Situation:*** **Additional experience needed for solid financial projections** ***Board Recommendations:*** • **Continue hospital assessment in 2007** • **Identify permanent source of funding before AccessWV operates at a deficit**

Current Status of AccessWV

Milestones

Operations Began	July 2005
First Effective Date of Coverage	August 2005
Enrollment as of 12/1/07	436 policyholders representing 497 members
Rate of Growth in 2007	• 46% increase over 12/06 • 11-12 policies per month (net)

Eligible Populations

- Medically uninsurable persons
- Persons with guaranteed access to coverage through the Health Insurance Portability and Accountability Act (HIPAA)
- Persons eligible for the Health Coverage Tax Credit (HCTC)

Enrollment to Date

	Dec 05	Jun 06	Dec 06	Jun 07	Dec 07
# Policies	96	211	298	372	436
# Members	*102*	*234*	*345*	*433*	*497*

- Enrollment growth has been gradual but steady. The pool is now serving almost 500 members.

- A risk pool makes coverage ***available,*** but in itself does not address the ***affordability*** of coverage. Many eligible persons find the pool unaffordable.

- Program promotional activities include:
  - Notification by insurance carriers at the time of coverage denial
  - Public appearances by the Executive Director, Insurance Commissioner and Insurance Commission staff
  - Dissemination of program materials through stakeholder groups (providers, aging organizations, legislators, etc.) who have contact with the target population.
  - Agent finder's fee *(to be implemented in 2008)*

Financial Results: Calendar Year 2007

Total Accrued Revenue	**$4,942,418**
Premiums	$2,678,523
Assessments	$1,899,164
Interest	$364,731
Total Incurred Expenses	**$2,655,492**
Medical Claims	$1,742,877
Pharmacy Claims	$552,865
Administration	$359,750
Beginning Funds Available	**$6,032,050**
Period Surplus (Deficit)	***$2,286,926***
Ending Funds Available	***$8,318,976***

- The financial picture at the end of 2007 is favorable.

- AccessWV finishes its second full-year of operation with a period surplus of almost $ 2.3 million and projected carry-over funds of $ 8.3 million.

- The policy loss ratio (claims ÷ premiums) was 86 percent. Member premiums covered 101 percent of incurred expenses.

Financing to Date

Year	Member Premiums	Hospital Assessments	Federal Funding	All Sources
2004		$1,502,426	$1,000,000	$2,502,426
2005	$199,164	$1,658,025	$0	$1,857,189
2006	$1,406,486	$1,763,598	$0	$3,170,084
2007	$2,678,523	$1,899,164	$0	$4,577,687
Total	**$4,284,173**	**$6,823,213**	**$1,000,000**	**$12,107,386**

- AccessWV has received $ 12.1 million from member premiums, hospital assessments and federal funding.
- Hospitals are assessed at 0.025 % of gross revenues.
- Federal funding provided $1M for start-up. Additional funding has not been available.

Premiums

Statutory requirement	125-150% of standard market
Premium level set by Board	130% of standard market
Average monthly premium *(12/07)*	$622
Policyholders paying monthly premiums of $700+ *(12/07)*	37%
Policyholders selecting plan with highest deductibles: $2,000 medical; $1,000 drugs *(12/07)*	46%

- Policyholders are paying significant premiums for coverage in AccessWV.
- Despite their high levels, premiums collected by risk pools are generally not adequate to cover costs, owing to the extraordinary medical needs of the members.

Potential for Future Federal Funding

Period	Appropriation	Status of AccessWV
FFY 06	Funds ($75 M) available for State FY 05	Not eligible—not operational in FY 05
FFY 07	***No funds appropriated for State FY 06***	
FFY 08	Funds ($50 M) appropriated for State FY 07	Presumably not eligible--no operational loss in FY 07
FFY 09	?	Unknown
FFY 10	?	Unknown

- The "State High Risk Pool Funding Extension Act of 2006" authorizes high risk pool funding through FFY 2010.

- Pools with operational losses qualify for grants to offset losses and for bonus awards to be used for member benefits (reduced premiums, disease management, etc.).

- AccessWV did not have an operating loss in FY 07 and thus presumably will not qualify for FFY08 funding.

Enrollment Projections: CY 07 – CY 11

2007	2008	2009	2010	2011
436 (actual)	602	715	792	845

- Enrollment projections in the Financial Plan continue the gradual but steady growth experienced by the Plan to date.
- Future enrollment is an unknown due to the uncertainty of the total size of the eligible market.
- Agent referral fee (effective in early 2008) will assist Plan in reaching additional eligibles.
- Cost of coverage remains the major deterrent to enrollment growth.

Highlights from the Five Year Financial Plan: CY 07 – CY11

	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011
External Financing*	$1,899,164	$1,975,000	$2,054,000	$2,136,000	$2,221,000
Period Surplus (Deficit)	$2,286,926	$2,248,630	$2,056,884	$1,737,756	$1,303,695
Ending Funds	$8,318,976	$10,567,606	$12,624,490	$14,362,247	$15,665,942

* at the level afforded by the current hospital assessment

- Based on enrollment and utilization experience to date, AccessWV will continue to operate with a surplus and will have substantial carry-over funds through 2011. The size of the surplus will decline steadily.

- The Financial Plan assumes external financing at the level afforded by the current hospital assessment.

- There is no guarantee that financial results will continue to be favorable. The situation could change dramatically, if members start to present with catastrophic expenses. The AccessWV Board continues to monitor financial performance closely.

- Additional enrollment and utilization experience will lead to even more credible projections and a more accurate determination of the long-term financing needs of the program.

Financing Sources Used by Other States with High Risk Pools

- Assessments on insurers with or without tax credits
- Assessments on insurers, reinsurers and/or TPA's
- Assessments on providers
- General revenues or other state sources
- Blend of sources

- States use a variety of financing sources based on their unique situations.
- The majority of states with pools (28 out of 34) use an insurer assessment of some kind.
- States continue to explore different financing approaches.

Major Considerations for a Financing Option

- Who benefits from the risk pool?
- Who pays under the financing option?
- Does the approach cover the deficit adequately?
- Is the financing stable from year to year?
- Can the approach be implemented easily?

Who Benefits from the Risk Pool?

Stakeholder Group	*Potential Benefit*
Members	Do not have to bear the financial consequence of going uninsured; can receive needed care.
Insurers	Do not have to take risk of insuring persons with health issues.
Hospitals	Increased utilization; better collections.
Physicians and other providers	Increased utilization; better collections.
Pharmacies & pharmaceutical companies	More business and profits.
Employers that buy health insurance	Lower premiums due to less cost shifting to cover uncompensated care; attractive alternative for employees with portability rights.
Self-insured employers	Lower costs due to less cost shifting to cover uncompensated care; attractive alternative for employees with portability rights.
Persons with health insurance	Lower premiums due to less cost shifting to cover uncompensated care.
Persons who use the health care system	Lower charges due to better collections and less cost shifting.
Society as a whole	Members of society who have been dealt bad health are taken care of—a societal good.
State government	Fewer "spend down" enrollees for Medicaid; satisfied citizenry.

- Many segments of society benefit from the high risk pool.

Who Pays under the Financing Option?

How the Financing Options Work

Option	How It Works
Assessment on Insurers	• Insurers are assessed to cover pool losses in proportion to the amount of health insurance premiums written in state. *Alternative:* Insurers are assessed based on number of covered lives. • A tax credit may be granted.
Assessment on insurers, reinsurers and/or TPA's	• Assessment is usually levied per covered life. • Reinsurer assessment may be a fraction of covered lives.
Hospital assessments	• Hospitals may be assessed based on gross revenues. *Alternative:* Assessment may be added as a charge to patient bills.
Premium increases	• Premiums are increased to cover costs.
Appropriation from state revenues or other state source	• Legislature appropriates funds annually. *Alternative:* Legislature allows ongoing draw from specified source.

Who Pays under the Financing Option?

Option	Who Pays	Who Does Not Pay	Policy Arguments
Assessment on Insurers	Commercial insurers and their insureds (employers and individuals)	Self-insured employers; general public	***Pro**: Carriers are in business to provide coverage and should be assessed if they choose to deny coverage to some people.* ***Con**: Assuming pass-through to insureds, assessment is not broad enough since the self-funded population does not share costs.*
Assessment on insurers with tax credit	General public for full or partial tax credit Commercial insurers and their insureds (employers and individuals) for non-creditable portion	Self-insured employers for non-creditable portion	***Pro**: Tax offset draws on state general revenues spreading the cost among the general population.*
Assessment on insurers, reinsurers and possibly TPA's	All insured employers and persons	Persons without insurance, on public programs or otherwise exempt.	***Pro**: Assuming a pass-through, assessment is spread broadly among those with private insurance coverage.*
Hospital assessments	Payers to whom the hospital passes down the cost. Payers may include carriers, their insureds and self-pay individuals.	Hospital users to whom the hospital does not pass down the cost (public payers in WV). Non-users	***Pro:** With pass-through, risk is spread broadly among privately insured population and more broadly, if public payers are included.*
Premium Increases	Insureds in the high risk pool	Everyone not in high risk pool	***Con**: Does not allow society to share burden of caring for those who have been dealt poor health.* ***Con:** Would lead to severe adverse selection.*
State sources	Taxpayers	No one exempt	***Pro**: Spreads cost broadly through society.* ***Con:** Gives preference to one segment o f the population when others may also be deserving.*

Is the Financing Adequate, Stable and Easy to Implement?

Mechanism	Adequacy	Stability	Ease of Implementation
Assessment on Insurers	Depends upon how is assessment is collected (whether keyed to losses or collected in advance). With the latter, there could be a shortfall.	Yes	Varies
Assessment on insurers with tax credit	Depends upon how is assessment is collected (whether keyed to losses or collected in advance). With the latter, there could be a shortfall.	Only if tax credit is kept in force.	Requires change to tax code
Assessment on insurers, reinsurers and possibly TPA's	Depends upon how is assessment is collected (whether keyed to losses or collected in advance). With the latter, there could be a shortfall.	Yes	Requires data, which may not be available, on reinsurers and TPA'S.
Hospital assessments	Shortfall if assessment does not cover loss.	Yes	Yes, if added on to an existing assessment.
Premium Increases	Yes, but may need to be very large.	Yes, but may lead to severe adverse selection thus jeopardizing the viability of the pool.	Yes
State sources	Varies	Varies, but prone to changeability as state political climate changes.	Yes

West Virginia Specifics		
Mechanism	**Key Facts**	**Considerations**
Assessment on Insurers	• 50% of group market is self-funded. • Commercial insurers pay 3% premium taxes. Premium taxes go into state general revenues. • Blue Cross and HMO's do not pay premium or state corporate income taxes.	Assessing insurers, if there was no pass-through to insureds, would place the cost on those companies that benefit from medical underwriting. Assessing insurers that currently do not pay a premium tax (Blue Cross and HMO's) might not create an undue burden. An insurer-only assessment would miss the 50% of the group market that is self-insured.
Assessment on insurers, reinsurers and possibly TPA's	• Reinsurers do not pay premium taxes. The Offices of the Insurance Commissioner does not collect data on reinsurer operations in WV. • The Offices of the Insurance Commissioner collects data on TPA operations in WV.	While this approach would extend the financing burden to all insureds (those with commercial insurance as well as the self-insured), implementation would be difficult because of the lack of data on reinsurers. There may be data on which to base a TPA assessment.
Hospital assessments	• The WV Health Care Authority only reviews rates for commercial payers (30% of the payer universe). • There is no explicit pass-through in the rate-setting process. • To date, WV hospitals have received about 36 percent of medical claims dollars paid by AccessWV.	While there is no explicit pass-through, assessments are absorbed in the hospital budgets. Over time they may be passed on to the commercial payers. If hospitals pass through their assessments to all payers, the cost burden would be spread most broadly. Even without a pass-through to public payers, this is a way to reach the self-insured. While WV hospitals have not yet benefited significantly from claims payments by AccessWV, they are expected to do so over time.
Premium Increases	• Would likely price almost everyone out of the pool.	This would depress enrollment and result in a very unhealthy pool.
State sources	• To date, initiatives to increase insurance levels have not tapped state resources. WV did not elect to spend tobacco settlement funds for this purpose.	State funds might be allocated if the high risk pool were viewed as an essential component of an overall state strategy to increase health insurance levels. A state source ensures costs are spread broadly.

Board of Director's
Conclusions and Recommendations

Guiding principles

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- The financing mechanism should be secure and not depend on a yearly appropriation process. .
- If necessary, consideration should be given to using a blend of sources to spread costs broadly.

Underlying Philosophy

- The high risk pool stands to make a vital contribution to the State's overall strategy for increasing health insurance levels. As such, financing for the pool should be as broad based as possible so that the cost burden is distributed widely.
- Ideally, financing would come from an allocation of state funds.
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Board of Director's
Conclusions and Recommendations

Conclusions and Recommendations

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- The Board is seeking additional actuarial advice and, at its March 2008 meeting, will consider whether the 2008 hospital assessment is needed, after updated financials are reviewed.

- There is no guarantee that AccessWV's favorable financial results will continue. The situation could change dramatically, if members start to present with catastrophic expenses.

- The Board continues to support an operating plan that limits expenditures to the approved funding level, including:
    - *limiting enrollment to the number of participants that can be supported*
    - *amending benefits as necessary*

- A permanent source of funding at an increased level should be identified before the pool begins to operate at a deficit. At that time, the Board will return to the Legislature with a determination of the amount of financing needed and recommendations for the permanent source of financing. The Board will continue to report to the Legislature annually on the financial status of the Plan.