

University of Maine System

The University of Maine System has a minimum premium financial arrangement with Anthem Blue Cross Blue Shield of Maine. The minimum premium financial arrangement allows UMS to pay the fixed cost components to Anthem each month along with the actual amount of paid claims processed and paid by Anthem during that month. There are some advantages for UMS with the minimum premium financial arrangement. One significant advantage is the inability of Anthem BCBS to “overcharge” UMS for the health benefit expense in a plan year. It is possible in the traditionally insured financial arrangement for a health insurance carrier to charge a premium rate that results in total premium dollars paid which exceed the sum of the claims incurred by the enrolled members and the fixed cost elements included in the fully insured financial arrangement. The carrier cannot overcharge in the minimum premium financial arrangement. A second significant advantage is that UMS enjoys the cash flow advantage that results from paying for claims as they are billed by Anthem, as opposed to the traditional insured premium plan where the plan sponsor pays the full monthly premium to the insurance carrier. The minimum premium financial arrangement allows the plan sponsor (UMS) to hold the claim reserve, which is referred to as the terminal liability.

One of the disadvantages to the minimum premium financial arrangement is that there generally is no reconciliation or settlement based on the claims incurred in the plan year. The carrier and the plan sponsor simply roll forward the arrangement to the succeeding plan year. As a result, it is challenging to make any clear conclusion about the adequacy of the monthly funding rates.

The minimum premium financial arrangement between Anthem BCBS and UMS includes the following elements in the monthly “funding rates”:

1. claims paid during the plan year
2. administrative expense for Anthem to administer the plan
3. pooling point protection (Anthem charges UMS a fee for Anthem to accept liability for individual claimants cost above \$200,000 in one plan year)

4. fees for Anthem Behavioral Health to manage mental health and substance abuse claims and capitation paid to some PCP's (primary care physicians).
5. terminal liability factors that represent the amount of claims incurred in a plan year that are processed and paid after the end of that plan year.

The paid claim figure represents about 88% of the total rate in the minimum premium financial arrangement. The administrative expense represents about 9.4 %, the pooling point represents about .7 %, the Anthem Behavioral Health fees and capitation represent about .5 % and the increase in the terminal liability factors about 1.5 % of the total monthly funding rate.

I. Paid Claim Projection

The projected paid claim numbers are the most significant element of the monthly rates in the minimum premium financial arrangement.

It appears that the projected total expense for the 2006 plan year is conservative. The actual total for paid claims in 2004 and the total for the 2005 plan year paid claim total reveal that the projected paid claim totals provided by Anthem BCBS in the renewal calculations for each plan year have been higher than the actual paid claim totals billed to the University of Maine System.

1. The paid claim total liability for the 2004 plan was \$43,269,123 but the total claim expense for this same period was \$41,178,743. The difference is \$2,090,379. Actual claim expense was approximately 5% less than the Anthem projection.

2. Paid claim projection for the 2005 plan year was \$48,932,354 (information taken from the final renewal rating exhibit developed by Anthem BCBS.) The actual paid claim total for the period January 1, 2005 through December 31, 2005 was \$45,016,074 which is \$3.9 million below the projected claim total in the Anthem BCBS renewal exhibits.

The \$3.9 million is 8.0 % below the Anthem BCBS paid claim total in the 2005 renewal exhibit.

The actual paid claim totals for the 2004 and 2005 plan years point out that Anthem BCBS has been conservative in its renewal rating methodology in the past 2 years.

Is it possible that members in the collective bargaining units can request that their proportionate share of the surplus is either returned to them or credited in succeeding years employee contribution requirements?

3. The projected claims for 2006 are \$52,908,836 (assuming no benefit changes) which provides a monthly paid claim average of \$4,409,070. The monthly average of \$4,409,070 is 17.5 % higher than the actual monthly average for the 2005 plan year.

4. If the paid claim estimates used for final monthly premium rates are overstated, the employee share contributed for the total health expense are a higher percentage than the original target percentage for employee contribution.

II. Dirigo Health Savings Offset Payment (SOP) Assessment

The renewal rate exhibit from Anthem Blue Cross Blue Shield displays a Dirigo Health Savings Offset Payment (SOP) of 1.919%, The most recent response from Tom Hopkins indicates that this percentage was also reduced to 1.70% to account for claims not subject to the SOP assessment. (i.e., claims for non-Maine residents and claims for services received outside of Maine.) We believe that an additional reduction should be made to recognize that claims paid in 2006 that were incurred in 2005 are not subject to the SOP assessment.

III. Rx Benefit Changes

The actual values for the reduction in prescription drug benefits are noted in the rate sheets provided by Anthem Blue Cross Blue Shield. The actuarial values are listed below:

Comp Care

	No Rx Benefit Change	With Rx Benefit Change	Monthly Difference
Individual	\$64.99	\$52.67	\$12.32
Two Person	\$142.97	\$115.87	\$27.11
Family	\$181.97	\$147.47	\$34.50

HMO Choice

	No Rx Benefit Change	With Rx Benefit Change	Monthly Difference
Individual	\$57.43	\$45.82	\$11.61
Two Person	\$126.34	\$100.79	\$25.55
Family	\$160.80	\$128.29	\$32.51

I suggest that the figures presented in the “Monthly Difference” column represent the average monthly increase in contribution that employees will pay in the form of increased cost sharing resulting from the prescription drug benefit reductions.

IV. Terminal Liability

One of the exhibits we reviewed reflects a terminal liability total of \$7,985,039 as of December 31, 2005. We suspect that the terminal liability total may be excessive because the paid claim projections for 2004 and 2005 have been excessive.

The 2006 renewal proposed by Anthem Blue Cross Blue Shield calls for an increase in the terminal liability of \$661,000 which would bring the total terminal liability to approximately \$8.64 million.

V. Generic Incentive

Anthem has indicated that the monthly rate decrement for the mandatory generic provision is 0.15 %. The description of the generic incentive policy states "...if you purchase brand name medication when a generic medication is available, you will pay your Tier 2 or Tier 3 co-pay plus the difference between the price of the brand name medication and the generic medication. You will pay this even if your doctor specifies the brand name drug." We believe that the very small rate decrement of 0.15 % does not support the acceptance of the generic incentive.

VI. Inclusion of Medicare Retirees

It appears that Anthem BCBS uses one rating formula for the University of Maine System account and that this rating formula includes the active employees and retirees. The 2006 renewal rating sheet displays 6,544 for the enrollment figure.

Tom Hopkins has confirmed that the Comp Care carve-out enrollees (i.e., Medicare retirees are included in the Anthem renewal rating methodology.)

VII. Minimum Premium Deficit Carry Forward

In our opinion the minimum premium financial agreement provides Anthem BCBS with significant financial protection. Section 6 of the Minimum Premium Agreement is entitled Deficit Carry Forward and this section states that “If Anthem incurs any liability in excess of the Aggregate Stoploss Amount, the excess liability or deficit will be carried forward to the subsequent Agreement Term. The deficit will be recoverable starting in the first month of the new Agreement Term up to the Cumulative Monthly Claims Liability.”