FINAL
MINUTES OF THE MEETING OF THE
NEW JERSEY INDIVIDUAL HEALTH COVERAGE PROGRAM BOARD
AT THE OFFICES OF THE
NEW JERSEY DEPARTMENT OF BANKING AND INSURANCE
TRENTON, NEW JERSEY
FEBRUARY 11, 2008

Directors participating: Darrel Farkus (United); Sandi Kelly (Horizon); Gale Simon (DOBI); Mary Taylor (Aetna Health Inc.); Lisa Yourman.

Others present: Ellen DeRosa, Executive Director; DAG Vicki Mangiaracina (DLPS); Rosaria Lenox, Program Accountant; Chanell McDevitt, Deputy Executive Director.

I. Call to Order

E. DeRosa called the meeting to order at 9:33 A.M. She announced that notice of the meeting had been published in two newspapers and posted at the Department of Banking and Insurance ("DOBI"), the DOBI website, and the Office of the Secretary of State in accordance with the Open Public Meetings Act. A quorum was present.

II. Minutes – *January 8, 2008*

S. Kelly made a motion to accept the Open Session minutes of January 8, 2008, with amendments. D. Farkus seconded the motion, and the motion carried, with L. Yourman abstaining.

III. Report of Staff

Expense Report -- February

R. Lenox provided a summary of the February 2008 Expense report, which included expenses totaling $49,019.23.

D. Farkus made a motion to approve the payment of the expenses on the February 2008 expense report. L. Yourman seconded the motion, and the Board voted unanimously to approve it.

Fund Transfer
R. Lenox reported the total amount of the assessments issued on October 16, 2007 had been collected for the 2003/2004 and 2005/2006 calculation periods (the latter of which is combined with the administrative expense assessment for 2008/2009), and recommended opening interest bearing accounts at Wachovia for the assessments. The Board agreed the total amount collected should be transferred.

L. Yourman made a motion authorizing staff to request transfer from Treasury to interest bearing accounts at Wachovia of the $1,250,944.97 collected for the 2003/2004 loss reimbursement assessment and $1,921,681.01 collected for the combined 2005/2006 loss reimbursement assessment and 2008/2009 administrative expense assessment. D. Farkus seconded the motion, which was approved unanimously by the Board.

Changes in Meeting Start Time
E. DeRosa reported that U. Lee had requested the Board consider changing the starting time for IHC meetings from 9:30 A.M. until 10:00 A.M., which would make it easier for him to be in attendance at the beginning of meetings. The Board was amenable to the change, and E. DeRosa reported she would provide required notice of the change, effective for the March meeting.

IV. Report of the Technical Advisory Committee (TAC)

S. Kelly reported AmeriHealth filed rates for its HMO and B&E Plans to be effective on March 1, 2008, which TAC recommended be found complete, subject to clarification.

M. Taylor made a motion to find the AmeriHealth rate filing for its HMO and B&E Plans to be complete. D. Farkus seconded the motion, which was approved unanimously by the Board.

S. Kelly recused herself from the vote regarding rates filed by Horizon because of the interest her employer, Horizon, has in the outcome of the vote.

E. DeRosa reported that TAC reviewed a rate filing from Horizon for its A/50 through D Plans, revising the rates for Plan A/50 only effective April 1, 2008, and recommended finding the filing complete. She noted, however, the TAC members reviewing the Horizon filing also requested the TAC report be supplemented by a statement from TAC regarding the manner in which the rates have been derived.

N. Vance read a statement on behalf of the DOBI and Guardian representatives on TAC, a copy of which is appended at the end of these minutes.

N. Vance added that if the Board would like for TAC to study the issue further, TAC would be willing to do so.

In further Board discussions, the following issues were noted:

- Horizon is not unique in cross-subsidization of plans.
- In the IHC market, affiliated companies are allowed to combine experience for purposes of meeting loss ratio requirements (something that does not happen in the small employer market), and thus, HMO business may subsidize indemnity business.
- Combining experience is consistent with the principles of community rating; however, there is some concern about some of the rating assumptions carriers

may use. Horizon's experience suggests that the populations buying its A/50 and B,C and D products are not typical populations across products.

- There may be some disagreement as to the primary goals of the development of the A/50 plan (whether primarily to provide a low cost product, or a product for people willing to fund the large deductibles).

A majority of Board members (D. Farkus, G. Simon, L. Yourman) requested TAC review how the plans are rated and the relative experiences of the plans among carriers in the market for the purposes of: quantifying the manner in which various carriers are cross-subsidizing products; assessing what appears to be happening in the selection of products by purchasers; determining whether and to what extent changes in plan design may have an impact (positive or negative) on the IHC market; and, determining if there are other issues that may be worth more study. It was noted this study is purely for purposes of gathering facts relating to the entire market rather than a specific carrier, and thus, no conflicts of interest would be raised by full TAC membership participation in the review.

M. Taylor made a motion to find the Horizon A/50 rate filing complete. D. Farkus seconded the motion and the Board voted to approve it, with L. Yourman abstaining.

V. Auditor Evaluation Committee

E. DeRosa reported the Audit Evaluation Committee (Evaluation Committee) had considered the response to the IHC Program's Scope of Work issued to Treasury-contracted auditing firms, and recommended against hiring the respondent, McEnerney Brady & Company LLC (MBC), to perform the program audits. She stated the Evaluation Committee considered the response too generic, with language targeting the needs of township and other local government entities, which the Evaluation Committee believed demonstrated lack of real understanding of the specific features of the IHC Program. She reported the Evaluation Committee also believed the respondent's suggested hours for completion of the audits, which were substantially similar to the hours projected for completion of the SEH Board's program audits, to be unrealistically low and further evidence the respondent did not appreciate the unique nature of the IHC Program, which involves collection, distribution and reconciliation of much larger sums of money than the SEH Program, and administratively is much more complex than the SEH program due to the loss assessment mechanism. She stated the Evaluation Committee recommended issuing an RFP combining the loss and administrative audits within the scope of work.

Following discussion, the Board decided to send out separate RFPs for the loss and administrative audits to broaden the candidate pool, increase flexibility for potential bidders by permitting them to bid on one type of audit rather than both, and to decrease conflict of interest for those bidders interested in bidding on the administrative audit but which are engaged by carrier-members of the IHC Program.

G. Simon made a motion to adopt the recommendation of the Audit Evaluation Committee against selection of MBC as auditor for the FY2000 through 2007

administrative audits based on the vendor's response to the IHC Program's Scope of Work, and directing IHC Program staff to send a letter to MBC explaining the Board's decision. L. Yourman seconded the motion, which the Board voted unanimously to approve.

S. Kelly made a motion directing IHC Program staff to work with appropriate IHC Committees to develop an RFP for the loss audits for the calculation periods from 2001 through 2006 separately from an RFP for the administrative audits for fiscal years 2000 through at least 2007. M. Taylor seconded the motion, which the Board voted unanimously to approve.

It was noted that drafts of the RFPs should go to the Operations & Audit Committee for recommendation prior to being presented to the Board.

VI. Report of the Legal Committee

E. DeRosa reminded the Board that it had previously granted Humana's challenge to inclusion of Medicare Advantage premium on the Exhibit Ks for the 2005/2006 calculation period. The Legal Committee reviewed a draft order to Humana granting the challenge, as well as a draft advisory bulletin to be issued to all carriers explaining the situation and permitting those that had previously submitted 2005/2006 Exhibit Ks reporting Medicare premium the opportunity to revise their Exhibit Ks. She stated staff's intention is to send the order and advisory bulletin to Humana at the same time, so that Humana will better understand why there is no check accompanying the order. She reported the Legal Committee recommended Board approval of the order and the advisory bulletin. Following discussion, the Board requested some modifications to further clarify that carriers should remove the Medicare Advantage premium, but not the Medicare Advantage lives from Exhibit K.

S. Kelly made a motion to approve Advisory Bulletin 08-IHC-01, with amendments, and to distribute the advisory bulletin to carriers. G. Simon seconded the motion, and the Board voted unanimously to approve it.

M. Taylor made a motion to approve the order granting Humana's challenge, 08-IHC-02, with amendments, and to distribute the order as soon as possible. L. Yourman seconded the motion, and the Board voted unanimously to approve it.

VII. Executive Session

E. DeRosa said the Board would need to go into Executive Session to consider draft Executive Session minutes, and obtain advice from counsel. She said the Board may take further action upon its return to Open Session.

S. Kelly made a motion to move the meeting into Executive Session. L. Yourman seconded the motion, and the Board voted unanimously to approve it.

[Executive Session: 10:55 A.M. to 11:10 A.M.]

VIII. Report of the Legal Committee (2)

S. Kelly reported on the Board's decision to issue an order to Time Insurance Company[1] (Time), as recommended by the Legal Committee, requiring Time to return, with interest, money advanced to it and its affiliates by the Board as payment for reimbursable losses for 1997/1998 and 1999/2000 assumed to be owed pending the outcome of an audit of Time's reported net paid losses. S. Kelly explained that the contracted auditing firm, Deloitte & Touche (D&T), sent notice in early January confirming D&T continues to be unable to complete the audits notwithstanding the information provided by Time at the end of August 2007. She noted the IHC Board had previously written to Time stating the August submission would be the final opportunity for Time to cooperate with D&T's requests before the IHC Board would take administrative action.

E. DeRosa stated the Board had received a letter from Time's outside counsel requesting a meeting before the Board took any administrative action. E. DeRosa reported the Legal Committee considered Time's letter, and recommended sending the order to Time without a prior meeting, noting that doing so does not preclude a subsequent meeting between the IHC Board and Time. V. Mangiaracina noted the Board's rules at N.J.A.C. 11:20-20.2 specifically permit the Board to engage in informal conferences following receipt of requests for a hearing, so if Time appeals the order and requests a hearing, the Board could have an informal meeting with Time then.

L. Yourman made a motion to issue an order to Time, Administrative Order 08-IHC-01, requiring Time to return, with interest, monies previously advanced by the IHC Board against reimbursable losses for 1997/1998 and 1999/2000 which remain unverified and thus, incomplete. M. Taylor seconded the motion, and the Board voted unanimously in favor of it.

IX. Close of Meeting

D. Farkus offered a motion to close the meeting. G. Simon seconded the motion. The Board voted unanimously in favor of the motion.

The meeting adjourned at 11:15 A.M.

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[1] Time Insurance Company has also been known as Fortis Insurance Company while a participant in the IHC Program, and specifically during the matter at issue.

Supplement to the TAC Report

To: IHC Board
From: TAC (R. Neil Vance, Joanne Briody)
Date: February 11, 2008
Re: Supplemental Report on Horizon BCBS Rate Filing for IHC Indemnity Plan A/50

Horizon filed for rate increases on IHC Indemnity Plan A/50 effective April 1, 2008. The increases are 5% for $1,000 and $2,500 deductible plans and 15% for $5,000 and $10,000 deductible plans. (Currently, almost all of Horizon's A/50 enrollment is in the $5,000 and $10,000 deductible options.) TAC recommended that the rate filing be found complete.

Plan A/50 is a high deductible indemnity plan with no managed care features. After the deductible is met, coverage is 50% of allowed charges until an out-of-pocket maximum ($5,000 for an individual) is met. The other indemnity plans (B,C, and D) have deductibles that are lower (e.g. $1,000 or $2,500), higher coinsurance percentages (60%, 70%, or 80%) and a lower out of pocket limit. The rate levels for these plans are different. In January 2008, the monthly premium for $10,000 Ded A/50 (the most prevalent A/50 plan) was $429.26 per month; the monthly premium for $2,500 Ded C (the most prevalent other plan) was $1,159.10 per month, about 3 times as much.

Enrollment in both Plan A/50 and Plans B,C,D is declining rapidly. At the end of 2006, Enrollment in A/50 was 3,538 and enrollment in the other plans was 3,101. Both amounts were about 30% less than year earlier enrollment. At the end of the 3rd quarter, 2007, this had declined to 2,744 for A/50 and 2,426 for Plans B,C,D, (a decline of more than 20%).

In connection with this rate filing, Horizon submitted the following date for the experience that ended July 31, 2007:

Plan	Premiums	Claims	Exp. Loss Ratio	Proj. LR
A/50	$15.2 mm	$ 5.8 mm	38.3%	36.6%
B,C,D	$37.4 mm	$42.5 mm	113.7%	108.1%
Total Indemnity	$52.6 mm	$48.3 mm	91.9%	87.5%

TAC wants to call to the Board's attention the very low loss ratio for the A/50 block of business.

The IHC statutes and rules do not constrain the relative rates for different plans, as long as the overall 75% minimum loss ratio requirement is met. In particular, there is no requirement that the A/50 block meet a 75% minimum loss ratio requirement on its own.

In its rate filing, Horizon provides some reasons for rates that result in low loss ratios for plan A/50. They include reflecting the actuarial differential in benefit levels, and avoiding a kind of arbitrage by purchasers with very high expected claims.

It is TAC's understanding that rate relativities between various plans are set by the carrier, and are not subject to the Board's approval. The Board's authority is limited to requesting additional explanation pursuant to N.J.A.C. 11:20-6(a)5.

In recommending that the Board find this filing complete, TAC does not necessarily indicate agreement with Horizon's line of reasoning or the resulting rates. But, we bring this matter to the Board's attention as matter of information, not as a criticism of Horizon's reasoning.