



# STATE OF INDIANA

Mitchell E. Daniels, Jr.  
Governor

**STATE BUDGET AGENCY**  
212 State House  
Indianapolis, Indiana 46204-2796  
317/232-5610

**Christopher A. Ruhl**  
Director

October 17, 2007

Speaker B. Patrick Bauer  
Indiana State House of Representatives  
State House  
Indianapolis, Indiana 46204

Dear Speaker Bauer,

As you know, on September 7, 2007, M-Plan announced to its members and customers that the company would exit the group health plan market. M-Plan was under contract with the State of Indiana to provide an HMO product to our employees through December 31, 2010. Effective January 1, 2008, M-Plan will no longer provide this option to the state. M-Plan cited "changes in the health care market that make it difficult for small, local health plans to compete." Despite the fact that the long-term sustainability and viability of the HMO model has been seriously questioned for years, M-Plan's sudden exit from the market one year after it was chosen as the state's provider was surprising. It was a unilateral decision made by M-Plan just a few weeks before the beginning of the state's open enrollment process for current employees and after months of preparations had already been made to implement Senate Enrolled Act 501.

SEA 501 establishes a new \$50 million per year health care benefit for elected state officials and state government employees upon their retirement from the state. Section 11 of SEA 501 established this benefit as a Health Reimbursement Arrangement (HRA). Without the approval from the Internal Revenue Service, funds in an HRA may only be used to pay premiums for fully insured health insurance policies.

At the time the legislation was debated and adopted, the M-Plan HMO was the only fully insured health insurance product offered by the state. All other health insurance plans are self-insured. Following M-Plan's voluntary decision to exit the market and cease offering its HMO product to state employees, there are no fully insured plans offered by the state for eligible recipients under SEA 501. I understand that many legislators specifically contemplated that state employees would purchase the fully insured M-Plan HMO product upon retirement with the benefits provided under SEA 501. Given M-Plan's recent decision to cease offering the HMO, that option is no longer available. Therefore, eligible recipients would have to secure a fully insured policy with the funds provided under SEA 501 in the private market (or may use the Welborn HMO if they live in southwestern Indiana.)

Recognizing the hardships that this may cause for those who anticipated purchasing their fully insured policy through the M-Plan HMO with the state, we are actively pursuing the following options for SEA 501 eligible recipients:

First, we are contacting other providers to request their interest in providing an HMO product to eligible recipients under SEA 501. We would note, however, that these products are likely to be

