



221 Main Street, Suite 1500
San Francisco, CA 94105
Tel: 415.281.8660
Fax: 415.281.0960
www.pacadvantage.org

August 11, 2006

By Hand Delivery

Leslie Cummings
Executive Director
Managed Risk Medical Insurance Board
1000 G Street, Suite 450
Sacramento, CA 95814

Cliff Allenby
Chairman of the Board
Managed Risk Medical Insurance Board
1000 G Street, Suite 450
Sacramento, CA 95814

Re: Pacific Health Advantage (PacAdvantage) Closure of Insurance Operations

Dear Ms. Cummings and Mr. Allenby:

It is with great regret that we inform you that effective December 31, 2006, Pacific Health Advantage (PacAdvantage) will cease its health insurance operations and cease to operate the Health Insurance Plan of California (HIPC).

The Pacific Business Group on Health (PBGH) assumed operational responsibility for the HIPC pursuant to the Transition Agreement dated November 24, 1998.

In 1999, PBGH assigned that responsibility to PacAdvantage, an independent charitable non-profit established specifically for this purpose. The Transition Agreement includes no explicit provisions on how the contractor (PBGH or its successor PacAdvantage) should terminate the operation of the HIPC. Nor does the Small Group Reform Act, Ins. Code sec. 10700 et. seq., provide any guidance as to under what circumstances or by what process the HIPC should cease operations.

For the reasons described below PacAdvantage is hereby notifying the Managed Risk Medical Insurance Board (MRMIB) that PacAdvantage's Board of Directors has determined that PacAdvantage will cease its health insurance operations effective December 31, 2006.

Reason for Decision

As you know, the number of health plans voluntarily participating in the HIPC/PacAdvantage program has dropped from 10 statewide health plans in 1994 to three in 2006: Blue Shield of California, Health Net of California and Kaiser Permanente.

Blue Shield of California, a long-term PacAdvantage plan, has notified us it can no longer participate after December 31, 2006, due to its financial losses in the program.

Despite concerted good-faith efforts among all parties, we could not reach a financially viable arrangement that would allow for continued participation of Blue Shield of California, Health Net of California and Kaiser Permanente.

A core premise behind PacAdvantage is health plan “choice” for participating small employers. Without that choice, PacAdvantage no longer can offer a suitable, competitive option for our employer groups. Effective immediately, PacAdvantage will stop enrolling new groups. All coverage for its 116,000 members will end on December 31, 2006.

Ensuring a Smooth Transition for Enrollees

While we are saddened that we are closing our health insurance operations, our primary focus for the remainder of the year will be to do everything in our power to ensure a smooth transition for enrollees to alternative plans.

Employers in PacAdvantage with 2-50 employees qualify for guaranteed issue of health insurance under California law. Virtually all of our current enrollees are enrolled through such small groups. We are working closely and collaboratively with regulators (California Department of Managed Health Care and California Department of Insurance), brokers and health plans to ensure a smooth transition for employers and enrollees.

The vast majority of current enrollees will continue to have access to full coverage through PacAdvantage through December 31, 2006. Employer groups with December 1, 2006, renewal dates will not be covered after that date. In a mailing dated today, August 11, 2006, to groups and brokers, and in a mailing dated August 16, 2006, to enrollees, we are providing notice to each of the 6,200 employer groups, the 116,000 members and their brokers about their right to other coverage that may be available to them.

We have submitted to the Department of Managed Health Care and the Department of Insurance and received approval of the employer and enrollee notifications regarding their options for alternative coverage. These letters are available on our web site at www.pacadvantage.org. In addition to our initial notice, employers and brokers will be receiving monthly reminder notices. PacAdvantage also will send a final mailing in November to all remaining enrolled groups and enrollees reminding them of the final day of coverage and summarizing alternative options available to them.

As we have discussed above, the vast majority of the 116,000 persons enrolled through PacAdvantage are employees of eligible small groups, or their dependents. Because eligible small groups of 2-50 employees are entitled to guaranteed issue of small group coverage, we expect that most PacAdvantage groups will replace their PacAdvantage coverage with other small group coverage.

Nevertheless, because it is possible that some individuals might need individual coverage because their employer does not offer other group coverage, PacAdvantage

will send each enrolled person a Health Insurance Portability and Accountability Act of 1996 (HIPAA) Certificate of Creditable Coverage. This responsibility normally falls to a health plan, and PacAdvantage is not a health plan. However, because those enrolled for coverage through PacAdvantage may have had more than one carrier in the past 18 months, PacAdvantage will issue a HIPAA Certificate of Creditable Coverage that will summarize all of an enrollee's coverage through PacAdvantage. This will provide the enrollee with a single summary, in case the enrollee has misplaced certificates of creditable coverage previously received as the enrollee changed from one PacAdvantage carrier to another over the years.

As you may know, and as is described more fully in the enrollee letter available on our website, the Certificate of Creditable Coverage has two primary uses. First, Certificates of Creditable Coverage can be used to reduce or eliminate pre-existing condition exclusion waiting periods for enrollees who get new group or individual coverage. These waiting periods, imposed by some insurance carriers, can be affected by the amount of time an individual had "creditable coverage." Second, the Certificate of Creditable Coverage can be used to establish eligibility for a HIPAA individual guaranteed issue policy, should an enrollee want to purchase one.

PacAdvantage has Changed the Health Care Market

While we're disappointed at this closure, PacAdvantage is proud that it has helped shape California's and the nation's healthcare market to be more responsive to consumers and small businesses. These accomplishments would not have been possible without the bipartisan leadership shown by California's elected leaders 14 years ago, the Managed Risk Medical Insurance Board (MRMIB), the exceptional work done by our employees, and the plans and business partners that participated in this program. In addition, the experience of the HIPC and PacAdvantage offers important lessons for the future.

Historically, many small employers selected only one health plan for all employees. PacAdvantage has demonstrated how much both employers and employees value a choice of health plans and benefit designs. By creating a market that demanded health plan choice options for small businesses and their employees, PacAdvantage has been a catalyst to promote today's market, in which virtually all major health plans now offer a choice of products among their portfolio to small businesses (such as mix of HMO and PPOs from the same carrier).

Additionally, PacAdvantage pioneered consumer choice tools for the employees of small businesses at a time when most employers of 2-50 workers did not offer any choice of plans to their employees. PacAdvantage developed tools that let consumers compare health plan coverage, cost and quality based on their own needs and circumstances. Health plan choice tools like the PacPlan Chooser, designed by PBGH for PacAdvantage, are now used by millions of people in California and across the nation, and are expanding to inform health care consumers about hospital, medical group and treatment choices.

Lessons Learned: California and the nation can learn a number of important lessons from the experience of the HIPC and PacAdvantage in the past 13 years:

Lesson #1

Voluntary purchasing pools for small employers without subsidies for small businesses or their employees cannot significantly lower health care costs or reduce the number of uninsured.

- "Voluntary" means health plans, employers and brokers can choose whether to participate. Voluntary participation significantly undermined PacAdvantage's effectiveness.
- Some plans with the largest market share did not take part, making PacAdvantage a less-attractive product for many brokers and employers.
- Those plans that did choose to participate still preferred to cover 100 percent of a small employer's workforce rather than share the membership with other carriers and receive a smaller membership percentage through the purchasing pool's choice model. As a result, health plans offered lower-cost products directly to employers, undercutting the rates they offered through the purchasing pool.
- While PacAdvantage implemented a process to adjust premiums to match the relative risk of each plan's enrollment, this process proved difficult. The perceived weakness of this process discouraged voluntary participation by some health plans.
- Because the number of covered employees in a purchasing pool is small in relation to a health plan's total covered small-group membership, purchasing pools aren't large enough to negotiate lower costs.

Lesson #2

Purchasing pools can be part of the solution for California and other states to address some of their health care problems – administering subsidized programs for uninsured individuals, and providing health plan choices and consumer information.

- Purchasing pools arm consumers with tools to make informed decisions on which benefits and plans best suit their individual and family health care circumstances.

- Purchasing pools are attractive to small employers who want to provide their workers with a choice of health care plans not otherwise available in the marketplace. This helps to retain and attract good employees.
- Purchasing pools can be effective and efficient vehicles for administering subsidized programs to help provide coverage to those who are currently uninsured.
- To be successful, purchasing pools must operate in an environment where large health plans are required to participate and offer rates to the purchasing pool comparable to those they offer in the marketplace for similar products.

We want to reiterate that PacAdvantage has made this decision only after there were no other options. We welcome the opportunity to discuss any questions, concerns or comments you may have.

Sincerely,

John Grgurina, Jr.
President
PacAdvantage

Peter V. Lee
Chief Executive Officer
Pacific Business Group on Health

CC: Honorable Arnold Schwarzenegger, Governor of California
Honorable Don Perata, President Pro Tem, California State Senate
Honorable Fabian Nunez, Speaker, California State Assembly
California State Assembly Health Committee Members
California State Assembly Insurance Committee Members
California State Senate Banking, Finance and Insurance Committee Members
California State Senate Health Committee Members
S. Kimberly Belshé, Secretary, California Health and Human Services Agency