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November 19, 2012

The Honorable Representative Pete Lund, Chairman, and
Honorable Members of the House Insurance Committee
519 House Office Building
Lansing MI 48909

Dear Chairman Lund and Committee Members,

We are writing on behalf of AARP Michigan to express our opposition to Senate Bills 1293 and 1294, which propose to restructure Blue Cross Blue Shield of Michigan (BCBSM). AARP Michigan opposes these bills both as introduced, and as passed the Senate on October 17.

AARP is a nonprofit, nonpartisan 501(c)(4) social welfare organization that advocates on behalf of people aged 50 and over. More than 1.4 million Michigan citizens are AARP members. The proposed BCBSM reforms will impact three subsets of our membership and other Michiganders:

- seniors aged 65 and over who purchase Medicare supplemental coverage (known as Medigap),
- people aged 50-64 who have disabilities and rely on Medigap, and
- people aged 50-64 who need to purchase individual coverage.

AARP recognizes that implementation of the Affordable Care Act (ACA) will usher in new dynamics in the health insurance industry in Michigan. Nevertheless, many provisions of the current law set forth in PA 350 of 1980 remain necessary to preserve affordability and access to health care for Michigan residents, and should not be abandoned in this effort to restructure BCBSM. Furthermore, because the ACA does not make changes regarding Medigap, we do not believe changes to Medigap should even be included in the changes these bills propose to make to Michigan law.

➔ ***The legislation will increase Medigap rates $876 or more per year for seniors and people with disabilities, and reduce access to affordable coverage for Michigan's oldest and sickest residents.***

If the Legislature nevertheless chooses to include provisions impacting seniors and Medigap in this legislation, we ask that you protect seniors from the increased costs this legislation is poised to create for Michigan's approximately 200,000 Medigap customers. We believe the current mechanism under PA 350 to subsidize premiums for Michigan seniors purchasing Medicare Supplement products should be continued. Thanks to the current Medigap subsidy, Michigan seniors pay a $122 monthly premium for their BCBSM Medigap C policies, a $73 per month discount from the market rate. If the subsidy goes away, these seniors would each pay at least $876 more per year for their Medigap coverage.

In addition, pursuant to a 2011 agreement between BCBSM and the state Attorney General, a freeze on premium increases for BCBSM Medigap coverage is currently in effect through July 2016. Senate Bill 1293 as passed the Senate includes language intended to keep this rate freeze in effect through July 2016, which we were glad to see. However, we would like the bill to more clearly require that these products will

Robert G. Romasco, President
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continue to be offered both during the rate freeze period, and beyond. We are also concerned that this legislation will eliminate Michigan's existing "guaranteed issue" protections for people with disabilities who are under age 65 and rely on Medigap, and we are concerned that, for people aged 65 and over, the remaining guaranteed issue protections will be insufficient for the oldest and sickest seniors.

➔ ***Seniors living on fixed incomes have already been hit hard by the Michigan Legislature's recent tax increases on them.***

The increased costs that seniors would face under this legislation come as many of them are still struggling to make ends meet in the face of Michigan's new pension tax, the loss of their annual $2,400 per senior tax exemption, and increased property taxes due to changes in the homestead tax exemption. Most of these residents live on fixed incomes. The median income for Medicare beneficiaries is only $21,183, and approximately half of the people on Medicare have incomes below 200% of the federal poverty level.

➔ ***Proposed efforts to use funding from the Michigan Health and Wellness Foundation will not come close to offsetting the increased costs this legislation will place on seniors.***

While we appreciate the sentiment of the Senate amendment to require that the proposed Michigan Health and Wellness Foundation (MHWF) be used to subsidize the cost of individual Medigap coverage, the amount of funding expected to be available through the MHWF does not come close to offsetting the increased costs this legislation will place on seniors. Assuming that BCBSM contributes an equal amount to the MHWF each year, the maximum amount the MHWF would have available to subsidize the cost of individual Medigap coverage would be $25 million per year. $25 million per year represents only a fraction of the $181.5 million current annual subsidy. The difference of about $157 million per year would be left to come out of the pockets of Michigan's seniors.

We also question whether the proposed $1.5 billion contribution to the MWHF over 18 years is a sufficient level of funding given the unique historical role and current circumstances of Blue Cross Blue Shield in Michigan. To make matters even more uncertain, the language in SB 1294 as passed the Senate says BCBSM "shall *use its best efforts* to make annual contributions of *up to* $1,500,000,000" so we are no longer assured that the MHWF will even receive $1.5 billion.

➔ ***The legislation will also increase premium costs for people aged 50-64.***

We believe that the existing process under PA 350 by which rates for BCBSM plans are subject to pre-approval to ensure they are "equitable, adequate, and not excessive" should be maintained. Ensuring access to affordable coverage is important for all ages, but in the current economy this issue is of particular importance to Michigan residents aged 50-64. As a result of Michigan's economic downturn, more persons aged 50-64 are in the market for health coverage now because they lost their jobs and their employer-provided coverage, and already the coverage that is available is prohibitively expensive for many of them. We believe that additional protections for consumers regarding potential rate increases, beyond the Insurance Code's standard "file and use" provisions, will remain warranted in the case of BCBSM even after the proposed conversion to a nonprofit mutual company because of the uniquely large market share Blue Cross Blue Shield has in Michigan.

We appreciate the opportunity to share our concerns with you. We remain hopeful that this legislation can be significantly improved, and we welcome the opportunity to continue to work with you toward that end. If you have any questions or if there is further information we can provide, please feel free to contact Felicia Wasson at 517-267-8917 or fwasson@aarp.org.

Sincerely,

Felicia Wasson
Associate State Director for Government Affairs

Lisa Dedden Cooper
Manager of Advocacy