

**DEPARTMENT OF  
PUBLIC HEALTH AND HUMAN SERVICES**



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TO: Joan Miles, DPHHS Director  
John Chappuis, DPHHS Deputy Director

FROM: Mary E. Dalton, DPHHS, Health Resource Division Administrator  
Jackie Forba, DPHHS Health Care Resources Bureau Chief

RE: Children's Health Insurance Program (CHIP) Administrative Options

Since 1999 the Department of Public Health and Human Services (DPHHS) has contracted with Blue Cross Blue Shield of Montana (BCBSMT) to provide a fully insured health benefit for all children enrolled in the Children's Health Insurance Program (CHIP). BCBSMT has been the only company that has shown interest in providing this insurance. As a result of this lack of competition in the insurance market and rising medical costs faced by all health care coverage programs, the state has had limited ability to control premium costs. Alternatives to a fully insured product are being explored for these reasons.

This paper outlines several recommendations in descending order of implementation and provides further explanation and background for these options. It should be noted that self-administration of CHIP through a public-private partnership may be a more overall cost-effective way to provide health coverage for children. Ironically, although the total cost may be less, it could be more costly for the State of Montana due to the 10% administrative cap as currently defined by federal regulation. The state will have to weigh carefully whether the costs of self-administration outweigh its limited ability to control inflationary increases when purchasing a fully insured product on an on-going basis.

**Short-Term Recommendations**

- 1) Issue a Request For Proposal (RFP) in April 2006 to determine the cost of obtaining Third Party Administrator (TPA) services beginning October 1, 2006. DPHHS will continue to administer CHIP and provide eligibility services as outlined in Attachment 5. The TPA will provide the majority of services outlined

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in Attachment 4. These services include development and maintenance of both in and out-of-state provider networks; claims payment; and customer services. The 10% cap will apply to the combined cost of DPHHS administrative expenses and the services provided by the TPA.

- 2) If DPHHS is unable to obtain TPA services for the amount available, extend the existing contract with BCBSMT past October 2006 while a contract with a fiscal agent is pursued.
- 3) Amend the Montana Medicaid Information System (MMIS) contract to include CHIP fiscal agent services in the future. Fiscal agent services typically consist primarily of claims payment with limited provider network and customer service functions. DPHHS will continue to administer the CHIP program and provide eligibility, customer services, and other services that will be similar to those outlined in Attachments 4 and 5.

A RFP has been issued for the MMIS contract for Medicaid fiscal agent services. A MMIS contractor will be selected this summer. Start-up dates for the MMIS will vary depending on whether a new vendor is selected. The term of the new MMIS contract will be August 2006 through June 2011.

Contracting with the existing MMIS vendor is not seen as a viable alternative until after a new contract is awarded. The CHIP claims volume is small enough that it is not likely that it would be financially viable for a contractor to provide this service separate from the Medicaid fiscal agent duties. It is also likely that the state will get a better price for CHIP claims processing if the Medicaid contractor assumes this work, rather than bidding it out separately.

- 4) If none of the above recommendations prove to be feasible, continue to purchase a fully insured product for children enrolled in CHIP.

### **Long-Term Recommendations**

- 1) Explore the option of contracting for administrative services in conjunction with other state administered programs (e.g. State Employee Group Benefits, Montana University System, etc.) within the next 2-3 years. A few states, including West Virginia, utilize this approach to hold down administrative costs.
- 2) Request additional state funding for CHIP administrative expenses from the 2007 legislature.
- 3) Request an exception from the Centers for Medicare and Medicaid Services (CMS) to the administrative cap regulation for FFY 2007. DPHHS should work with CMS, the Governor's office and the Montana Congressional delegation to change the federal CHIP rules pertaining to the administrative cap for the future. It is appropriate for DPHHS to address this issue at this time because the CHIP reauthorization process is scheduled for 2007. (Note: This is considered a remote possibility, but one that should be explored.)

## **Background**

Since 1999 the Department of Public Health and Human Services (DPHHS) has contracted with Blue Cross Blue Shield of Montana (BCBSMT) to provide a fully insured health benefit for all children enrolled in the Children's Health Insurance Program (CHIP). BCBSMT assumes the risk and provides claims payment, customer service, a health care provider network, and administrative services.

During the 2005 legislative session, Senate Bill 154<sup>1</sup> sponsored by Senator John Cobb was passed. This bill clarified that the department may either administer the program directly or contract for administration of the program with an insurance company or other entity.

DPHHS is interested in decreasing the overall administrative expenses associated with providing health insurance for children enrolled in CHIP. If the administrative expenses can be decreased, funds can be used to provide health insurance for additional children.

In early 2006 DPHHS began to examine the administrative options available to CHIP. The three options identified were:

- 1) continue to purchase a fully insured medical benefit
- 2) self-administer CHIP and contract with a Third Party Administrator
- 3) self-administer CHIP and contract with a Fiscal Agent

A meeting was held on February 7, 2006 to discuss these administrative options and solicit input on other issues the department should take into consideration.<sup>2</sup> Health care providers, CHIP parents, advocates, legislators, managers of state administered health plans, health insurance representatives, and other interested parties participated in the discussion.<sup>3</sup>

### **BCBSMT Administrative Services**

BCBSMT currently provides a variety of administrative services<sup>4</sup> as part of our fully insured plan. If the state self-administers CHIP, the services would need to be contracted out or performed by DPHHS staff. These services would be in addition to the administrative services currently provided by DPHHS staff.<sup>5</sup>

If there are insufficient funds to pay for these essential services, some services would need to be reduced or eliminated. A decrease in the quality of claims processing, customer service, provider network support and related services would result.

### **Comparison with other States with Separate CHIP Programs**

States with Separate SCHIP programs that have a large number of children enrolled have higher benefit expenses and more funds available for administrative services. Economies of scale and coordination with other state programs allow states to self-administer and keep their administrative expenses under the 10% cap. Therefore, these states indicate the 10% administrative cap does not restrict their programs.

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<sup>1</sup> See Attachment 1

<sup>2</sup> See Attachment 2

<sup>3</sup> See Attachment 3

<sup>4</sup> See Attachment 4

<sup>5</sup> See Attachment 5

<b>Table 1: States with Separate CHIP Programs that Self-Administer – FFY 2005</b>				
State	Federal Poverty Level (FPL)	Expenditures	10% admin cap	"Ever-enrolled" Children
Alabama	200%	\$ 101,711,324	\$ 10,616,592	81,856
Nevada	200%	\$ 32,606,866	\$ 3,478,054	39,316
North Carolina	200%	\$ 283,044,393	\$ 30,645,782	195,917
Vermont	300%	unavailable	unavailable	6,614
Washington	250%	\$ 16,419,407	\$ 1,726,756	15,547
West Virginia	200%	\$ 40,421,152	\$ 4,156,325	38,614
<b>Montana</b>	150% *	\$ 15,919,916	\$ 1,641,894	15,841

Note: Montana has one of the most restrictive financial eligibility requirements (150% FPL) in the country. North Dakota's 140% FPL requirement is the only one lower than Montana's.

### **CHIP Administrative Cap**

DPHHS staff has discussed the benefits and challenges of self-administration with administrators of the Centers of Medicare and Medicaid Services (CMS). The 10% cap on CHIP administrative services has been discussed in depth and staff continues to consult with federal administrators on this regulation. (For example, CMS recently indicated that re-insurance and case management expenditures are considered "child health assistance" and are not included in the 10% administrative cap.)

For a separate CHIP programs, the 10% administrative cap as currently defined by federal regulations, favors the purchase of a fully insured health plan.

Montana purchases a fully insured plan so the 10% cap is based on the insurance premium paid for medical benefits and the dental, eyeglasses and Extended Mental Health Plan claims paid directly by DPHHS. (The new Extended Mental Health Plan began March 1, 2006.)

The insurance premium paid to BCBSMT includes paid claims expense and administrative expense. The insurance company's administrative expense includes operating expenses (customer service, developing and supporting a provider network, issuing ID cards, plan materials, explanation of benefit statements, claims processing, etc.), a risk charge, the Montana Comprehensive Health Association (MCHA) assessment, state genetics tax and other taxes. (The insurance company's administrative expense is considered "child health assistance" under the CHIP federal rules and is not subject to the 10% administrative cap).

If the insurance premium exceeds the amount paid for medical claims and administrative expense, the insurance company retains the excess revenue (profit). The current DPHHS contract with BCBSMT stipulates the excess revenue is to be shared 50:50 between BCBSMT and DPHHS.

If Montana self administers CHIP, the 10% cap is based on the amount paid for medical, dental, eyeglasses and Extended Mental Health Plan claims. The administrative services (customer service, developing and supporting a provider network, issuing ID cards, plan materials, explanation of benefit statements, claims processing, etc.) currently provided as part of the insurance premium are subject to the 10% administrative cap.

## Administrative Cost Comparisons

DPHHS staff reviewed FFY 2005 expenditures for our fully insured plan. The administrative cap was based on the insurance premiums (which included BCBSMT administrative expenses) dental and eyeglasses claims paid by DPHHS. The total administrative costs were 6.7% of benefits, well under the 10% administrative cap.

Staff then calculated the cap assuming CHIP was self administered during FFY 2005. In this scenario the administrative cap was based on medical claims paid by BCBSMT and dental and eyeglasses claims paid by DPHHS.

The total administrative costs under a self-administered plan would have been 7.7% of benefit costs and the amount remaining (\$506,809) was considerably less than what was available under the fully insured plan. The remaining amount is what would have been available for contracted administrative services. Table 2 below illustrates this comparison of costs.

Table 2: Cost Comparison between Fully Insured and Self-Administered SCHIP FFY 2005

	Monthly Enrollment	Insurance Premium	Paid Medical Claims	Dental	Eyeglasses	Total Benefits	State Admin Costs	Total Costs	Admin Cap 10%	(Over)Under Cap	State Admin Percent
Fully Insured	11,022	\$15,600,482	n/a	\$1,498,006	\$50,969	\$17,149,457	\$1,142,868	\$18,292,325	\$1,905,495	\$762,627	6.7%
Self Admin	11,022	N/a	\$13,298,118	\$1,498,006	\$50,969	\$14,847,093	\$1,142,868	\$15,989,961	\$1,649,677	\$506,809	7.7%

DPHHS staff also projected and compared costs for a fully insured plan and a self-administered plan for FFY 2006–2008.<sup>6</sup> Due to increased costs for re-insurance and additional DPHHS and TPA administrative services, there is not a significant savings. The total costs for a self-administered plan approximates what is paid for a fully insured plan. If the costs for reinsurance (approximately \$1.5 million), TPA services and out of state provider network access are less than anticipated, savings could be realized. More accurate projections for these costs can be obtained if the state issues a Request for Proposal (RFP) for administrative services.

However, even if the total costs for self-administration could be lowered, the 10% administrative cap still remains a barrier.

## Need for Additional State Funds

If Montana chooses to self-administer CHIP under the current federal administrative cap regulation the program may need additional state funds for the following:

- 1) administrative expenses above the 10% administrative cap, and
- 2) CHIP reserve (reinsurance may be an alternative to a reserve.)

## Administrative Expenses above 10% Administrative Cap

Based on the costs incurred by the State Employee Group plan for TPA services, the projected total administrative expense in FFY 2007 is approximately \$4.2 million. This amount is above the 10% administrative cap and would require approximately \$1.2 million in state funds.

<sup>6</sup> FMAP of 78.38% for FFY 2007

## **Reserve and/or Reinsurance**

With self-administration the state assumes the financial risk, therefore, a reserve account is needed. Based on our claims experience, a reserve of \$1.7 million is needed. Because reserve funds would be matched when spent at a rate of about 4 to 1 by federal funds approximately \$373,000 in state funds is needed for FFY 2007.

The state could choose to purchase re-insurance in lieu of a reserve account. The estimated annual expense for a \$250,000 stop-loss policy for 13,900 children is approximately \$1.5 million. The state funds needed would be approximately \$325,000. CMS has indicated stop loss insurance would be considered "child health assistance since it is part of the cost of obtaining coverage. Therefore, it is not part of the administrative cost of the program." (The 10% administrative cap would not apply.)

## **Contracting for CHIP Administrative Services**

A number of companies have expressed interest in contracting for CHIP administrative services.<sup>7</sup> We believe an RFP will provide the opportunity for interested companies to compete for state business. Although the RFP process will take time and considerable effort, it will allow the department to negotiate the most cost-effective administrative contract.

## **Advantages of Self-Administration**

- More funds may be spent on health care benefits for children and less on BCBSMT administrative expenses and reserves.
- DPHHS would not need to share excess revenue (profit) with BCBSMT on 50:50 basis
- Greater competition for the CHIP contract could result in better prices for the state. (No competition is anticipated if we continue to purchase a fully insured product.)
- DPHHS can benefit from the expertise of TPA staff, their established claims, case management and utilization management systems, provider network (with associated discounts), reporting systems, underwriting and actuarial services.
- Self-administered insurance programs are not required to pay the state genetics tax and the Montana Comprehensive Health Association (MCHA) assessment so these expenses are eliminated.

## **Disadvantages of Self-Administration**

- DPHHS assumes the risk for all costs and needs to establish a reserve fund and/or purchase re-insurance.
- 10% cap on state and contractor administrative services is based on benefit expenditures so the cap fluctuates with enrollment and utilization.
- An additional five state employees are needed to assume some of the duties currently being provided by BCBSMT and to manage a TPA contract. The number of employees is expected to be greater for a Fiscal Agent contract.
- Some families may perceive CHIP as more of a "government program" than an insurance plan if we self-administer the program and may choose not to participate.

<sup>7</sup> A Request for Proposal for Montana Medicaid Information System (MMIS) Operation and Fiscal Agent Services was issued on February 27, 2006. The current Fiscal Agent has expressed interest in providing

CHIP administrative services. However, if as a result of the MMIS RFP process, a new Fiscal Agent is chosen, it is unlikely the current Fiscal Agent would be able to contract for CHIP administrative services.

### **Other Considerations Related to Self-Administration**

- It is essential to have a comprehensive provider network throughout Montana to assure children enrolled in CHIP have access to health care services.
- Any change to CHIP provider rates will affect the statewide provider network and therefore, children's access to health care.
- A cost-effective out of state provider network for urgent/emergent care as well as services not accessible in Montana is critical.
- The number of additional state employees needed to administer the program is dependent upon the type and cost of services a TPA or Fiscal Agent can provide.
- Procedures need to be implemented so the transition from a fully insured plan to a self-administered plan is as seamless as possible for CHIP families and providers.

It should be noted that self-administration of CHIP through a public-private partnership may be a more cost-effective way to provide health coverage for children. Ironically, although the total cost may be less, it could be more costly for the State of Montana due to the 10% administrative cap as currently defined by federal regulation.

The state will have to weigh carefully whether the costs of self-administration outweigh the limited ability to control costs when purchasing a fully-insured product. To this point there has been only one insurance company interested in contracting with CHIP.

Please contact Mary Dalton at 444-4458 or Jackie Forba at 444-5288 if you have questions or need additional information.