



June 27, 2005

Hon. FirstName LastName  
State House, Room  
Boston, MA 02133

**RE: Senate Bill 560 – Association Health Plans**

Dear Senator LastName:

On behalf of a broad-based coalition of large and small businesses, consumer groups, labor unions, health insurers, and advocacy groups, we are writing to express our opposition to Senate Bill 560 relative to small group health insurance. The bill would exempt coverage sold through Association Health Plans (AHPs) from the requirements of the small group law. This approach would have significant unintended consequences that would fragment the existing small group market, with the result being higher health insurance premiums for the majority of small businesses and an increase in the number of uninsured individuals.

While we are very concerned about the escalating increase in the cost of health insurance, Senate Bill 560 is NOT the solution. It would do nothing to address the root causes of rising premiums, such as an aging population, increases in consumer demand and escalating reliance on costly prescription drugs and other medical technology. The cost of coverage would continue to rise.

At the Federal level, President Bush and the Republican Party have made AHP legislation one of the key initiatives in their health reform agenda. Senators Kennedy and Kerry and the entire Massachusetts Congressional delegation strongly oppose AHPs. Additionally, the National Governors' Association, the National Association of Insurance Commissioners, the National Association of Attorneys General and many others oppose the federal AHP bill. In a 2000 study, the Congressional Budget Office found that if enacted the federal legislation would result in higher premium rates for the vast majority of small businesses. We expect that the impact of Senate Bill 560 would be similar.

The bill's proponents argue that by allowing small businesses to band together to purchase coverage, they will get a better deal than they do as individual small businesses. We disagree. Under Massachusetts law, insurers are already required to pool all small businesses that they insure into a single (and very large) risk pool. Association Health Plans would fracture the pool, resulting in lower rates for a few, but higher rates for most everyone else. This is because

coverage could be priced so as to attract only those associations with younger and healthier memberships than the small group pool as a whole. These would likely be trade groups representing lower-risk industries. As these groups leave the regulated small group market, premium rates will rise for everyone else.

Rather than spreading risk between high and low cost groups and allowing the premiums of the young and healthy to subsidize those who require greater medical care, as insurance is intended to do, this would allow for risk segmentation and adverse selection. Experience in Massachusetts bears this out. The original small group reform law, which went into effect in 1991, contained an exemption for coverage sold through associations. The result was the type of market segmentation described above and was the reason why the Legislature repealed the exemption in 1996.

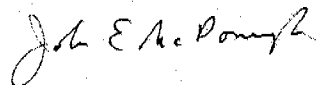
It is important to recognize that many groups supporting Senate Bill 560 will use AHPs as a membership tool. Small businesses would only be able to obtain AHP coverage if they become dues paying members of the association. While this may be a good deal for the associations, it is not a good deal for most small businesses. Unless the association's membership is significantly healthier than the overall small group market, the association will not be able to obtain better premium rates than are available in the regulated small group market. Administrative costs will not decrease because it will still be necessary to enroll and bill each small group individually. Irrespective of whether these tasks are performed by the insurer or the association, the small business will pay for them through premiums or membership dues.

While everyone is concerned about rising premiums, reintroducing AHPs to Massachusetts is a prescription for higher costs. Better solutions for small businesses are at hand in the various health reform proposals that have been filed, none of which includes AHPs as a mechanism to help small businesses.

We urge you to oppose these amendments and seek other alternative solutions that would benefit all small businesses without disadvantaging others. Thank you for your consideration.

Sincerely,

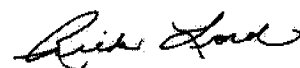
Robert J. Haynes, President  
MA AFL-CIO



John McDonough, Executive Director  
Health Care For All



Francis R. Carroll, Founder and CEO  
Small Business Service Bureau, Inc.




Richard C. Lord, President and CEO  
Associated Industries of Massachusetts



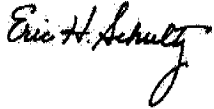
Celia Wcislo, President  
Service Employees International Union Local 2020



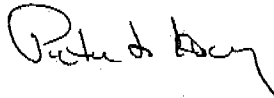
Shannon Linde, Vice President  
The MBA Group



Paul W. Pietro, President  
MA Association of Health Underwriters



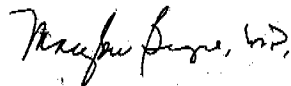
Eric Schultz, President & CEO  
Fallon Community Health Plan



Peter Straley, President & CEO  
Health New England



Allan Kornberg, M.D., President  
Network Health



Marylou Buyse, M.D., President and CEO  
Massachusetts Association of Health Plans



John Curley, Vice President of Public,  
Government and Regulatory Affairs  
Blue Cross and Blue Shield of MA



Charles Baker, President & CEO  
Harvard Pilgrim Health Care



Deborah Enos, President  
Neighborhood Health Plan

James Roosevelt, Jr., President and CEO  
Tufts Health Plan

