

Department of Insurance, Securities and Banking
Hearing on CareFirst Reserves
June 25, 2014
Testimony by
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I would like to thank Commissioner McPherson and the rest of the commission for the opportunity to testify here today. I am the executive director of the American Academy of Orthotists and Prosthetists, and I have been a non-profit CEO for more than 30 years. For nearly all that time, I have contracted with CareFirst for my staff's insurance.

As you consider the appropriate size of the *CareFirst* reserve fund, please recognize that groups like mine have a vested interest in the outcome of your decision. District individuals, small businesses, and non-profits that hold *CareFirst* policies are relying on you to prevent what some see as the District's latest reach into their pocketbooks. As I understand it, your decision could be impacted by legislation passed by the D.C. Council to spend excess *CareFirst* reserve funds on public programs instead of returning it to subscribers.

As you take comments, I am sure that you will be cognizant of what CareFirst claims is the appropriate size of its reserves, which the *Washington Post* writes is "...a surplus equal to ten to 13 times its authorized control level—a reserve minimum below which regulators can take control of the company." Others, like *D.C. Appleseed*, dispute that.

Many CEOs like me have chosen *CareFirst* as our insurer of choice. Small businesses and associations like mine located in the District are disproportionately covered by *CareFirst* and have received excellent service with competitive rates.

CareFirst gives a number of reasons for maintaining a large reserve fund, including local and federal mandates. A large reserve ensures coverage in the case of a natural disaster or terrorist attack, which would cause thousands to require

coverage at the same time. It also allows the company to guarantee the coverage for chronically ill individuals.

The first issue for the D.C. Insurance Commissioner is to determine the appropriate level of reserves. I don't claim to know what that is but I am sure you will decide that fairly. Once that is accomplished, the second issue—which is just as important to those who have paid their premiums to the company for years—is how to handle excess reserves.

There is only one acceptable answer to that question: **Return the money to the individuals, businesses, and non-profits that have paid the premiums.** We already know we can do that. Under the *Affordable Care Act*, insurance companies must spend 80 percent of premiums on healthcare, and *CareFirst* has provided a rebate to its subscribers when that percentage was not met.

The commission shouldn't view reserves as a free pot of money for D.C. politicians to hand out. The District of Columbia government doesn't even allow its employees to purchase insurance from *CareFirst*.

The policies subscribers purchase from *CareFirst* already include the cost of funding the *Insurance Commission*. Recently the D.C. Council passed legislation taxing all healthcare policies sold in the District to pay for the *Health Benefit Exchange Authority* set up to comply with the *Affordable Care Act*.

The *Insurance Commissioner's* decision on this issue will have the largest impact on individuals, small businesses, and non-profit associations with employees living and working in the District—the same people who often struggle to afford quality health insurance for themselves, their families, and their employees. If the commissioner determines that there is an excess and doesn't return it to subscribers in the form of rate reduction or rebate, it would cause direct and immediate harm. It would have to be considered a tax on the individuals, businesses, non-profits, and their employees based simply on their choice of an insurance provider. Their premiums could rise in the future because the District siphoned off the money they paid in premiums which went into the reserve fund.

I believe it is the role of the *Commissioner of Insurance* to protect the interests of those tens of thousands of D.C. residents who paid their insurance premiums to *CareFirst*. While groups like *Appleseed* cloak their work in the public good, in this case, they are simply helping the D.C. government find a new pot of money to spend. If the District needs money to fund wellness programs, and it may, the Council should have thought of that before advocating for massive tax cuts. It is not up to the Insurance Commission to assist the D.C. Council in picking the pockets of one insurance company's subscribers.

The commission should determine the correct level of reserves for *CareFirst* and then insist that any excess be returned to the subscribers to whom it rightfully belongs.

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