

EXHIBIT 3  
DATE 4.14.05  
SB 154

## **Silvertip Consulting, Inc.**

**426 South Montana Avenue  
Helena, Montana 59601**

**Frank G. Cote'**  
President

**Phone: 406-431-3869**

**Fax: 406-443-9070**

**Email: Drathaar2@AOL.Com**

Senator John Cobb  
Montana Senate  
PO Box 200500  
Helena, MT 59620-0500

April 12, 2005

Re: Senate Bill 154, CHIP Reserve and Administrative Costs

Dear Senator Cobb:

Senate Bill 154 as passed by the House, in the view of America's Health Insurance Plans (AHIP), would make it extremely difficult, if not impossible, for the state to purchase private health insurance for CHIP-eligible children. The bill places an absolute cap of 10% on, not only administrative services, but also the insurance risk, and taxes, assessments and fees paid by private insurance companies.

Currently, a private health insurance company, other than a health service corporation or health maintenance organization, is required to pay 2.75% in premium taxes, any assessment which may be levied by the Montana Life and Health Guarantee Association, and all health insurers must pay 1% in MCHA assessments (approximately half of this amount can be offset against premium taxes for the private companies) and a per policy genetics fee.

If the 10% cap placed on the bill in the House is not removed, a private insurer subject to the aforementioned taxes, assessments and fees will be required to administer the program, including accepting risk, at a percentage cost of less than 6.75%. I can't imagine an insurer willing to insure the CHIP program for this amount. They would be all but guaranteed to lose money. None of these Montana taxes, assessments or fees apply to an administrative services only contract.

As was shown in the House Human Services Committee, the per member per month dollar cost currently being experienced by the CHIP program is very competitive with the state's health insurance plan, and substantially less than the cost for Medicaid. It is imperative to remember that basic administrative costs are still incurred for each program (Medicaid, the state health plan and CHIP) and must be covered. A percentage measure

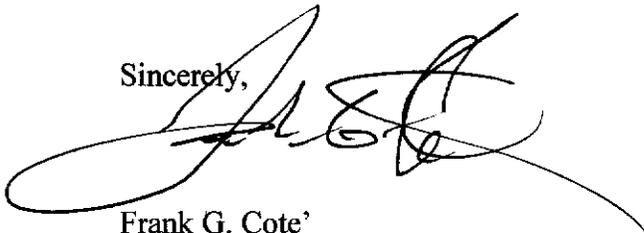
for administrative and risk costs is a difficult measure to use for a program like CHIP. It is a difficult measure to use because, while actual administrative costs for health insurance plans remain relatively constant, the premiums and utilization for a plan like CHIP are low. These factors combine to create the impression of higher administrative costs, even though, as previously mentioned, the actual per member per month costs are relatively low.

In the history of the CHIP program, only one company has offered CHIP (even though any licensed carrier was eligible to participate), and that was with an administrative and risk fee of 13.65%. If it has been difficult to get insurers to participate in CHIP in the past, why would any insurer now take this risk, knowing it could not break even? If the state chooses to continue to privately insure the CHIP program, they would be better served by letting the competitive market decide what the administrative and risk costs should be.

By purchasing private health insurance, the State knows its actual cost for CHIP up front. If claims run higher than premiums paid, the insurance company is stuck with paying the excess costs (losses). A real risk of SB 154 as it now stands is, if the state can't get private carriers to insure the program, that higher than expected claims for a self insured program could force the state to remove insured children from the program or cause fewer children to be insured. As someone who was there at the beginning of the CHIP program, I can't imagine a more tragic situation for these children.

Thank you for your usual thoughtful consideration of this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Frank G. Cote', with a large, sweeping flourish extending to the left.

Frank G. Cote'  
Americas' Health Insurance Plans