MARTIN O'MALLEY
Governor

ANTHONY G. BROWN
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June 28, 2012

The Honorable Martin O'Malley
Governor
State House
100 State Circle
Annapolis, MD 21401 – 1991

The Honorable Thomas V. Miller, Jr.
Senate President
State House, H-107
100 State Circle
Annapolis, MD 21401 – 1991

The Honorable Michael E. Busch
Speaker of the House of Delegates
State House, H-101
100 State Circle
Annapolis, MD 21401 – 1991

The Honorable Thomas A. Middleton
Chair, Senate Finance Committee
3 East Miller Senate Bldg.
11 Bladen Street
Annapolis, MD 21401 – 1991

The Honorable Peter A. Hammen
Chair, House Health and Government
Operations Committee
241 House Office Bldg.
6 Bladen Street
Annapolis, MD 21401 – 1991

RE: 2011 Report on CareFirst's Compliance with its Statutory Mission
MD. CODE ANN., INS. ART., § 14-102(e)

Dear Sirs:

Section 14-102(e) of the Insurance Article of the Annotated Code of Maryland requires the Insurance Commissioner to report on a nonprofit health service plan's compliance with Title 14, Subtitle 1, of the Insurance Article.[1] This reporting requirement was passed in 2003 following the rejection of CareFirst's attempt to convert from a nonprofit to a for-profit corporation. The § 14-201(e) requirement is limited to those plans in which the sole member of the corporation is a nonprofit health service plan. Section 14-115(d)(1). The only nonprofit health service plans that meet this definition, and the only insurers subject to the § 14-102(e) reporting requirement, are CareFirst, Inc. affiliates.

[1] Unless otherwise indicated, all statutory references are to the Insurance Article of the Annotated Code of Maryland.

CareFirst, Inc. is the holding company of, among other entities, two nonprofit health service plans: CareFirst of Maryland, Inc. and Group Hospitalization and Medical Services, Inc. This report addresses the activities of these two entities, which will be referred to collectively as "CareFirst."

Section 14-102(a) states that the purpose of Subtitle 1 of Title 14 is:

(1) to regulate the formation and operation of nonprofit health service plans in the State; and
(2) to promote the formation and existence of nonprofit health service plans in the State that:
(i) are committed to a nonprofit corporate structure;
(ii) seek to provide individuals, businesses, and other groups with affordable and accessible health insurance; and
(iii) recognize a responsibility to contribute to the improvement of the overall health status of the residents of the jurisdictions in which the nonprofit health service plans operate.

There are the six (6) subparts of Title 14, Subtitle 1, all of which are subject to the reporting requirement of § 14-102(e).

Part I – Definition; General Provisions;
Part II – Certificates of Authority;
Part III – Management, Finances, and Solvency;
Part IV – Regulatory Authority of Commissioner;
Part V – Conversion; Acquisitions and Investments; and
Part VI – Prohibited Acts; Penalties.

CareFirst has secured the appropriate certificates of authority from the Maryland Insurance Administration ("MIA") to operate in Maryland and its management, finances, and solvency are monitored regularly by the MIA's Examination and Audit Unit. There are no outstanding issues regarding the Commissioner's regulatory authority over CareFirst or involving a company conversion or investment or acquisition of an affiliate or subsidiary.

Therefore, the focus of this report is on whether or not CareFirst has complied with its statutorily mandated nonprofit mission as set forth in § 14-102, which is contained in Part I of Title 14, Subtitle 1. Section 14-102(c) provides that the mission of a nonprofit health service plan is to:

(1) provide affordable and accessible health insurance to the plan's insureds and those persons insured or issued health benefit plans by affiliates or subsidiaries of the plan;
(2) assist and support public and private health care initiatives for individuals without health insurance; and

(3) promote the integration of a health care system that meets the health care needs of all the residents of the jurisdictions in which the nonprofit health service plan operates.

A nonprofit health service plan must have goals, objectives, and strategies for carrying out its nonprofit mission. Section 14-102(d).

For the reasons set forth below, the MIA has determined that CareFirst has satisfied the statutory requirements of its nonprofit mission.

I. Provide Affordable and Accessible Health Insurance

CareFirst serves approximately 3.4 million subscribers in Maryland, the District of Columbia, and Northern Virginia. CareFirst's two million Maryland subscribers make it the largest health insurance carrier in Maryland. Section 14-106(d) mandates that CareFirst offer health care products in the individual and small employer group markets, which are smaller and less lucrative market segments than the large group market.[2] CareFirst has approximately a 70% share of the individual and small group markets in the State. See Mercer, *Report of Market Rules and Risk Selection for the State of Maryland for the Maryland Health Benefit Exchange*, (November 9, 2011) http://dhmh.maryland.gov/exchange/pdf/FinalMDStudyofMarketRules-and-RiskSelectionReport.pdf.

Furthermore, CareFirst serves as the administrator for the Maryland Health Insurance Plan ("MHIP"). MHIP is a State health insurance plan that provides coverage to Maryland residents who are unable to obtain health insurance because of a pre-existing health condition, who have a qualifying condition, or who have recently lost group coverage and exhausted their right to continuation of that coverage. Pursuant to § 14-506(c), MHIP's administrator is responsible for the determination of eligibility; data collection; case management; financial tracking and reporting; payment of claims and premium billing.

With respect to affordability, national trends show that premiums for health insurance have risen for more than a decade.[3] In response to the General Assembly's 2003 mandate to provide affordable and accessible health insurance, CareFirst developed and sold consumer direct health care plans with high deductibles that were linked to tax-qualified health savings accounts. The high deductible/health savings account design was intended to lower cost on the theory that use of benefits would decline when a member has to bear part of the cost through the high deductible. These plans were priced with low premiums and sold well. However, the anticipated decline in utilization rates did not occur. By 2008, it was clear that a rate increase was necessary and a phased-in rate increase began in 2009. CareFirst's health insurance rates in

[2] In calendar years 2009-2010, approximately 60% of Marylanders receive their health insurance through an employer while only 5% purchase individual health insurance policies directly. *Kaiser State Health Facts*, Kaiser Family Foundation, http://www.statehealthfacts.org/profileglance.jsp?rgn=22&rgn=1.
[3] According to the Kaiser Family Foundation, the average annual health insurance premium for a U.S. family increased 260% between 1999 and 2011. *Employer Health Benefits 2011 Annual Survey,* Kaiser Family Foundation, http://ehbs.kff.org/

the individual and small group markets did increase in 2011, but at a 10% lower rate than the increases in 2009 and 2010. Even with these rate increases there has not been a significant decline in CareFirst's market share.

II. Assist and Support Public and Private Health Care Initiatives

In addition to the general requirement of § 14-102(c)(2) mandating that CareFirst assist and support public and private health care initiatives for individuals without health insurance, § 14-106 imposes a specific public service requirement tied to CareFirst's premium tax-exempt status. Section 14-106(b) requires CareFirst to file an annual report with the MIA demonstrating that it has used funds equal to the value of its premium tax exemption "…in a manner that serves the public interest…" Section 14-106(b)(2).

On August 29, 2011, the MIA found that CareFirst qualified for a 2010 premium tax exemption because in 2010 it spent $25.7 million for public purposes, an amount which exceeded the amount of its premium tax exemption. CareFirst's spending included contributions to the Maryland Pharmacy Discount Program, the Community Health Resources Commission, and the Senior Prescription Drug Assistance Program.

In addition to the requirements of § 14-106, CareFirst has reported that it contributed $56 million to approximately 540 nonprofit and government organizations in 2010. CareFirst anticipates that 2011 will be on par with 2010, estimating that it spent more the $110 million in 2010 and 2011 on charitable giving related to health care. Of that 2010 total, $40.2 million was spent in Maryland, primarily on 35 groups with a mission to expand access to and improve the quality of health care as well as to support community-based health organizations. A sampling of those organizations includes, Access Carroll, Inc., Advocates for Children & Youth, Antietam Healthcare Foundation, Baltimore City Healthy Start, Inc., Boys and Girls Club of Washington County, Delmarva Foundation, Hospice of Frederick County, Kennedy Krieger Institute, Montgomery County Chamber of Commerce, and Wellness House of Annapolis.

CareFirst established CareFirst Commitment in 2005 as a method of allocating grant funding to various health-related charities and community service organizations. CareFirst reports that between 2005 and 2010 it allocated $280 million (including payments made in lieu of premium tax) through CareFirst Commitment. An annual budget is established each year and CareFirst has established guidelines for allocating its resources. In declining order of priority, CareFirst gives to programs or organizations focusing on health care that:

1) subsidize and enhance access;
2) stimulate systemic long term change and improvement ("catalytic giving");
3) target specific populations and/or a major issue that has specific outcomes measures; and
4) provide direct services for underserved populations.

Lastly, CareFirst dedicates some funds for corporate sponsorships and memberships with business or civic organizations.

According to its 2010 annual report, CareFirst established substantive giving priorities focused on five health care related areas beginning in 2006:

1) improving birth outcomes for mothers and babies ($8 million);
2) reducing childhood obesity through fitness and nutrition ($2.5 million);
3) supporting safety net clinics, which provide an alternative to emergency room care for underserved populations ($6 million);
4) nurse and nurse educator scholarship programs to address the region's nursing shortage ($3.9 million);
5) CareFirst's Primary Care Medical Home ("PCMH") program (see Section III).

These efforts demonstrate that CareFirst has established and continues to maintain a system for assisting and supporting public and private health care initiatives that fulfills its obligations under §§ 14-102 and 14-106.

III. Promote a Health Care System that Meets the Needs of Marylanders

The implementation of federal health care reform, including the establishment of Maryland's Health Benefit Exchange, has been a centerpiece of developing a health care system that meets the needs of Maryland citizens. CareFirst representatives have served on various commissions, task forces, and work groups related to health insurance reform related issues.

In September 2010, the Maryland Health Care Commission approved CareFirst's Primary Care Medical Home ("PCMH") program, which is designed to move away from a fee-for-service model to a model that provides financial incentives to health care providers for improvement in the health of their patients. CareFirst reports that it launched PCMH in January 2011. Participating health care providers are paid a higher reimbursement in exchange for agreeing to write patient care plans for those with multiple chronic conditions (e.g. asthma, diabetes, heart disease, high blood pressure) or those at risk for these conditions.

On May 8, 2012, the Centers for Medicare and Medicaid Services ("CMS") announced that CareFirst was selected to receive a $24 million Health Care Innovation Award to expand its Total Care and Cost Improvement Program ("TCCI"). TCCI is a patient-centered medical home model of care delivery and payment, aimed at serving 25,000 Maryland Medicare beneficiaries annually. According to CMS:

> The TCCI model will enhance support for primary care, empowering primary care physicians to coordinate care for multi-chronically ill Medicare beneficiaries and patients at high risk for chronic illnesses. TCCI will result in less fragmented health care, reducing avoidable hospitalizations, emergency room visits, medication interactions, and other problems caused by gaps in care and ensuring that patients receive the appropriate care for their conditions.

http://innovations.cms.gov/initiatives/Innovation-Awards/maryland.html. CMS estimated that the program would result in an estimated three-year savings of $29,213,838.

The MIA has determined that CareFirst has adequately fulfilled the statutory requirements of its nonprofit mission as set forth in § 14-102(c). If you require additional information regarding CareFirst's compliance with its statutory mission, please do not hesitate to contact me.

Very truly yours,
Signature on file with original
Therese M. Goldsmith
Insurance Commissioner

TMG:mmh

cc: Sarah Albert, DLS Library (5 copies)