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From: Nancy Ellison [<mailto:nellison@regence.com>]

Sent: Friday, November 30, 2007 9:45 AM

To: Gingold, Jeffrey

Cc: Mary McWilliams; Jim Pinkerton

Subject: Regence BlueShield Comments on Draft HIP Board Letter to Gov. Gregoire

In general, the letter correctly identifies the major problems with both scheduling and program construction for the small-business subsidy program.

Sept. of '08 is overly optimistic and should be moved back a year to '09.

Program construction issues are more complex. Our understanding of the short-term goal was to help provide subsidies to low-income employees of small businesses, reduce levels of uninsurance and improve portability.

The recommendation to limit choice of plans will reduce anti-selection and administrative expenses, and is more in line with how the state handles the subsidy program for individuals (Basic Health Plan).

However it does diminish one of the primary reasons for having an exchange, i.e., improved portability. This isn't a reason not to limit choice to help the program get off the ground. It just underscores the questions around whether the value of an exchange in this context is over stated and whether an exchange is the logical vehicle for this program.

The board's questions around how the Section 125 requirements and the use of multiple employers should work are also well raised. It's not clear from an IRS rules standpoint that the HIP needs to be the plan sponsor for Section 125 purposes. The state could probably just require participating employers to set up their own Section 125 plans. It's also not clear whether multiple employer Section 125 contributions will fly.

Federal clarification of this issue is important since the assumption that multiple employer contributions would be allowed is one of the contentions for this program's ability to reduce uninsured rates.

We agree with the board's assessment of the problems with administrative costs, and the need for state funding of both admin. costs and subsidies.

Currently if a carrier chooses to participate, they would be assessed a surcharge. Since the law also requires that Partnership experience be pooled with the carrier's small group experience, one would assume the surcharge expense would need to be reflected there also. Thus not only would a participating carrier's claim experience be affected by the Partnership but their expense allocation would need to be larger also, putting them at a competitive disadvantage vis-a-vis a non-participating carrier. We also agree that if the state is serious about implementing this program, it needs to make meaningful subsidies available on a long-term basis. Trying to fund the program by surcharges alone would result in unaffordable premiums.

It's clear, as the board notes, that exemptions from the Insurance Code (Title 48) will be required. Those should be spelled out and narrowly tailored, and a draft of the proposed exemptions should be circulated for public comment before being submitted to the legislature.

The issue of removing the requirement that at least one employee be low income makes sense but is challenging. The requirement will be difficult to enforce, since an employer can't ask about an employee's income from other sources. But removal does raise questions of how the subsidy would be administered and who or what entity qualifies for it.

Presumably the state would not want to subsidize coverage for individuals or companies who did not need assistance.

Finally, the board's underlying question about clarification of goals is a good one. It seems clear that use of an exchange mechanism to develop a modest small employer subsidy program may be unnecessary or inefficient, at least under the original concept. But care should be taken not

to make the assumption that this means a larger program with multiple lines of business pooled together will automatically make the structure work. On the contrary, the board's experience so far with just this initial program development suggests the potential for multiple unintended consequences and the need for trade-offs that call many initial assumptions about exchanges into question. The studies built into the program about whether to add additional lines of business and the implications of doing so are important to inform the dialogue, and should not be rushed or abridged. Thank you for your consideration of our comments. Please feel free to share them with any other interested parties.