HB667

EXHIBIT 8
DATE 2.16.05
HB 667

State Purchasing Pools For Medical Insurance

A state run medical insurance purchasing pool would establish a state funded administrative unit to select a limited number of carriers (2 in the proposal) whose products will be marketed to employers who qualify for the proposed state tax credit and to small businesses in general.

It is believed by the sponsors of the bill that premiums will be lower when offered through the state pool.

No reason is given for this belief. Indeed, no market-based reason can be given. From a market perspective, the costs will actually be higher, not lower. But, it is possible that the intent is to use the "power of the state" to "negotiate" lower premiums for employers working though the pool (just as the state "negotiates" reimbursement rates with medical providers under the Medicaid program).

1. **This proposal limits competition** by limiting employers' choice of plans and carriers. Employers using the pool will have limited opportunities to match plan costs and benefits to their employees needs.
2. **Insurance costs for other Montana businesses will be driven up** because every business taken out of the competitive market, reduces market size and efficiency.
3. **The pool will experience overhead costs in excess of the marketplace.** The proposal includes all typical insurance costs (including agent commissions) plus adding another level of administration that does not currently exist in the market-place. The monopoly position of the pool with respect to its market will insulates the pool from competition and the administrative costs of the pool will be higher. Finally, the size of the pool will be small in comparison to carriers currently working in the market.
4. **If associations and pools were financially advantageous we would buy all group insurance from associations and pools.** In fact, we aren't and existing law "protects" associations from having to provide claim information to member groups to slow the egress of healthy groups from the association. Proposals to subsidize association plans and state pools is evidence that they cannot achieve their goals and recruit members without hiding their financial instability.
5. **Negotiated premium discounts will be passed on to all other insurance consumers** in the state—state negotiations for a few groups will inflate the costs of all others.
6. **Taxpayers will be financing the competitors of their own insurance plans.**
7. **When participation in the pool is subsidized (as with the coordinated tax credit), a disproportionate share of medical risk is shifted to the pool** and utilization will skyrocket. That will drive up premiums for the pool. Then, pressure for more discounts either drives out the carriers or they cost shift even more to their non-pool business.

8. **The state pool will collapse with a disproportionate share of risk and declining size.** A state run pool will have limited opportunity to manage risk without being considered discriminatory. As covered risk increases, its own premiums go up and groups with lowest risk will leave the pool creating a death spiral.
9. **Larger subsidies and more coercion of private businesses will be required to sustain steady growth necessary to hide financial instability.**

Do not support subsidies for associations or the establishment of a state purchasing pool. They already exist and have shown themselves to be ineffective at meeting any public purpose. They will merely reduce the size of the competitive market in a state where that market is already small and where the state government is already subsidizing further reductions in its size though Medicaid/SCHIP expansions.

JR Chipman
2/15/2005