White Paper

Financially Solid and Here to Stay

What is the Montana Health CO-OP? What's a CO-OP anyhow? Are you sure you're around for the long term? What risk is there that you won't be around to pay my claims? And if you're member-controlled, how can my voice be heard?

January 2015

MONTANA HEALTH CO-OP

Why this white paper? To answer the questions we have heard about the Montana Health CO-OP from Montanans who are interested in our products, but want to know more about our history, our structure, our financial strength and our future in Montana.

Finding out that Montanans can now purchase health insurance from a company that is a true-non-profit, that returns all its profits to its members in the form of lower prices and better benefits, well, that sounds almost too good to be true to some folks.

How can this be so? How can Montana Health CO-OP stay in business this way for the long haul? Read below.

Who are you and where did you come from?

Montana Health CO-OP is one of 23 health insurance co-operatives approved by the federal and state governments.

We began in 2012 in Montana, where we began offering coverage on the federal Marketplace in 2013, with our first covered members January 1, 2014, and -- nearly 13,000 as of July, 2014. We have more than $40 million in premium revenue, and we're beginning an expansion into Idaho as well, planning to offer coverage to Idahoans in January 2015.

Are you part of the Affordable Care Act?

Yes, the ACA created a new type of health insurance company, a health CO-OP (Consumer Oriented and Operated Plan) with a unique non-profit status - - 501(c) 29.

By federal law, we cannot keep profits in the company, except for the reserves we need to be sure we can pay claims.

Right now, we have $75 million in the bank, as required by federal and state governments, just to be sure we can pay claims if we have a situation where we receive more claims than premium revenue.

We have no shareholders or investors. And we have less than 25 employees total, in Montana and Idaho combined.

It's really true that you return profits to members? And you're controlled by members?

Yes, it's a requirement written into the federal law. Here's what the Federal Register says about the law that created the CO-OPs:

"Section 1332(c)(4) directs the organization to use any profits to lower premiums, improve benefits or for other programs intended to improve the quality of health care delivered to its members."

So, we really will not be keeping any profits to pay investors or shareholders. And the Federal Register also explains the governance requirements:

"To ensure consumer control, the governance of the organization must be subject to a majority vote of its members."

But that's not all. We're independent – very independent. Here's another directive from the Federal Register:

"The organization's governing documents must incorporate ethics and conflict of interest standards to protect CO-OP members against insurance industry involvement and interference."

Montana Health CO-OP really is founded and governed by laws that maintain it as a member-run non-profit that returns its profits to its members.

Where did you get the money to start Montana Health CO-OP?

The federal government provided Montana Health CO-OP with very low cost loans, to be paid back starting in 2017, to assure that we start off and remain financially sound.

Will you have enough money to pay your claims if a lot of sick people sign up with you?

The short answer is yes, but there is more than just our financial strength that ensures we will be able to pay our claims.

First, it is possible that some sick people will sign up for our coverage. Whether people have had coverage before or not, no insurance company can deny people coverage or charge them more because of any current or pre-existing health condition.

Because of the way health insurance works, some people in any given year, will use more in health benefits than the claims they pay in monthly premiums. (Likewise, some people will also use less than the amount they pay in.)

There are protections in place for just these occurrences, through the Affordable Care Act (ACA). The three "Rs" are three new programs that apply to all health insurers to help balance out situations when the claims paid out exceed the premiums paid in.

The three Rs stand for:

- Reinsurance
- Risk adjustment
- Risk corridors

Here are short explanations of each of these programs, all of which are designed to balance the costs among health insurers when claims paid out exceed premiums paid in.

Reinsurance applies only to the individual market (not the employer group market) and protects issuers who participate in the Marketplace/Exchange. This program pays for 80 percent of the claims the insurer incurs between $60,000 and $250,000 per person per year. This coverage adds protection for a very large proportion of major surgeries and hospitalizations for injury or illness. This program provides a high degree of support from the risk of high-dollar claims through 2016.

For those claims that exceed the $250,000 limit from the federal Reinsurance program, we have another protection in place. We have purchased additional reinsurance from a private reinsurance company. We pay premiums to a highly-rated insurance company for

very large claims, thus protecting Montana Health CO-OP from really, really big claims.

Should we attract a disproportionate amount of unhealthy members, the Risk Corridor and Risk Adjustment programs provider additional reimbursement. These programs include all insurers so that those who get the best risk (healthiest people) compensate those companies that attract the worst risk (unhealthiest people). The Risk Adjustment program will stay in place permanently for CO-OPs because we are required to offer our products on the Marketplace/Exchange.

Federal loans, protection from high dollar claims…what other protections are in place?

The federal government and the State of Montana require that Montana Health CO-OP maintain adequate "reserves" – money in the bank – to fund our future claims. The amount required is based on a formula called Risk Based Capital, developed by the National Association of Insurance Commissioners (NAIC). Our target level is 500 percent, which will provide an appropriate (but not excessive) amount of cushion above the minimum amount needed to assure our state insurance regulators that we can remain solvent.

To ensure that we remain in business for the foreseeable future, the loans we received from the federal government do not have to be paid back for 15 years (for our reserve money) and 5 years (for our startup money).

Who has oversight into how you run Montana Health CO-OP?

First, our members, who have a place on the board of directors! From a government perspective, we have oversight from both the federal and state government.

The federal government, in the Centers for Medicare and Medicaid Services (CMS—a division of Health and Human Services (HHS)) who loaned us the money to get started, makes sure we are following the federal laws surrounding CO-OPs, including paying our loan off, filing our budgets and operating plans and meeting other reporting requirements. We must file our rates and our detailed coverage documents with CMS for review each year.

The Montana Commissioner of Securities and Insurance (CSI) also reviews our coverage documents and rates to make sure our financial analysis supports the rates we propose. We must receive approval from the CSI for our coverage plans as well as our rates before we can offer them.

The CSI also reviews our financial status to make sure we are financially sound in general.

Most importantly, we are a non-profit company. And our members must form a majority on the board of directors, which guarantees that the company's money will not be spent on lavish items or only to benefit investors, or just to build massive reserves. Our members are our focus.

Where can I get more information? You can contact the Montana Department of Insurance, or our website at mhc.coop

For more information: mhc.coop

Phone Toll Free: 1-855-447-2900