

Brief Notes

NEWS FOR BROKERS & CONSULTANTS

March 1, 2017

Applies to: All markets

Protecting Horizon BCBSNJ Members' Reserves

In his State Budget address on February 28, 2017, the Governor asked Horizon Blue Cross Blue Shield of New Jersey to consider contributing money from its reserves to help fund state programs. If we do not agree to that invitation, we expect the State will become more aggressive in trying to take the reserves. This proposal is troubling as the health insurance industry is in the midst of one of the most volatile times for health care in American history. Given the current national political environment, in particular the proposed repeal and replace of the Affordable Care Act, it is dangerous to propose a measure that will weaken the safety net that protects our more than 3.8 million members.

Characterizing our members' reserves as "excess surplus monies" is inaccurate; they are reserves protecting our more than 3.8 million members against risk, and ensuring we can pay claims when the unforeseen happens. That includes things like the unanticipated cost of a new drug — we paid \$135 million on 5,500 pharmacy claims for a new, expensive hepatitis C drug in 2015; various mandates that the State may impose, like the opioid mandate that could cost up to \$20 million, and ultimately increase the already high cost of health insurance in New Jersey; to a natural disaster like Hurricane Katrina, or a public health crisis like a massive flu outbreak or other epidemic. Horizon BCBSNJ will fight any actions that weaken our ability to provide security and peace for mind our members.

Horizon BCBSNJ's reserves come from its only source of Company revenue — the premiums paid by our customers. A portion of the premiums our members pay help fund the reserves that are the foundation of our promise of financial security for their health care coverage. At the end of 2016, Horizon BCBSNJ had \$2.9 billion in reserves, which equates to about \$763 per member, or enough to pay 75 days' worth of expected health care claims. State law mandates that health insurers keep funds available in reserves to protect their policyholders. The Blue Cross and Blue Shield Association also has similar reserve requirements; importantly, of the major not-for-profit Blue plans nationally, Horizon BCBSNJ has the fourth lowest reserve as determined by the National Association of Insurance Commissioners' (NAIC) Risk-Based Capital (RBC) measurement. In addition, despite being structured as a not-for-profit, Horizon BCBSNJ paid more than half a billion dollars in federal, state and local taxes last year.

(Continues)



Horizon Blue Cross Blue Shield of New Jersey

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Horizon BCBSNJ has been serving the needs of New Jersey for 85 years, and:

- Remains one of only two insurers in New Jersey on the federal marketplace, insuring approximately 275,000 individual consumers. While other insurance companies have left, Horizon BCBSNJ has chosen to continue operating in the marketplace, demonstrating our commitment to all the citizens of New Jersey;
- Services more than 900,000 Medicaid members across all 21 counties, making us very aware of the needs of our most vulnerable New Jersey residents;
- Has a Foundation that has awarded 1,319 grants, totaling nearly \$50 million since its inception in 2004. The Foundation also funds three signature programs that target childhood obesity, asthma and oral health; and
- Has more than 700 employees who have logged over 35,000 combined volunteer hours in communities around the state over the past 11 years through our Horizon Cares program.

Horizon BCBSNJ agrees with the Governor that more should be done to help the vulnerable and financially challenged residents of New Jersey. But, we need to work on solutions that do not take our reserves that protect the citizens and families we insure, and make insurance even more expensive in our state.

Attached are *answers to questions* your clients may have about the Governor's proposal, and *statements of support* for Horizon BCBSNJ from leaders across the state.

If you have questions, please contact your Horizon BCBSNJ sales executive or account manager.



Horizon Blue Cross Blue Shield of New Jersey

Questions and answers: Protecting our Members' Reserves

March 1, 2017

In his State Budget address on February 28, 2017, the Governor asked Horizon Blue Cross Blue Shield of New Jersey to consider contributing money from its reserves to help fund state programs. If we do not agree to that invitation, we expect the State will become more aggressive in trying to take the reserves. This proposal is troubling as the health insurance industry is in the midst of one of the most volatile times for health care in American history. Given the current national political environment, in particular the proposed repeal and replace of the Affordable Care Act, it is dangerous to propose a measure that will weaken the safety net that protects our more than 3.8 million members.

Characterizing our members' reserves as "excess surplus monies" is inaccurate; they are reserves protecting our members against risk, and ensuring we can pay claims when the unforeseen happens. Horizon BCBSNJ is required by state law and Blue Cross and Blue Shield Association rules to maintain reserves. Additionally, Horizon BCBSNJ has maintained an "A" credit rating from Standard & Poor's, due in large part to its current level of reserves.

Horizon BCBSNJ will fight any such actions that weaken the security and peace of mind we provide to our members and customers.

Below are answers to questions you may have about the Company's reserves.

Q1. Why does Horizon BCBSNJ have reserves?

A1. Horizon BCBSNJ is required by state law and Blue Cross and Blue Shield Association rules to maintain reserves. Reserves protect our more than 3.8 million members against risk and ensure we can pay claims when the unexpected happens.

Q2. How much does Horizon BCBSNJ pay in claims?

A2. Horizon BCBSNJ pays about \$10 billion in claims each year.

Q3. How does Horizon BCBSNJ determine how much money to hold in reserves?

A3. Horizon BCBSNJ, like other health insurers, uses a technical measurement known as Risk-Based Capital (RBC) to determine the appropriate level of reserves. The measurement takes into account the minimum amount of capital appropriate to support an insurance company's business operations in consideration of its size, customers and risk profile.

New Jersey, like most states, requires a minimum level of capital reserves for a health insurer to operate in the state.

Q4. What is an example of how Horizon BCBSNJ would use its reserves?

A4. Horizon BCBSNJ holds money in reserves to pay claims when the unforeseen happens. For example, reserves would be used to pay claims in the event we experienced a natural disaster like Hurricane Katrina, or a public health crisis like a massive flu outbreak.

Q5. How much does Horizon BCBSNJ have in reserves?

A5. At the end of 2016, Horizon BCBSNJ had \$2.9 billion in capital reserves. That's roughly \$763 per member or enough to pay approximately 75 days' worth of expected health care claims.

Q6. Does Horizon BCBSNJ pay taxes?

A6. Yes. Horizon BCBSNJ is not a 501(c)(3) nonprofit. Horizon BCBSNJ paid \$1 billion in taxes over the last two years.

Q7. I saw that the State Administration is potentially exploring ways to access money from Horizon BCBSNJ's reserves. What does this mean to me?

A7. Horizon BCBSNJ holds money in reserves to pay for claims when the unexpected happens. Horizon BCBSNJ will not allow the State Administration to access any money from the Company's reserves. We hold the reserves to protect our members, group customers and providers.

Q8. What would happen if the State Administration was able to access the money from Horizon BCBSNJ's reserves?

A8. This would put Horizon BCBSNJ's 3.8 million members at risk. **Reserves are not a surplus.** A portion of the premiums our members pay help fund the reserves that are the foundation of our promise of financial security for their health care coverage in the event the unforeseen happens like a natural disaster, epidemic or a severe drop in the stock market.

Q9. What is Horizon BCBSNJ doing for New Jersey residents?

A9. Horizon BCBSNJ has been serving the residents of New Jersey for 85 years, we:

- Remain as only one of two insurers in New Jersey on the federal marketplace, insuring approximately 275,000 individual consumers. While other insurance companies have left, Horizon BCBSNJ has chosen to continue operating in the marketplace, demonstrating our commitment to all the citizens of New Jersey;
- Service more than 900,000 Medicaid members across all 21 counties, making us very aware of the needs of our most vulnerable New Jersey residents;

- Have a Foundation that has awarded 1,319 grants, totaling nearly \$50 million since its inception in 2004. The Foundation also funds three signature programs that target childhood obesity, asthma and oral health; and
- Have more than 700 employees who have logged over 35,000 combined volunteer hours over the past 11 years.

Proposal to Raid Reserves of Horizon BCBSNJ's Policyholders



“Instead of defending our residents from Donald Trump's cuts to Medicaid and his repeal of the ACA – which would cripple our state budget and hurt hundreds of thousands of New Jerseyans – Governor Christie is instead trying to turn our largest health insurer into a piggy bank for himself and other Trenton politicians. This appears to be just another instance of the governor putting his political interests before what's best for the people of New Jersey. We should be working to lower premiums, not weakening Horizon, one of the pillars of our state's healthcare system.” – Phil Murphy, Democratic candidate for New Jersey Governor



“New Jersey today responded to Governor Chris Christie's budget address, expressing disappointment at three big problems. While AFP supports the Governor's decision to make a large pension payment, the organization is disappointed that he ignored the need for comprehensive pension reform. The organization is deeply concerned with the Governor's decision to take \$300 million from Horizon Blue Cross Blue Shield's reserve fund to pay for his opiate reform plan and shore up a budget shortfall. Finally, the organization is disappointed that Governor Christie continues to preside over the largest influx of corporate welfare in New Jersey history.” – Americans for Prosperity



“Likewise, NJEA has deep concerns regarding the governor's proposal to raid the reserve trust of Horizon Blue Cross Blue Shield for one-shot funding. The reserve he proposes to raid exists for a purpose and is maintained according to industry standards. If funding is simply taken out of the reserve and must be replaced, that would likely raise the healthcare premiums on people who get their health insurance through that system. Our members and other New Jersey residents should not be asked to pay even more for health insurance to fund Gov. Christie's other budget priorities.” – Wendell Steinhauer, President, New Jersey Education Association



“While Governor Christie’s effort to combat drug addiction has good intentions, his plan to raid the reserves used to protect the health of millions of New Jersey citizens for this purpose is not the right approach. When government steps in to the marketplace in this fashion, as we have seen in New York, higher taxes and increased consumer costs are sure to follow. Opiate abuse is a serious problem in our country and one sensible approach to addressing it is to engage New Jersey’s pharmaceutical companies. There are also many charitable organizations working to combat drug abuse that can engage. However, imposing a permanent tax increase on the back of New Jersey residents and patients is not only fiscally reckless, but sets an awful budget precedent.” – Steve Forbes



“For the 7th and final year, Governor Christie has used gimmicks and fantasy numbers to paint a rosier picture than structurally possible due to his fiscal mismanagement. Today’s proposals, including an Un-Fairness formula that hurts needier students and cuts to programs that sustain the very poor are unfortunately part of Christie’s arsenal of undermining New Jersey residents. His newly added shakedown of Horizon - which will undoubtedly leave consumers holding the bag and ultimately paying higher premiums in an already precarious health care environment caused by Christie’s own mentor, President Donald Trump. We call on legislators to reject these gimmicks and ploys and instead look at the true causes of our financial woes-- corporate welfare, tax giveaways to the very rich, and missed opportunities that promise to hurt New Jersey well beyond Christie’s pending expiration date.” – Analilia Mejia, Executive Director, New Jersey Working Families Alliance



“This is absolutely the worst time for the state to raid funds from Horizon. The likely repeal of the Affordable Care Act would create a health care crisis, and the possible loss of all health coverage for about 800,000 New Jerseyans. Horizon, as the state’s largest insurer and the only nonprofit, would have an especially important role in helping the newly uninsured...In these uncertain times, New Jersey must continue to support Horizon, not undermine its solvency. If there are excess surplus funds, Horizon should use them to reduce premiums for their members and make insurance more affordable, which is the single biggest health problem facing the state.” – Ray Castro, Senior Policy Analyst, New Jersey Policy Perspective



“But he’s not finished running the state government in a way that builds his own political career. Now he’s looking to forcibly extract money from a private non-profit health care insurer to further his image as the New Jersey savior of people sick with drug and alcohol addiction.” – New Jersey Citizen Action



“Governor Christie's raid on policy holder premiums meant to pay for healthcare is a reckless proposal that will increase taxes, undermine the insurance market and put the healthcare of the citizens of New Jersey at great risk. All of New Jersey and anyone interested in good government and fiscal responsibility should oppose this irresponsible act of government overreach.” – Ken Blackwell, Conservative Columnist and CNN Contributor



“At a time when Washington politics are creating more uncertainty about health care in already unstable markets, New Jersey shouldn’t undermine the security that reserve funds provide to residents. Reserve funds are a critical protection for New Jerseyans that make sure they are covered for risks like a sudden drug price hike or a bad flu season. We’ve seen the importance of maintaining proper reserves in recent years with the collapse of co-ops nationwide. New Jersey residents are the ones who will pay for this proposal through higher premiums in the end.” – Ward Sanders, President, New Jersey Association of Health Plans

POLITICO

Gov. Chris Christie contradicted his longstanding support for free enterprise during his budget speech on Tuesday, singling out Horizon Blue Cross Blue Shield of New Jersey and attempting to pressure the state’s largest insurer into establishing a “permanent fund” with money from its surplus to support health care for the state’s poorest residents. – Katie Jennings, *POLITICO*

The Star-Ledger

The governor floated two new ideas that surprised Democrats, and everyone else.

One was to mug Horizon Blue Cross Blue Shield and take its cash

Christie's plan is to raid its reserves, on the premise that it owes the public something for the favored treatment it has received over the years as a non-profit. Democrats were befuddled, but intrigued by the notion of grabbing free cash, with sources saying the governor was aiming for \$300 million.

Horizon, not surprisingly, reacted with horror. And it seems obvious the firm would increase rates to recoup the loss, so this could be nothing more than a tax increase in disguise. – Tom Moran, *The Star-Ledger*

The Record

NORTH JERSEY'S TRUSTED SOURCE

For starters, the governor suggested that Horizon Blue Cross Blue Shield of New Jersey voluntarily take some of its more than \$2.9 billion in profits — according to Christie — and establish a “permanent fund” to support the state’s “most vulnerable population who access Charity Care and Medicaid.”

There was some amusement in the Trenton chamber when he suggested that Horizon would be amenable to such an arrangement. And a key concern here is that Republicans in Congress have vowed to put an end to the Affordable Care Act and there is no clear understanding of what Congress and President Trump will offer as a replacement. If the federal expansion of Medicaid were to disappear in states like New Jersey, Horizon would fast return to being an insurer of last resort. So while the idea of such a fund sounds fine in a speech, it is hard to imagine that such a thing could come to pass. – *The Bergen Record*



Horizon officials shot back within the hour, insisting Christie had overstated the company’s earnings and cash reserves and highlighting ways in which it supports healthcare programs for the state’s most vulnerable residents. In addition, industry regulations require insurance providers to maintain significant reserves in order to cover unexpected claims, the company said, adding that the \$2.4 billion Horizon had in reserve at the end of 2016 is entirely appropriate, given the company’s size and costs. Horizon covers some 3.8 million Garden State residents, including 900,000 Medicaid patients; it is one of two companies that issues Medicaid plans in the state. – Lilo H. Stainton, *New Jersey Spotlight*



Horizon Blue Cross Blue Shield of New Jersey

Horizon is always willing to partner with New Jersey to drive down health costs and expand health care access to all our residents. As New Jersey’s largest health insurer serving over 900,000 Medicaid members, Horizon knows well that more is needed to help New Jersey’s most vulnerable and financially challenged residents and agrees with the Governor that more should be done. However, raiding the reserves that protect the families we insure, including our Medicaid members, will only make insurance more expensive and less secure.

The claim that Horizon and our policy holders have an ‘abundant surplus’ is just plain wrong -- those reserves have only enough to cover 75 days of claims or just a single day of hospital care

for every person Horizon insures. Moreover, the company's net income was less than 1% of revenues in 2016. Despite being structured as a not-for-profit, Horizon paid more than half a billion dollars in federal, state and local taxes last year.

While other insurance companies have left, Horizon has stayed in the Affordable Care Act marketplace demonstrating our commitment to New Jersey. Instead of taking our members' reserves, we should partner to create a permanent and stable source of revenue to help New Jersey's less fortunate by tackling, once and for all, the \$1 billion dollar out-of-network billing abuse and surprise medical billing problem.