A REPORT
TO THE
ARIZONA LEGISLATURE

Performance Audit Division

Special Audit

Arizona Health Care Cost Containment System—

Healthcare Group Program

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REPORT NO. 06 – 02

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Debra K. Davenport
Auditor General

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

February 28, 2006

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Mr. Anthony D. Rodgers, Director
Arizona Health Care Cost Containment System

Dear Mr. Rodgers:

Transmitted herewith is a report of the Auditor General, A Special Audit, as defined in Arizona Revised Statutes (A.R.S.) §41-1278, of the Arizona Health Care Cost Containment System's Healthcare Group (HCG) program. This report is in response to Laws 2005, Chapter 328, Section 24, and was conducted under the authority vested in the Auditor General by A.R.S. §41-1279.03. I am also transmitting with this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

This report includes three findings that provide information only, and no recommendations are presented. Included with this report is a written response from the Arizona Health Care Cost Containment System.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on March 1, 2006.

Sincerely,

Debbie Davenport
Auditor General

Enclosure

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PROGRAM FACT SHEET

Arizona Health Care Cost Containment System
Healthcare Group Program

Services:

The Arizona Health Care Cost Containment System's Healthcare Group (HCG) program provides affordable and accessible healthcare coverage to Arizona's small businesses, defined as businesses with 50 or fewer employees, and political subdivisions. HCG offers a variety of healthcare benefit plans, including several medical plans, a vision plan, and a dental plan.

HCG budgeted 41 FTE for fiscal year 2006, and 11 of these positions were vacant as of January 20, 2006. The staff are organized into six departments:

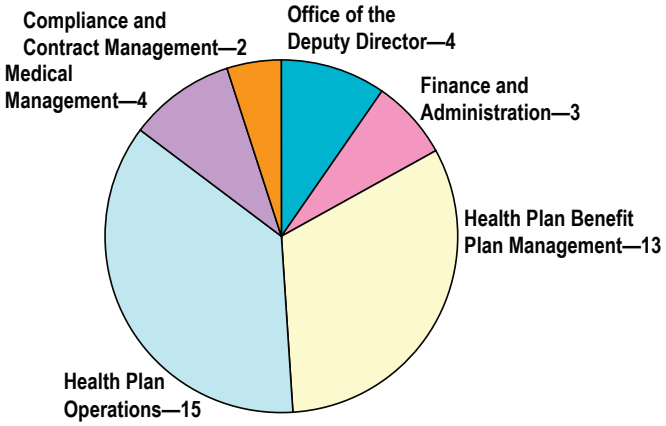
- Office of the Deputy Director—Responsible for executive management for HCG staff and programs, and other activities such as strategic planning, and healthcare coverage market research and analysis.
- Finance and Administration—Responsible for things such as HCG's budget and expenditure management, actuary analysis and rate setting, accounts payable, and contractor financial oversight.
- Health Plan Benefit Plan Management—Responsible for marketing and sales activities, as well as broker relations, employer and member communications, and outreach.
- Health Plan Operations—Responsible for things such as the customer care call center, member services, and information systems support.
- Medical Management—Responsible for, among other things, overseeing the medical care provided, approving medical policies, and supervising the HCG employer wellness and chronic illness management program.
- Compliance and Contract Administration—Responsible for contract administration, grievance management, and compliance and audit functions.

Facilities and equipment:

HCG leases approximately 6,000 square feet of a privately owned facility located at 700 East Jefferson Street in Phoenix

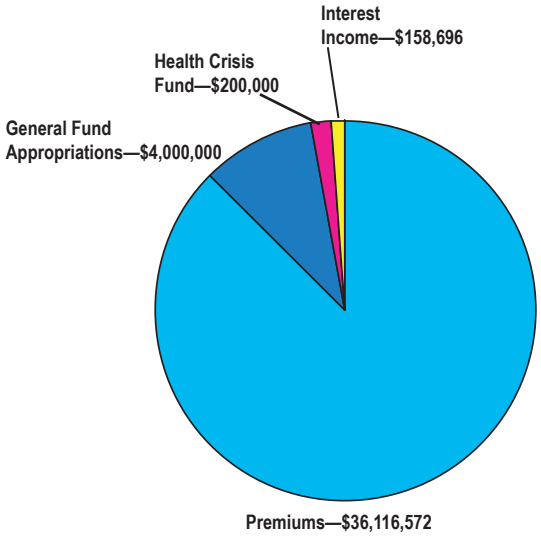
Program staffing:

41 FTEs, including 11 vacancies (as of January 2006)



Program revenue:

$40.5 million (fiscal year 2005, actual)



at a cost of $7,400 per month. HCG has typical office equipment, such as office furniture, computers, and printers.

Mission:

To reduce the number of uninsured Arizonans by providing innovative, affordable healthcare coverage options to small businesses and political subdivisions, ensuring access to quality healthcare so that working Arizonans can maintain healthy lifestyles.

Program goals:

The Healthcare Group lists seven goals for fiscal year 2006, including goals to:

1. Increase enrollment in HCG to 32,000 members by July 2006.
2. Achieve a 98 percent customer satisfaction rating.
3. Achieve a measurable increase in brand recognition.
4. Introduce a new state-wide PPO product and new dental and vision programs.
5. Maintain a 98 percent retention rate throughout fiscal year 2006.

Adequacy of performance measures:

HCG has one outcome measure that tracks monthly program enrollment. Although the HCG is in the process of developing other measures and has some informal measures in various areas, HCG lacks formal input, output, efficiency, and quality measures. For example, although the HCG measures member satisfaction through a yearly survey, the survey results are not documented in a list of performance measures that would accompany its goals and objectives.

Source: Auditor General staff analysis of unaudited financial schedules and personnel budgets prepared by the Healthcare Group for the years ended or ending 2004 through 2006, Arizona State Master List for fiscal years 2003 through 2005, and other information provided by the Healthcare Group.

SUMMARY

The Office of the Auditor General has conducted a special audit, as defined in Arizona Revised Statutes (A.R.S.) §41-1278, of the Arizona Health Care Cost Containment System's (AHCCCS) Healthcare Group (HCG) program. This audit was undertaken pursuant to Laws 2005, Chapter 328, Section 24, which provided for the following scope: 1) examining HCG's administrative costs; 2) determining whether HCG's financial reserves are adequate compared to reserves required for private health insurance providers; and 3) determining whether HCG requires employer groups to be without health insurance for 180 days before enrollment in HCG. This audit was conducted under the authority vested in the Auditor General by A.R.S. §41-1279.03.

Background

HCG provides health insurance primarily to Arizona's small business employees. HCG was originally established by AHCCCS in 1986 to provide affordable and accessible healthcare coverage to Arizona's small businesses—currently defined as businesses with 50 or fewer employees—and political subdivisions.[1] HCG was established to help address the issue of the high number of working Arizonans whose employers do not offer health insurance. HCG offers a variety of healthcare benefit plans, including Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) plans, a vision plan, and a dental plan. For example, HCG offers HMO benefit plans that provide different levels of coverage for different prices. As of December 2005, there were 17,850 individuals enrolled in HCG's benefit plans.

Health Maintenance Organization—Benefit plan that provides comprehensive managed healthcare to members under a capitated-payment structure, in which HCG pays an HMO contractor a fixed amount per member per month regardless of the healthcare services performed. HMO members' services are covered when they receive their medical care from healthcare providers that are part of the HMO's provider network

Preferred Provider Organization—Benefit plan in which HCG pays healthcare providers on a fee-for-service basis rather than a capitated basis. Unlike HMO plans, members who choose PPO plans may receive medical care from healthcare providers that are not part of the provider network (although at a greater cost to the member).

[1] HCG was formally established in statute as a separate program within AHCCCS by Laws 1995, Ch. 260, §6 (A.R.S. §36-2912).

HCG has various administrative costs (see pages 11 through 16)

HCG's administrative costs encompass a variety of activities and are paid for from several revenue sources. Statutes do not define what constitutes an administrative cost. However, AHCCCS has defined administrative costs to include all costs associated with the overall management and operation of an entity, such as marketing, salaries and related benefits of administrative staff, and other operating costs. During the 27-month period of July 1, 2003 through September 30, 2005, HCG's administrative costs totaled approximately $6.9 million and were paid primarily from premium revenue but also from other sources.[1] For example, the Legislature appropriates a portion of the premium revenue HCG receives for administrative costs. In addition, although the remaining premium revenue is intended to pay for medical care costs including payments to HMO contractors, HCG uses some of the revenue to pay certain administrative costs that would normally be incurred by the HMO contractors, but are instead incurred by HCG, such as the cost of issuing member handbooks. In total, approximately $6 million of premium revenue was used for administrative costs during the period July 1, 2003 through September 30, 2005. In fiscal years 2004 and 2005, HCG was also appropriated State General Fund monies totaling nearly $7 million, of which approximately $700,000 was used to pay some of its administrative costs. HCG did not receive a State General Fund appropriation for fiscal year 2006.

HCG's approximately $6.9 million in administrative costs for the period July 1, 2003 through September 30, 2005, amounted to 8.5 percent of the program's total costs. The largest categories of administrative costs consist of salaries and benefits, and professional and outside services. For example, HCG paid approximately $3.2 million in salaries and related benefits of HCG staff and AHCCCS staff who performed HCG-related functions, including executive and administrative staff such as a HCG executive director, actuarial support, sales and marketing staff, and customer care staff. HCG also paid about $1.9 million for professional and outside services. The types of services varied and included paying costs related to a marketing contract, and for temporary staff to promote HCG and assist in outreach and sales efforts. Other costs include brokers' fees for enrolling qualified members. Beginning in January 2005, HCG charged employers a portion of premiums to cover member enrollment fees that are paid to agents or brokers who have signed agreements with HCG to promote its benefit plans and enroll qualified members. Of the nearly $143,000 collected through September 30, 2005, approximately $50,300 in enrollment fees were paid to brokers or agents for the 347 members they had enrolled who, as required by the agreement, had remained enrolled in a HCG benefit plan for 120 days.

1 Auditors reviewed the two most recent completed fiscal years of cost data and cost data for the first quarter of fiscal year 2006 in order to provide the most current information available at the time the audit work was conducted.

HCG is taking steps to ensure financial stability (see page 17 through 21)

HCG appears to be in-line with the insurance industry in its efforts to ensure financial stability. While no universal standard exists for the amount of reserves insurance companies should maintain, like other insurers in the healthcare industry, HCG uses actuaries to determine and monitor its reserve amounts. The amount of reserves needed can vary based on things such as whether there are any state regulatory requirements, the size or type of the insurance company, and the type of benefit plans offered. For example, Arizona's insurance regulatory requirements focus on protecting against insolvency and require health insurers to deposit about $1.5 million with the State Treasurer. In addition, insurers are required to submit annual financial statements to Arizona's Department of Insurance (DOI) that must be accompanied by an opinion from a certified actuary regarding the assumptions and methods used to determine reserves.

State agencies are not subject to Arizona's insurance regulations. Therefore, since HCG is part of AHCCCS, it is not subject to Arizona's insurance regulations. However, the processes that HCG uses for determining and monitoring its reserves appear to be similar to those required of other insurers and in-line with industry practices. Specifically, HCG, like other insurers, uses actuaries to determine its reserve amounts. According to HCG's actuaries, they used the National Association of Insurance Commissioner's risk-based model as a starting point for determining HCG's reserve amounts. In addition, they monitor HCG's reserves amounts on a monthly basis and make recommendations for adjustments as necessary. Further, AHCCCS' director indicated that after the PPO benefit plan has been in place for at least 2 years, he would like to obtain a peer review of HCG's actuarial work, which can be useful for evaluating and enhancing the quality of the work product. The director estimates this review would cost between $100,000 and $150,000.

Further, as other insurers do, HCG uses reserves for various purposes that are intended to help ensure financial stability. HCG generally establishes its reserves by benefit plan type. For its HMO benefit plans, in which the majority of HCG's members are enrolled, the HMO contractors are responsible for ensuring that medical claims are paid. Because the HMO contractors also contract with AHCCCS' other programs, they are already required to meet AHCCCS' equity-per-member and performance bond requirements. Although not responsible for ensuring its HMO claims are paid, HCG still retains at least 5 percent of its HMO premiums for two purposes. First, to provide "stop-loss" coverage for its HMO contractors, which is designed to help limit the amount of loss a contractor will experience within a year. Second, to pay for other things, such as cost fluctuations due to the introduction of new benefit plans, coverage changes, or future expansion into new locations. According to HCG's records as of December 2005, it had a HMO reserve of approximately $2,776,000.

For its PPO benefit plans, which were established in late 2005, HCG also maintains reserves for two main purposes. First, since HCG maintains ultimate responsibility for ensuring that medical claims are paid for its PPO benefit plans, HCG maintains a separate PPO reserve to pay for claims that have been incurred, but have not yet been submitted for payment. Second, HCG reserves approximately 10 percent of its PPO premiums for such contingencies as inadequate premiums or unanticipated catastrophic events that result in excessive healthcare claims. As of December 2005, 250 members were enrolled in PPO plans, and according to HCG's records, it had a total PPO reserve of approximately $80,000.[1] Also important, in addition to these reserve amounts, HCG has net assets that could be used to pay either HMO or PPO claims if needed. Specifically, according to HCG records, as of December 31, 2005, it had net assets of approximately $1.1 million that were not designated or restricted for specific purposes.

Finally, in addition to establishing reserves for the HMO and PPO benefit plans, HCG employs various other methods to minimize its financial risk. For example, HCG purchases insurance, known as reinsurance, to help cover large healthcare claims; limits a member's lifetime maximum benefit amount; and has the ability to increase premiums as long as it provides its members with a 60-day written notice.

HCG has process to ensure applicants have not recently had group healthcare coverage (see pages 23 through 25)

HCG has taken steps to ensure that small business applicants have been without group healthcare coverage for the specified time period before obtaining healthcare coverage from HCG. Statutes addressing HCG's membership requirements were changed in 2004 to require small businesses to be without group healthcare insurance for 180 days prior to joining HCG. Therefore, HCG established a process for ensuring that this requirement, known as the "bare period," is met. Its processes include training its sales representatives and contracted brokers regarding the requirement prior to their being authorized to enroll applicants in HCG. In addition, HCG developed a form that small business applicants must fill out and sign. This form asks small business applicants whether they currently offer group health insurance or did so within the past 6 months. By signing the form, small business applicants certify, under penalty of perjury, that they have met the requirement. In January 2006, this form was revised to authorize HCG to contact any previous insurance companies to certify the dates and types of coverage previously provided.

Based on the processes HCG established and the work conducted as a part of this audit, HCG appears to be taking appropriate steps to ensure that small businesses are meeting the requirement of being uninsured for 6 months before enrolling in

1 According to HCG's records, it had collected approximately $162,000 in PPO premiums as of December 31, 2005.

HCG. Specifically, auditors examined a random sample of 30 small business application files and found that each file contained a signed acknowledgment form as required. In addition, a September 2005 external review failed to substantiate allegations that AHCCCS' director was encouraging applicants to avoid the bare period requirement. Finally, auditors determined that DOI does not maintain information on individuals or businesses who are insured with insurance companies licensed in Arizona that could be used to determine prior coverage.

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INTRODUCTION & BACKGROUND

The Office of the Auditor General has conducted a special audit, as defined in Arizona Revised Statutes (A.R.S.) §41-1278, of the Arizona Health Care Cost Containment System's (AHCCCS) Healthcare Group (HCG) program. This audit was undertaken pursuant to Laws 2005, Chapter 328, Section 24, which provided for the following scope: 1) examining HCG's administrative costs; 2) determining whether HCG's financial reserves are adequate compared to reserves required for private health insurance providers; and 3) determining whether HCG requires employer groups to be without health insurance for 180 days before enrollment in HCG. This audit was conducted under the authority vested in the Auditor General by A.R.S. §41-1279.03.

HCG primarily provides health insurance to small businesses

HCG primarily provides health insurance to Arizona's small business employees. Although HCG may also serve political subdivision employees, almost all of HCG's members are small business employees. HCG offers its members a variety of healthcare benefit plans, including several medical plans, a vision plan, and a dental plan. HCG covers the costs of providing these benefit plans with premiums it receives from participating businesses.

Participating businesses—Arizona small businesses who have enrolled with HCG to provide health insurance for their employees.

Members—Individuals who have healthcare insurance through HCG. Most members are participating businesses' employees and their dependents.

HCG created to provide insurance to small businesses and political subdivisions—HCG was originally established by AHCCCS in 1986 to provide affordable and accessible healthcare coverage to Arizona's small businesses—currently defined as businesses with 50 or fewer employees—and political subdivisions (see Small Business Eligibility Requirements text box on page 2 for current eligibility requirements).[1,2] Specifically, HCG was created to help address the

1 AHCCCS originally established HCG from a grant from the Robert Wood Johnson Foundation. HCG was formally established in statute as a separate program within AHCCCS by Laws 1995, Ch. 260, §6 (A.R.S. §36-2912).

2 Beginning November 2004, HCG also became a state-qualified health plan for Health Coverage Tax Credit (HCTC) subscribers. HCTC is a federal tax credit that pays 65 percent of qualified health plan premiums for eligible trade-impacted workers and certain benefit recipients from the Pension Benefit Guaranty Corporation (a federal corporation charged with protecting the retirement incomes for American workers with private-sector-defined benefit pension plans).

Small Business Eligibility Requirements

Employer Requirements

- Must have been in business in Arizona for at least 60 days.
- Must have between 1 and 50 full-time employees.[1]
  - Must enroll 100 percent of its employees if 5 or fewer employees.[2]
  - Must enroll 80 percent of its employees if more than 5 employees.[2]
- Cannot have had previous group insurance coverage for 180 days prior to participating.

Employee Requirements

- Must work or reside in Arizona.
- Must have been employed by a participating business for at least 60 days.
- Must work at least 20 hours per week.

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1 When determining enrollment percentages, certain employees are exempted such as those who have insurance through a spouse or a government subsidized program (see A.R.S. §§36-2912(B) and (D).

2 HCG must allow a participating business to continue coverage if the business expands employment beyond 50 employees after enrollment.

Healthcare Group Member Information As of December 2005

Small Business Members (including dependents)	17,710 individuals
• Total participating businesses—5,877	
• Average participating business size—1.7 employees	
• Average members per participating business—3 individuals	
Political Subdivision Members	101 individuals
• Total participating political subdivisions—10	
Health Coverage Tax Credit Subscriber Members[1]	39 individuals
Total State-wide Members	17,850 individuals

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1 See page 1, footnote 2 for an explanation of the Health Coverage Tax Credit.

issue of the high number of working Arizonans whose employers do not offer health insurance. Although auditors were not able to readily identify historical information about uninsured small businesses in Arizona, a 2000 study estimated that only about a third of small businesses in Arizona offer health insurance to their employees, largely because few private insurers serve small businesses or the cost of providing health insurance is too expensive.[1] HCG's enabling statute also requires HCG to provide coverage to individuals without regard to health-status-related factors such as medical condition or claims experience. To meet these requirements, HCG developed the following mission:

"To reduce the number of uninsured Arizonans by providing innovative affordable healthcare coverage options to small businesses and political subdivisions ensuring access to quality healthcare so that working Arizonans can maintain healthy lifestyles."

Although its mission involves serving small businesses and political subdivisions, over 99 percent of HCG's members are from small businesses, as indicated in the text box "Healthcare Group Member Information As of December 2005."

HCG offers medical, dental, and vision coverage—HCG has always offered medical coverage to its members, and recently added dental and vision coverage as well. Since HCG's service agreements are with participating business employers rather than the individual employee members, the employers maintain the right to choose which of these healthcare benefit plans to offer their employees. The benefit plans available are as follows:

- Health Maintenance Organization (HMO) benefit plans—HCG offers three HMO benefit plans that provide different levels of coverage for different prices. In general terms, an HMO provides comprehensive managed healthcare to members under a capitated-payment structure in which HCG uses member premiums to pay an HMO contractor a fixed amount per member, per month, regardless of the healthcare services performed. HMO members' services are

1 WestGroup Research, *Small Business Survey:* Arizona 2000.

covered when they receive their medical care from healthcare providers (i.e., doctors, hospitals, etc.) that are part of the HMO's provider network. HCG's HMO benefit plans include: 1) Classic, which is the most comprehensive plan for those seeking a wide range of benefits or requiring ongoing care due to chronic health conditions; 2) Secure, for those with limited health needs beyond routine medical care and preventive services; and 3) Active, for those in good health who require only preventive and routine healthcare. These benefit plans are available to members in all counties except Apache, La Paz, Mohave, and Navajo counties. As of December 2005, 17,600 of HCG's members were enrolled in HMO plans.

Health Maintenance Organization—Benefit plan that provides comprehensive managed healthcare to members under a capitated-payment structure, in which HCG pays an HMO contractor a fixed amount per member per month regardless of the healthcare services performed. HMO members' services are covered when they receive their medical care from healthcare providers that are part of the HMO's provider network.

To provide the HMO benefit plans, HCG contracts with three HMO contractors (also known as managed care contractors) on a capitated-rate basis. These contractors—University Physicians, Inc., Mercy Healthcare Group, and Care 1st Health Plan—also contract with AHCCCS' other programs. HCG pays the contractors a monthly capitated rate for each member who selects their benefit plan. The contractors use the capitated rates to pay for medical claims and administrative costs, and realize a profit. Under this arrangement, the contractors—not HCG—are liable for medical claims that are incurred. To provide incentive for these and future HMO contractors to serve HCG's target market, HCG bears responsibility for marketing and reduces its HMO contractors' risk by purchasing reinsurance for large claims. HCG also agrees to limit its HMO contractors' losses if reserve monies are available (see Finding 2, pages 17 through 21 for more information about HCG's risk-reduction efforts).[1]

- **Preferred Provider Organization (PPO) benefit plans**—In late 2005, HCG also began offering two state-wide PPO benefit plans to ensure that it offered medical coverage in all Arizona counties. In general, a PPO provides healthcare via contracted providers that provide care at a discount or negotiated rate. Unlike HMOs, HCG pays healthcare providers on a fee-for-service basis rather than a capitated basis, and HCG rather than a contractor is liable for medical claims incurred. Another difference between the HMO and PPO plans is that members who choose the PPO plan may receive medical care from providers that are not part of the provider network (although at a greater cost to the member). HCG offers two PPO benefit plans that provide different levels of service for different prices: 1) Medallion, which is the more expensive plan and provides

Preferred Provider Organization—Benefit plan in which HCG pays healthcare providers on a fee-for-service basis rather than a capitated basis. Unlike HMO plans, members who choose HMO plans may receive medical care from healthcare providers that are not part of the provider network (although at a higher cost to the member).

1 A.R.S. §36-2912(I)(6) authorizes HCG to provide reinsurance for its HMO contractors.

comprehensive coverage, and 2) Medallion Plus, which is less expensive and provides lower levels of coverage.[1] See Appendices A and B for additional information about HCG's PPO benefit plans and premiums. As of December 2005, 250 of HCG's members were enrolled in PPO benefit plans.

For the PPO benefit plans, HCG contracts with a third-party administrator (TPA) to establish a state-wide network of providers and administer the claims-payment process. The claims-payment process generally involves verifying eligibility and claim accuracy; paying the fee-for-service medical claims using monies received from HCG; and providing customer support for claims inquiries.

- **Vision and dental coverage**—In 2005, HCG also began offering vision and dental coverage state-wide. HCG uses a capitated-rate concept similar to that of its HMO benefit plans to provide its vision and dental benefit plans.

HCG receives premiums from participating businesses—Premiums for HCG's benefit plans are submitted to HCG by participating businesses and political subdivisions. At their discretion, employers either withhold premiums from their employees' pay or cover their employees' premiums as a fringe benefit. Regardless of who actually incurs the cost, the employers are responsible for submitting the premiums to HCG on a monthly basis, by check, money order, online payment, or automatic withdrawal. HCG then uses the premium monies to pay administrative and medical costs, including capitated HMO payments, as discussed further in Finding 1 (see pages 11 through 16).

HCG faces risks to self-sufficiency

HCG's method of setting premiums can result in threats to self-sufficiency. Specifically, HCG is generally able to offer affordable health insurance because its rating model is based on demographic factors rather than past healthcare utilization. However, this model could backfire if HCG's membership is reduced to a small population of unhealthy individuals, which would require HCG to raise premiums beyond an affordable level, as it did in the late 1990s. To ensure this does not happen again, HCG is taking steps to enroll healthy members, such as increasing marketing efforts and offering additional, more attractive healthcare options.

HCG uses community rating to set prices—To offer healthcare coverage at an affordable price, HCG establishes its premiums using a modified community rating model. Community rating involves setting a single premium for an entire group, without regard for any differences among the group's members that might affect

[1] HCG is in the process of changing its PPO benefit plans. Specifically, HCG plans to phase out the existing PPO plans and develop four new plans. The new plans, which HCG expects to offer in February 2006, are intended to more closely resemble the relationship between price and levels of coverage inherent in the current HMO plans.

medical costs, such as age, sex, current health status, or past healthcare utilization. The opposite of community rating is experience rating. Under this method, insurers consider current health status and past healthcare utilization to project the healthcare costs associated with specific individuals or groups and then set different premiums to cover the projected costs. In other words, under this approach, an insurer would charge higher premiums for those individuals or groups who are at risk of being or are currently in poor health, and would charge lower premiums for individuals or groups who are in good health.

HCG's model is a mix between community rating and experience rating. Specifically, HCG sets premiums for different demographic groups, but does not set different rates for individuals based on health status and past healthcare utilization (see Appendix A for specific examples of HCG's premiums). By using this model, HCG does not have to charge a higher rate for higher-risk individuals. Instead, it can subsidize the higher costs of high-risk individuals with the lower costs of low-risk individuals. Statute authorizes HCG to consider age, sex, income, and community rating when it establishes premiums.[1] HCG could shift more toward experience rating in the future, should it desire to do so. Although this would require specific healthcare utilization information for all of HCG's members, HCG's contract with its TPA includes the collection of this information, in addition to the administration of the PPO benefit plans.

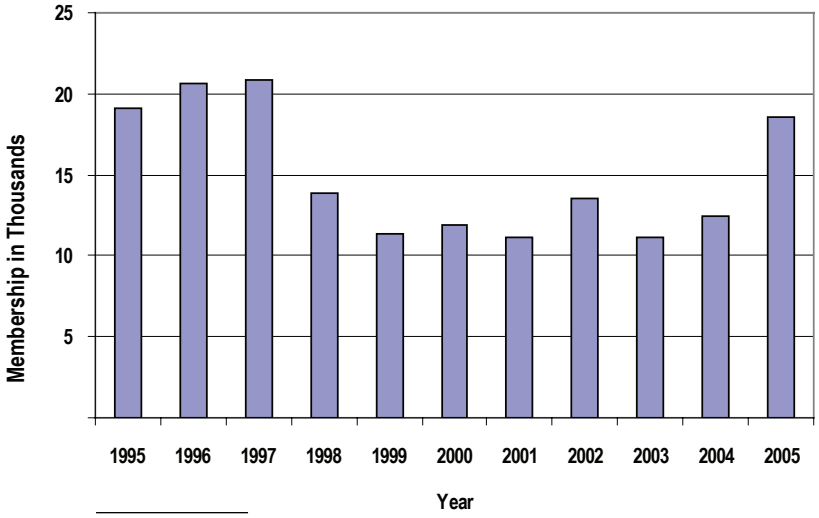
HCG required legislative subsidy starting in late 1990s—A downside of HCG's community rating is that HCG could end up with mostly high-risk, high-cost individuals, and may have to increase premiums beyond what those individuals or their employers could afford. According to HCG, this actually happened starting in the late 1990s when, largely due to an overrepresentation of high risk individuals, rates increased beyond what HCG's members could afford. In 1997, HCG's membership was nearly 21,000 members. However, membership fell below 14,000 members by 1998 and reached a low of approximately 11,000 members by 2001 (see Figure 1, page 6), with the remaining members consisting primarily of individuals with high rates of illnesses. As a result, HCG's premium revenue decreased while its medical costs remained constant. Thus, between fiscal years 1999 and 2005, the Legislature subsidized the HCG with a $3 to $8 million appropriation each year from tobacco tax or litigation settlement monies, or the General Fund.

HCG redeveloped its business model—In an effort to attract healthier members and reduce the risk of its member pool, HCG redeveloped its business model and the benefit plans it offered in fiscal year 2004. HCG's changes included increased marketing efforts primarily through insurance brokers, associations, and sales presentations and the development of the current healthcare benefit plans, which are intended to appeal to a variety of healthcare consumers.

As of December 2005, membership had increased to 17,850 members, and the legislative subsidy has been eliminated for fiscal year 2006. HCG's goals are to

1 A.R.S. §36-2912(P).

Figure 1: Number of Individual Members[1]
December 1995 through December 2005



[1] According to HCG, the average length of membership is approximately 2.5 years.

Source: Auditor General staff analysis of the AHCCCS Healthcare Group's individual membership data as of December 31, 2005.

increase its enrollment to 32,000 by July 2006 and 50,000 members by July 2007. HCG plans to rely primarily on word of mouth and the use of insurance brokers to recruit new members. However, HCG also believes that its new benefit plans with the range of choices will continue to attract new members and help it achieve its membership goals.

Budget and organization

As indicated in Table 1, (see page 7), the largest source of HCG's revenue is member premiums. These premiums are appropriated to HCG for two purposes: 1) To pay for providing medical coverage to HCG's members (i.e., capitated payments to health plans and claims payments to providers), and 2) to cover HCG's administrative costs, which include costs associated with the overall management and operation of HCG, such as marketing and data processing. HCG contracts some of these functions, but also maintains some of them in-house. See Finding 1 (pages 11 through 16) for additional information about HCG's administrative functions and related costs.

Table 1: Schedule of Revenues, Expenditures, and Changes in Fund Balances[1]
Years Ended or Ending June 30, 2004, 2005, and 2006
(Unaudited)

	2004 (Actual)	2005 (Actual)	2006 (Estimate)
Revenues:			
Premiums	$30,970,580	$36,116,572	$54,867,915
State General Fund appropriations	2,989,426	4,000,000	
Reimbursement from Health Plans [2]	1,140,172		
Health Crisis Fund		200,000	
Interest income	146,054	158,696	208,000
Total revenues	35,246,232	40,475,268	55,075,915
Expenditures and reversions:			
Hospitalization and medical care expenditures			
Capitated payments	28,394,664	30,961,220	43,850,955
Fee-for-service payments [3]			1,052,414
Reinsurance premium payments	213,446	242,640	366,169
Stop-loss payments [4]	5,592,399		4,755,706
Other		13,350	
Total hospitalization and medical care expenditures	34,200,509	31,217,210	50,025,244
Administrative expenditures			
Personal services and employee-related	947,804	1,652,513	2,656,396
Professional and outside services	267,928	1,425,442	911,732
Other	348,980	548,229	549,140
Equipment	310,374	81,027	30,723
Hospital and medical care-related [5]		272,238	1,306,787
Total administrative expenditures	1,875,086	3,979,449	5,454,778
Total expenditures	36,075,595	35,196,659	55,480,022
Reversion to the State General Fund	300,000		
Reversions to the Tobacco Tax and Health Care Fund[6]	1,185,606		
Total expenditures and reversions	37,561,201	35,196,659	55,480,022
Excess of revenues over (under) expenditures	(2,314,969)	5,278,609	(404,107)
Fund balance, beginning of year	9,984,082 [7]	7,669,113	12,947,722
Fund balance, end of year	$ 7,669,113	$12,947,722 [8]	$12,543,615

1 For the purposes of this report's discussion and analysis, financial activity in this schedule is presented primarily on a cash basis rather than on HCG's accrual basis used in its annually prepared financial statements.

2 Amount is repayment from HMO contractors for the recovery of payments made to contractors in fiscal year 2002 that were over amounts the contractors were entitled to receive as discovered during the 2002 stop-loss analysis. For the purposes of this presentation, these repayments were reported as revenue in the year they were received.

3 Amount is payments to contracted providers under HCG's two PPO plans that began in early 2006.

4 Amount is payments to HMO contractors under the stop-loss contractual provisions. The 2004 amount relates to payments made for the stop-loss analysis performed for prior years. The 2006 amount relates to payments recently made for the stop-loss analysis performed for 2005 and estimated payments for stop-loss analysis performed for 2006. See Finding 2, page 19 for further information relating to stop-loss payments.

5 As noted in Finding 1, page 15, amounts are costs that are similar to what HMO contractors incur. The large increase in 2006 relates to the establishment of the new PPO plans in early 2006 and costs to establish and operate systems to collect healthcare utilization information for HMO and PPO members and to process PPO claims.

6 Amount is a return of Tobacco Tax and Health Care Fund monies from the recovery of fiscal year 2002 overpayments.

7 The 2004 beginning fund balance includes approximately $3.3 million of remaining fiscal year 2003 appropriated Tobacco Tax and Health Care Fund monies that were used to make stop-loss payments in 2004.

8 The 2005 ending fund balance includes approximately $3.4 million of available State General Fund appropriations that were used for 2006 stop-loss payments relating to the stop-loss analysis performed for 2005.

Source: Auditor General staff analysis of the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* and AFIS *Status of Appropriations and Expenditures* and *Trial Balance by Fund* reports for the years ended June 30, 2004 and 2005, and AHCCCS-provided estimates for the year ending June 30, 2006.

HCG budgeted 41 FTEs for fiscal year 2006, which are organized into six departments:

- Office of the Deputy Director (4 FTEs, 2 vacancies)—Responsible for executive management for HCG staff and programs, and other activities such as strategic planning, and healthcare coverage market research and analysis.

- Finance and Administration (3 FTEs, 2 vacancies)—Responsible for things such as HCG's budget and expenditure management, actuary analysis and rate setting, accounts payable, and contractor financial oversight.

- Health Plan Benefit Plan Management (13 FTEs, 4 vacancies)—Responsible for marketing and sales activities, as well as broker relations, employer and member communications, and outreach.

- Health Plan Operations (15 FTEs, 1 vacancy)—Responsible for things such as the customer care call center, member services, and information systems support.

- Medical Management (4 FTEs, 1 vacancy)—Responsible for, among other things, overseeing the medical care provided, approving medical policies, and supervising the HCG employer wellness and chronic illness management program.

- Compliance and Contract Administration (2 FTEs, 1 vacancy)—Responsible for contract administration, grievance management, and compliance and audit functions.

Scope and methodology

This audit focused on the three areas required by Laws 2005, Ch. 328, §24. Specifically, auditors reviewed HCG's administrative costs, financial reserves, and efforts to ensure that employer groups have gone without health insurance for 180 days before enrollment in HCG, and this report includes a finding in each of these areas.

Various methods were used to study the issues addressed in this audit. General methods included interviews with HCG officials and staff. Auditors also reviewed Arizona Revised Statutes, Administrative Rules, and HCG's policies and procedures as well as information about its goals, objectives, and performance measures.

Auditors also used the following specific methods:

- To examine HCG's administrative costs, auditors reviewed statute to determine whether statute outlined any specific requirements regarding HCG's administrative costs and also conducted research to identify administrative costs definitions. To determine whether auditors could rely on AHCCCS' internal controls, auditors reviewed AHCCCS' CPA firm's workpapers related to work performed on the internal controls over disbursements, payroll, and purchasing and found that controls were deemed effective by the CPA firm. In addition, auditors obtained detailed expenditure transaction information for HCG from the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* for the period July 1, 2003 through September 30, 2005, and auditors ensured the fiscal year 2004 and 2005 amounts matched the amounts used by AHCCCS' CPA firm during their annual financial audit to help ensure the information used was complete and accurate. Auditors also agreed the expenditure information for the period July 1, 2005 through September 30, 2005 to an AHCCCS-prepared *Cash Basis Financial Statement* for the Healthcare Group Fund. Auditors then analyzed HCG's expenditures by category and determined the amount of administrative expenditures compared to total expenditures. Auditors also reviewed various contracts and specific transactions to determine what types of administrative activities contractors were performing for HCG, and conducted several interviews with HCG staff to obtain additional information as needed. Finally, since HCG is a separate program within AHCCCS, auditors analyzed expenses to determine if AHCCCS had appropriately allocated costs to HCG that pertain to HCG's operation, such as rent, printing, equipment, salaries, and data processing costs.

- To determine whether HCG's financial reserves are adequate compared to reserves required for private health insurance providers, auditors obtained and analyzed information about the purposes of health insurance reserves, how the amount of reserves should be determined, and whether there were any universal standards regarding reserves for the healthcare industry, including information from the Actuarial Standards Board, the American Academy of Acturies, the Department of Insurance, the *Journal of Risk and Insurance,* the National Association of Insurance Commissioners, and the U.S. Government Accountability Office. In addition, auditors conducted several interviews with HCG officials and staff as well as with officials from Arizona's Department of Insurance (DOI) to obtain additional information about reserve requirements. Auditors also reviewed HCG's contracts and other documents to determine other efforts HCG was taking to ensure its financial stability.

- To determine whether HCG requires small businesses to be without group health insurance for 180 days before enrolling in HCG, auditors reviewed statute to identify the specific requirement and when the requirement became effective. In addition, auditors interviewed HCG officials and staff to obtain additional information about the requirement and to identify what processes HCG had implemented in response to the statutory requirement. Auditors also reviewed

HCG's policy and other documents developed by HCG to help ensure small businesses were meeting the requirement. Further, to determine if HCG ensured that all small business applicants completed and signed its form indicating the requirement was met, auditors reviewed 30 small business files randomly selected from all small business application files received between December 1, 2004 through December 1, 2005, to observe whether a completed and sign form was contained within each file. Finally, auditors reviewed materials from an internal and an external review that were conducted regarding allegations that HCG employees were encouraging small business applicants to circumvent the requirement.

- To develop the Introduction and Background section, auditors compiled information from state laws, unaudited information from HCG's Web site and other agency-prepared documents, the *State of Arizona Appropriations Report* for fiscal years 2004 through 2006, as well as information from the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* and AFIS *Status of Appropriations and Expenditures* and *Trial Balance by Fund* reports for the years ended June 30, 2004 and 2005, and AHCCCS-provided estimates for the year ended June 30, 2006.

The audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the director and staff of AHCCCS for their cooperation and assistance throughout the audit

FINDING 1

HCG has various administrative costs

HCG has statutory authority to use its revenues to pay administrative costs as well as the costs of providing hospitalization and medical care for its members. AHCCCS has defined administrative costs to include all costs associated with the overall management and operation of an entity, such as data processing, marketing, salaries and related benefits of administrative staff, and other operating costs. During the period of July 1, 2003 through September 30, 2005, HCG used several revenue sources to cover its administrative costs, such as State General Fund appropriations and appropriated premiums. During this period, administrative costs comprised 8.5 percent of HCG's total costs, and HCG has worked to account for all costs that directly or indirectly relate to the HCG program.

Administrative costs include costs for managing and operating the program

Statute allows HCG to use its revenues to pay administrative costs as well as the cost of providing hospitalization and medical care for small employers and eligible employees.[1] HCG's revenues come from various sources, including premiums, donations, interest, and legislative appropriations. While statutes indicate that administrative costs are subject to legislative appropriation, they do not define administrative costs. However, AHCCCS has defined administrative costs in its *Arizona Health Care Cost Containment System Reporting Guide for Acute Health Care Contractors* to include all costs associated with the overall management and operation of the entity, such as data processing, marketing, salaries and related benefits of administrative staff, and other operating costs. This definition was used for the purpose of analyzing HCG's administrative costs for this audit.

1 For fiscal year 2004, HCG's funding was authorized by A.R.S. §36-2913(C)(8). However, Laws 2004, Ch. 332, §§5 and 6, created A.R.S. §36-2912.01, which currently authorizes HCG's funding.

Several revenue sources used for administrative costs

HCG pays its administrative costs from multiple sources. Specifically, for the period July 1, 2003 through September 30, 2005, HCG received the following revenues, which were used to pay its administrative costs (also see Table 1, page 7 in the Introduction and Background)[1]:

HCG received a State General Fund appropriation in fiscal years 2004 and 2005, but did not receive one in 2006.

- State General Fund appropriations—HCG received an appropriation from the State General Fund in both fiscal years 2004 and 2005 that could be used to pay some administrative costs at HCG's discretion. Of the nearly $7 million appropriated to HCG in fiscal years 2004 and 2005, approximately $700,000 was used for administrative costs.[2] HCG did not receive a General Fund appropriation in fiscal year 2006.

HCG uses a portion of its premium revenue for administrative costs.

- Premiums[3]—The Legislature appropriates a portion of premium revenue for administrative costs; however, most premium revenues are appropriated for paying hospital and medical-care costs. Additionally, HCG includes in the premium rate a fixed amount per member, per month that is used to pay agent or broker enrollment fees. As shown in Table 1 in the Introduction and Background section (see page 7), for fiscal years 2004 and 2005, HCG annually received over $30 million in premium revenues and is expecting to receive nearly $55 million in fiscal year 2006. Approximately $6 million was used for administrative costs during the period reviewed. Specifically,

    - Annually appropriated premiums—For fiscal years 2004 through 2006, the Legislature appropriated a total of approximately $8.4 million to pay for HCG's administrative costs. For the period July 1, 2003 through September 30, 2005, HCG spent over $5.7 million for administrative costs, with approximately $2.6 million remaining to pay administrative costs for the rest of fiscal year 2006.

    - Continuously appropriated premiums—Statute continuously appropriates most of HCG's premiums for hospitalization and medical care costs. This appropriation allows HCG to use its premiums for capitation payments to its HMO contractors, which the contractors use to cover their administrative costs, medical claims, and realize a profit. HCG also uses this appropriation to pay for its own administrative costs, which are similar to those administrative costs incurred by its HMO contractors. For example, in fiscal year 2005, these continuously appropriated premiums paid for HCG's

1 Auditors reviewed the two most recent completed fiscal years of cost data and cost data for the first quarter of fiscal year 2006 in order to provide the most current information available at the time the audit work was conducted.

2 The remaining monies were paid to HMO contractors to pay capitated payments and to cover higher-than-expected medical costs. See Finding 2 (pages 17 through 21) for further information.

3 Appropriations also include interest earned on HCG's premiums; however, the amount of interest earned is insignificant in relation to the total appropriation amounts.

cost of issuing new identification cards and member handbooks. During the period reviewed, HCG spent approximately $261,000 of these premiums for costs that it considers similar to its HMO contractors' administrative costs.

- **Agent or Broker fees**[1]—Beginning in January 2005, HCG charged employers for member enrollment fees that are paid to agents or brokers who have signed agreements with HCG to promote its benefit plans and enroll qualified members. Specifically, according to HCG, as of September 1, 2005, 1.5 percent of new and renewing members' premiums are used for this purpose. Of the approximately $143,000 collected through September 30, 2005, approximately $50,300 in enrollment fees were paid to agents or brokers for 347 members enrolled.[2]

- **Health Crisis Fund**—HCG has also received other monies for administrative costs. Specifically, due to concerns regarding the number of uninsured Arizonans, Executive Order 2004-16 provided $200,000 from the Health Crisis Fund in June 2004 for HCG outreach and education of the public and the small business community.[3] For example, HCG spent approximately $40,000 for a mail marketing campaign and telephone follow-up. These monies were used to purchase mailing lists of small business employers in Maricopa and Pima counties and mail correspondence to these businesses. In addition, the monies were used to pay for approximately 10,000 calls to follow up on the mailed correspondence.

HCG received $200,000 from Health Crisis Fund for outreach and education.

HCG administrative costs comprise 8.5 percent of total program costs

Auditors reviewed HCG administrative costs for the period July 1, 2003 through September 30, 2005, and determined its administrative costs amounted to 8.5 percent of the program's total costs.[4] As shown in Table 2 (see page 14), HCG

1 A.R.S. §39-2912.01(F) precludes broker commissions and fees from being paid for with monies appropriated for administrative costs. Auditors determined that these fees were not paid with the monies appropriated for administrative costs. However, in line with the AHCCCS' definition of administrative costs, broker fees are considered administrative costs, and therefore, were considered administrative costs for the purposes of our analysis.

2 The agreements between HCG and its agents and brokers require that members be enrolled in a HCG benefit plan for 120 days before HCG pays enrollment fees.

3 On December 29, 2004, HCG submitted a *Healthcare Crisis Emergency Fund Report* to the Governor, Speaker of the House of Representatives, and President of the Senate. In the report, HCG indicated that its use of the Health Crisis Fund monies contributed to a 10 percent membership increase between July and December 2004.

4 HCG's administrative cost percentage by fiscal year was 5.2 percent for fiscal year 2004, 11.3 percent for fiscal year 2005, and 10.5 percent for fiscal year 2006 (as of September 30, 2005). Based on auditor analysis, the large increase between 2004 and 2005 primarily related to the additional monies received from the Health Crisis Fund and an approximately $1.5 million increase in the annually appropriated premiums. These additional monies allowed HCG to enter a marketing contract and provide additional monies to a HMO provider for administrative activities. In addition, HCG incurred additional administrative costs relating to the establishment of the PPO and healthcare utilization system.

Table 2: Administrative Expenditures by Source of Funding Compared to Total Expenditures
July 1, 2003 through September 30, 2005
(Unaudited)

	State General Fund	Premiums: Annually Appropriated	Premiums: Other [1]	Health Crisis Fund	Total	Percent of Total Expenditures
Salaries and benefits		$3,222,865			$ 3,222,865	3.9%
Professional and outside services	$ 428,840	1,251,116		$197,063	1,877,019	2.3
Travel and other operating expenditures		966,147		2,937	969,084	1.2
Equipment	130,000	264,813			394,813	0.5
Broker fees			$ 50,275		50,275	0.1
Hospital and medical care related expenditures	156,740		261,275		418,015	0.5
Total administrative expenditures	715,580	5,704,941	311,550	200,000	6,932,071	8.5
Hospital and medical care costs	2,559,426	3,332,047 [2]	68,682,983		74,574,456	91.5
Total expenditures	$3,275,006	$9,036,988	$68,994,533	$200,000	$81,506,527	100.0%

[1] This category includes premiums continuously appropriated and those collected for broker fees.

[2] Amount is Tobacco Tax and Health Care Fund monies that were appropriated in fiscal year 2003, but spent in fiscal year 2004 for stop-loss payments.

Source: Auditor General staff analysis of Arizona Financial Information System (AFIS) *Accounting Event Transaction File* for the period July 1, 2003 through September 30, 2005.

incurred administrative costs of approximately $6.9 million over that period of time, with the largest categories consisting of salaries and benefits, and professional and outside services. Specifically:

- Salaries and benefits—HCG paid approximately $3.2 million in salaries and related benefits of HCG staff and AHCCCS staff who performed HCG-related functions. This was the largest of the program's administrative cost categories. According to HCG records, HCG paid for 21 and 34 positions in fiscal years 2004 and 2005, respectively, and budgeted for 41 positions in fiscal year 2006. The positions include executive and administrative staff, such as a HCG executive director, actuarial support, sales and marketing staff, and customer care staff.

- Professional and outside services—HCG paid about $1.9 million for professional and outside services. The types of services varied and included

paying costs related to a marketing contract and providing a HMO contractor with funding for marketing and network costs. For example:

- **Marketing**—HCG paid approximately $538,000 to a marketing firm to assist in the development and coordination of marketing, promotions, and sales support. The monies were also used to pay for advertising and graphic design work. The contract was terminated on October 1, 2005, because of insufficient funding.

- **HMO contractor**—HCG paid approximately $429,000 to one of its HMO contractors. The contractor was allocated monies for marketing and provider network costs, allowing it to pay for two sales representatives, a network provider representative, and all related office space, equipment, and other operating costs.

- **Temporary staffing**—HCG paid almost $210,000 for temporary staffing, with over half of this paid with Health Crisis Fund monies to promote HCG and to assist in outreach and sales efforts.

- **Hospital and medical care-related**—HCG paid almost $420,000 for administrative costs that are similar to what its HMO contractors incur. For example, HCG paid over $300,000 to the TPA, primarily to pay for costs associated with establishing systems to collect healthcare utilization information for HMO and PPO members and to process PPO claims.

Other administrative costs include travel, equipment, and other operating costs. For example, HCG paid for a new telephone system, programming costs, and building rent.

AHCCCS allocates costs to HCG

Since HCG is a separate program within AHCCCS, AHCCCS has attempted to capture all costs that relate to HCG and allocate them accordingly. Specifically, HCG has paid for typical costs such as its building lease (the lease includes utilities), telecommunication, printing, advertising, equipment, supplies, repair and maintenance, postage, and data processing costs. In addition, AHCCCS has ensured other appropriate costs are charged to HCG. For example, AHCCCS has charged a portion of department-level staff salaries to HCG for such functions as accounting, actuary services, and information technology, which AHCCCS provides in support of the HCG program. Further, according to AHCCCS management, AHCCCS has recently worked to improve its cost allocation process to better ensure that HCG pays its fair share of services provided by AHCCCS.

AHCCCS has worked to improve its cost allocation process, to better ensure that HCG pays its fair share of services provided by AHCCCS.

Recommendations:

This finding provides information only. Therefore, no recommendations are presented.

FINDING 2

HCG is taking steps to ensure financial stability

HCG appears to be in-line with the insurance industry in its efforts to ensure financial stability. While no universal standard exists for the amount of reserves insurance companies should maintain, like other insurers in the healthcare industry, HCG uses actuaries to determine and monitor its reserve amounts. Also, as other insurers do, HCG uses reserves for various purposes that are intended to help ensure financial stability. In addition, HCG uses other common methods to limit its financial risk, such as maintaining reinsurance policies and establishing maximum benefit amounts for its members.

HCG uses reserves to help ensure financial stability

HCG maintains reserves that it uses for various purposes designed to help ensure it remains financially stable. The amount needed for reserves varies based on such things as whether there are any state regulatory requirements, the size or type of insurance company, and the type of benefit plans offered. Like other insurers, HCG uses actuaries to help it determine the amount of reserves it should maintain. In addition, similar to industry practices, HCG uses its reserves for various purposes designed to help ensure financial stability.

Reserve requirements vary—Auditors' review of literature and interviews with DOI and HCG officials found that there is no universal standard regarding the amount of reserves insurance companies must maintain. Rather, the amount needed for reserves will vary based on things such as the specific state regulatory requirements as well as the size or type of insurance company and the type of benefit plans offered. For example, Arizona's insurance regulatory requirements focus on protecting against insolvency. Specifically, A.R.S. §§20-1055 and 20-1056 require entities that either provide healthcare services or arrange for healthcare services to deposit with the State Treasurer a minimum of $500,000 plus a reserve consisting of 2 percent of charges collected from enrollees up to $1,000,000. In addition, A.R.S. §§20-223 and 20-1059 require

In broad terms, reserves are accumulations of money that an insurer needs to pay for future business obligations.

these entities to submit annual financial statements to DOI, which, pursuant to guidelines approved by The National Association of Insurance Commissioners, must be accompanied by a qualified actuary's opinion regarding the assumptions and methods used to determine reserves. However, Arizona's insurance regulatory requirements do not apply to state agencies. Therefore, because HCG is part of AHCCCS, it is not subject to Arizona's insurance regulations.

To determine reserve amounts, actuaries analyze costs and risks associated with providing insurance.

HCG uses actuarial services to determine reserve amounts—In-line with industry practices, HCG uses actuarial services to determine and monitor its reserve amounts. According to insurance industry practice, insurers should use the services of a qualified actuary, who is a trained mathematician who analyzes the costs and risks associated with providing insurance. Actuaries follow conduct standards and practice standards that guide them in applying generally accepted actuarial principles and practices.[1] HCG used a national actuarial consulting firm for its HMO premium-determination process in 2003, which included determining reserve amounts. Since then, HCG began using two of its own actuaries for determining the premium rates and reserve amounts for the HMO plans and HCG's new PPO plans. HCG's lead actuary is a member of the American Academy of Actuaries and, as a Fellow of the Society of Actuaries, holds the highest possible actuarial designation.

Since HCG is not subject to Arizona's insurance regulations, HCG's actuaries are not required to opine on the assumptions and methods used to determine reserves. However, according to HCG's actuaries, to determine reserve amounts, they used the NAIC's risk-based capital model as a starting point. This model helps insurers determine the minimum amount of capital and surplus they must maintain according to their level of financial risk. In addition, they also used industry-recognized guidelines that contain rating structures for determining health benefit claim costs, area factors that help adjust national average costs to specific geographical areas, and other data that can be used to help modify expected claim costs based on items such as deductible levels and benefit plan maximums.[2] Further, HCG's reserving policy requires the actuaries to monitor reserve amounts on a monthly basis to ensure their adequacy, making recommendations for adjustment as necessary. Finally, AHCCCS' director indicated that, after the PPO benefit plan has been in place for at least 2 years, he would like to obtain a peer review of HCG's actuarial work. Actuarial standards do not require a peer review. However, a discussion paper on actuarial peer reviews indicates that these reviews can be useful for evaluating and enhancing the quality of the work product.[3] The director estimates this review would cost between $100,000 and $150,000.

1 For conduct standards see: Actuarial Standards Board. Joint Committee on the Code of Professional Conduct. *Code of Professional Conduct.* January 2001; for practice standards see Actuarial Standards Board, "Actuarial Standards of Practice." http://www.actuarialstandardsboard.org/asops/htm (Feb. 2, 2006).

2 Milliman USA. "Milliman Health Cost Guidelines." http://www.milliman.com/tools_products/HCGBROCH.pdf (Jan. 28, 2006).

3 American Academy of Actuaries, Committee on Professional Responsibility, *Peer Review, Concepts on Professionalism*. September 2005.

HCG reserves used for several purposes—In-line with insurance industry practices, HCG retains a portion of its premiums to establish reserves that are used for various purposes. HCG generally establishes reserves by benefit plan type, as follows:

- **HMO benefit plans' reserve**—The majority of HCG members (17,600) are enrolled in HCG's HMO plans, and the HMO contractors, not HCG, are responsible for ensuring medical claims are paid. Because these HMO contractors contract with AHCCCS, they are regulated by AHCCCS and not DOI.[1] Therefore, to help ensure HCG's HMO contractors are able to meet their claims payment obligations, they are required to meet AHCCCS' equity-per-member and performance bond requirements.[2] AHCCCS defines equity as net assets that are not designated or restricted for specific purposes. To meet AHCCCS' equity requirements, HMO contractors with fewer than 100,000 members must maintain $150 equity per member, and contractors with 100,000 or more members must maintain $100 equity per member. To ensure HMO contractors continue to meet the requirements, HCG staff monitor contractors' monthly financial statements for equity-per-member compliance.

  For its HMO plans, the contractors are responsible for ensuring claims are paid.

  A performance bond is an instrument that provides a financial guarantee, generally in the amount of 1 month's capitation (i.e., the fixed premium amount per enrolled member). The amount of the performance bond required for AHCCCS' contractors is 75 percent of 1 month's capitation of the contractor's total line of business with AHCCCS, including HCG. Therefore, this results in a higher performance bond amount than would be required for HCG alone. Since HCG's HMO contractors also contract with AHCCCS' other programs, AHCCCS monitors these requirements for all of its contractors' lines of business as a whole.

  Although not responsible for ensuring its HMO claims are paid, HCG retains at least 5 percent of its HMO premiums to establish a HMO reserve that is used for two different purposes. First, HCG uses its HMO reserve to provide "stop-loss" coverage for its HMO contractors to help limit the amount of loss a contractor will experience within a year. As discussed in the Introduction and Background (see page 3), HCG pays its HMO contractors a capitated rate from which the contractors pay their administrative costs and medical claims incurred as well as realize a profit. However, according to its HMO contracts, if a HMO contractor experiences losses, HCG will try to limit the amount of the loss. For example, for some benefit plans, if the contractor's medical loss ratio is higher than 86 percent based on its annual audited financial statements, HCG will make a payment to the contractor if monies are available to help bring the contractor's medical loss ratio to no greater than 86 percent.[3] Conversely, the contracts also have a "stop-gain"

  HMO reserve is used to limit contractors' losses.

1 A.R.S. §36-2903(L).

2 AHCCCS' equity-per-member and performance bond requirements are similar to Arizona's insurance code requirements set forth in A.R.S. §§20-1055 and 20-1056 (see page 17).

3 Medical loss ratio refers to the percent of the contractor's annual capitated payment that is used to cover its members' medical costs.

clause. For example, a contractor whose annual audited financial statements show its medical loss ratio to be less than 80 percent is required to pay HCG an amount equal to the difference between its medical loss ratio and 80 percent multiplied by its total annual capitation payment. These payments would be included in HCG's HMO reserve.[1]

Second, HCG uses some of the HMO reserve for things such as cost fluctuations due to the introduction of new products, coverage changes, or future expansion into new locations. According to HCG's records, it had $2,776,000 in HMO reserves as of December 31, 2005.

For its PPO plans, HCG maintains responsibility for ensuring claims are paid and uses reserves to protect against excessive claims.

- PPO benefit plans' reserves—Approximately 250 of HCG's members are enrolled in its PPO plans. However, unlike its HMO plans, HCG maintains responsibility for ensuring its PPO claims are paid. In-line with industry practices, HCG maintains PPO reserves for two main purposes. First, it accumulates resources to ensure that HCG can pay for claims that have been incurred, but have not yet been submitted for payment or paid. According to HCG's records, as of December 31, 2005, it had approximately $64,000 restricted for this purpose.

  Second, HCG reserves approximately 10 percent of its PPO benefit plans' premiums to accumulate resources to ensure that HCG can cover claims if its premiums are inadequate, or to provide protection against unanticipated catastrophic events that result in excessive healthcare claims. HCG also uses this reserve for such things as cost fluctuations due to the introduction of new products, coverage changes, or future expansion in new locations. According to HCG officials, HCG retains a higher percentage of its PPO premiums compared to its HMO premiums (see above) partly because PPO benefit plans are so new. As a result, the healthcare utilization data HCG needs to estimate reserves for its PPO benefit plans is limited. According to HCG's records, as of December 31, 2005, HCG had approximately $16,000 set aside for these purposes.[2]

In addition to these reserve amounts, HCG has accumulated assets that could be used to pay HMO and PPO claims if needed. Specifically, according to HCG records, as of December 31, 2005, it had net assets of approximiately $1.1 million that were not designated or restricted for specific purposes.

1 As shown in Table 1, page 7, during fiscal year 2004, HCG had stop-loss expenditures of approximately $5.6 million that related to prior years. For fiscal year 2006, HCG estimates making stop-loss expenditures of approximately $4.8 million related to fiscal years 2005 and 2006.

2 The PPO plans were established in late 2005, and according to HCG's records, it had collected approximately $162,000 in premiums as of December 31, 2005.

HCG uses various methods to minimize financial risk

In addition to establishing reserves for the HMO and PPO benefit plans, HCG employs various other methods to minimize its financial risk. To help protect against excessive healthcare claims and remain self-sufficient, HCG purchases reinsurance to help cover large healthcare claims, limits a member's lifetime maximum benefit amount, and maintains the right to increase premium. Specifically:

- **Reinsurance**—HCG uses some of the premium amounts collected to purchase an insurance policy, also known as reinsurance, to reduce the risk of catastrophic loss on services provided under the HMO and PPO benefit plans. Using these policies the risk of loss for both the HMO contractors and HCG (for the PPO plans) is initially limited to an annual amount of $100,000 per insured individual per policy year. If an individual incurs healthcare costs above $100,000, reinsurance would generally cover between 50 to 90 percent of the eligible claims costs in excess of the $100,000 up to the member's lifetime maximum (see below). Based on HCG's records, for the period from August 1, 2002 through August 1, 2004, HCG's reinsurance covered $138,724 worth of claims related to 12 individuals.

Reinsurance generally covers between 50 to 90 percent of the eligible claims costs in excess of the $100,000.

- **Lifetime maximums**—HCG has established a maximum amount that it or its contractors will pay for all covered services during a member's lifetime. The lifetime maximum for the HMO plans is $2 million, and the lifetime maximum for the PPO plans is $3 million. If a member reaches his or her lifetime maximum, the member becomes responsible for all of his/her additional healthcare costs.

Lifetime maximum for HMO and PPO plans is $2 million and $3 million, respectively.

- **Premium increases**—HCG, pursuant to A.R.S. §36-2912, has the right to change premium rates during the year to help ensure premiums will cover the cost of claims. Prior to making such a change, HCG must provide enrolled businesses with a 60-day notice. In February 2003, according to HCG officials, HCG implemented an across-the-board premium rate increase to account for the possibility of higher-than-expected claims based on an actuarial study completed when HCG redesignated its health plan benefits options and reforecast medical cost trends.[1]

Recommendations:

This finding provides information only. Therefore, no recommendations are presented.

[1] Further, according to HCG officials, in March 2004, HCG implemented another premium increase, but this related to an increase in HCG's administrative fee for the HMO benefit plan (Classic) and the introduction of two new HMO benefit plan options (Secure and Active).

FINDING 3

HCG has process to ensure applicants have not recently had group healthcare coverage

HCG has taken steps to ensure that small business applicants have been without group healthcare coverage for the required time period before obtaining healthcare coverage from HCG. HCG's membership requirements were changed in 2004 to require small businesses to be without group healthcare insurance for 180 days prior to joining HCG. Therefore, HCG established a process for ensuring that this requirement, known as the "bare period," is met. Based on the work conducted as part of this audit as well as other investigations, HCG appears to be adequately enforcing this requirement.

Businesses must be uninsured before joining HCG

In 2004, the HCG membership requirements were changed to include a bare period for businesses. Specifically, A.R.S. §36-2912(C) indicates that HCG is prohibited from enrolling an employer group (i.e., small business) if the small business had group healthcare coverage under an accountable health plan within the past 180 days. The bare period appears to have been established so that HCG would be serving small businesses who were uninsured versus those who dropped their current small group policies to join HCG. There are some exceptions to this requirement. For example, the requirement does not apply to small businesses that had their group healthcare coverage discontinued, such as when an insurance company no longer covers a geographic area. In addition, this requirement does not apply to political subdivisions or small businesses whose business owner or employees had individual healthcare coverage or coverage through a spouse's group plan.

Uninsured requirement added so small businesses would not drop private group health insurance to join

HCG has established process for ensuring compliance

To ensure compliance, HCG established a policy that outlines the bare period requirement as well as a step-by-step process for determining if small business applicants are subject to and meet the requirement. First, HCG provides one-on-one training to its sales representatives and contracted brokers regarding the bare period requirement prior to their being authorized to enroll applicants in HCG, as well as training during staff meetings. In addition, HCG developed a form that small business applicants must fill out and sign. This form asks small business applicants whether they currently offer group health insurance to their employees or did so within the past 6 months. By signing the form, small business applicants certify, under penalty of perjury, that they have met the bare period requirement. In January 2006, this form was revised to authorize HCG to contact the previous insurance company to certify the dates and types of coverage previously provided.

Small business applicants must certify they have not had group health insurance.

If HCG determines during the application process that a small business had group health insurance within the past 180 days, HCG can defer the small business' enrollment until the 180 day period is met; or if the small business does not want to wait for the period to be completed, HCG will terminate the application and deny enrollment. According to information provided by a HCG official, between November 2004 and 2005, HCG declined applications from more than 70 small business applicants during the application process because they did not comply with the bare period. Finally, according to AHCCCS, if an insurance company were to contact HCG with a complaint that a small business dropped coverage with them to join HCG, HCG would investigate the complaint because it would need to determine whether an employer had fraudulently signed the acknowledgment form and was thus ineligible for the program.

HCG appears to be adequately enforcing requirement

External review found no evidence that applicants were encouraged to circumvent requirements.

Based on the work conducted as a part of this audit, HCG appears to be adequately enforcing the bare period requirement. Specifically, auditors examined a random sample of 30 files for small businesses who applied to HCG group between December 2004 and December 2005 and found that each file contained a signed acknowledgment form as required.

In addition, a September 2005 external review failed to substantiate allegations that AHCCCS' director was encouraging applicants to avoid the bare period requirement. Specifically, the Department of Administration contracted with Gallagher & Kennedy P.A. to conduct an investigation on allegations that AHCCCS' director instructed HCG employees to encourage employers to circumvent the bare period. Based upon the

firm's review of documents and interviews with AHCCCS' employees, former employees, and consultants, the firm found no factual basis to support the allegations. The firm also reported that, as a result of an internal investigation conducted by AHCCCS, one HCG employee received a written reprimand, and another employee was terminated due to inappropriate statements and other improper conduct related to the allegations.

Finally, based on discussions with DOI, HCG, and AHCCCS officials, auditors determined that there does not appear to be any additional steps HCG can take to verify previous healthcare coverage. For example, while DOI has information on which insurance companies are licensed and providing individual or group healthcare plans in Arizona, it does not have information on individuals or businesses who are insured with these companies that could be used to determine prior coverage.

Recommendations:

This finding provides information only. Therefore, no recommendations are presented.

APPENDIX A

Healthcare Group Premium Rate Charts:

- HMO Benefit Plan Premiums, by Contractor (pages a-iii through a-viii)
- PPO Benefit Plan Premiums (pages a-ix through a-x)
- Dental and Vision Plan Premiums (page a-xi)

Source: Healthcare Group.

Healthcare Group of Arizona

Care 1st of Arizona Network

Premium Rate Chart

Classic Healthstyle

Effective September 1, 2005

		Maricopa County							
		No Deductible *Option - H000*		$500 Deductible *Option - H010*		$1,000 Deductible *Option - H020*		$2,000 Deductible *Option - H030*	
Rate Tier	Age Range	Male	Female	Male	Female	Male	Female	Male	Female
1	00-29	203.93	235.18	187.73	216.41	168.38	194.00	142.68	164.25
1	30-39	225.60	262.87	207.62	241.84	186.14	216.70	157.65	183.36
1	40-44	257.59	295.16	236.99	271.46	212.36	243.17	179.72	205.63
1	45-49	306.39	345.67	281.78	317.84	252.38	284.60	213.38	240.49
1	50-54	367.36	380.38	337.75	349.72	302.37	313.07	255.44	264.44
1	55-59	487.35	487.35	447.90	447.90	400.77	400.77	338.24	338.24
1	60-64	533.69	518.95	490.45	476.92	438.77	426.68	370.23	360.05
1	65 +	587.09	559.46	539.47	514.11	482.56	459.90	407.07	388.00
2	00-29	421.21	421.21	387.24	387.24	346.65	346.65	292.81	292.81
2	30-39	476.87	476.87	438.34	438.34	392.30	392.30	331.22	331.22
2	40-44	546.99	546.99	502.71	502.71	449.79	449.79	379.59	379.59
2	45-49	636.91	636.91	585.25	585.25	523.52	523.52	441.63	441.63
2	50-54	742.00	742.00	681.72	681.72	609.69	609.69	514.14	514.14
2	55-59	967.40	967.40	888.63	888.63	794.52	794.52	669.67	669.67
2	60-64	1046.89	1046.89	961.63	961.63	859.72	859.72	724.52	724.52
2	65 +	1140.80	1140.80	1047.82	1047.82	936.71	936.71	789.32	789.32
3	00-29	624.87	624.87	574.33	574.33	513.91	513.91	433.78	433.78
3	30-39	710.00	710.00	652.47	652.47	583.72	583.72	492.51	492.51
3	40-44	841.32	841.32	773.03	773.03	691.40	691.40	583.12	583.12
3	45-49	881.35	881.35	809.76	809.76	724.22	724.22	610.74	610.74
3	50-54	960.53	960.53	882.45	882.45	789.16	789.16	665.38	665.38
3	55-59	1195.69	1195.69	1098.33	1098.33	981.97	981.97	827.63	827.63
3	60-64	1286.18	1286.18	1181.40	1181.40	1056.18	1056.18	890.08	890.08
3	65 +	1336.23	1336.23	1227.35	1227.35	1097.22	1097.22	924.61	924.61
4	00-29	358.98	402.03	330.19	369.70	295.80	331.09	250.16	279.86
4	30-39	410.55	460.81	377.53	423.67	338.09	379.30	285.73	320.42
4	40-44	466.77	515.50	429.15	473.86	384.19	424.12	324.53	358.14
4	45-49	496.64	550.36	456.57	505.88	408.68	452.73	345.13	382.21
4	50-54	534.35	554.98	491.18	510.13	439.59	456.51	371.15	385.40
4	55-59	697.27	697.27	640.76	640.76	573.20	573.20	483.57	483.57
4	60-64	815.85	791.45	749.59	727.21	670.42	650.42	565.39	548.56
4	65 +	844.58	802.16	775.98	737.03	693.99	659.20	585.23	555.95

Rate Tier: 1 = Employee Only, 2 = Employee plus Spouse, 3 = Employee plus Family, 4 = Employee plus Child(ren)

For Provider questions call: Care 1st of Arizona Member Services - 602-778-8300, 1-866-560-4042

Care 1st 05-05

Healthcare Group of Arizona

Care 1st of Arizona Network

Premium Rate Chart

Secure Healthstyle

Effective September 1, 2005

		Maricopa County		
Rate Tier	Age Range	No Deductible *Option - H100*	$500 Deductible *Option - H110*	$1,000 Deductible *Option - H120*
1	00-29	119.83	104.22	93.16
1	30-39	154.21	133.89	119.47
1	40-44	170.47	147.90	131.89
1	45-49	190.00	164.75	146.85
1	50-54	239.23	207.20	184.51
1	55-59	276.73	239.56	213.19
1	60-64	353.30	305.61	271.78
1	65 +	547.88	473.43	420.62
2	00-29	233.91	202.71	180.59
2	30-39	302.67	262.01	233.19
2	40-44	335.17	290.05	258.05
2	45-49	374.25	323.75	287.94
2	50-54	472.70	408.66	363.25
2	55-59	547.72	473.37	420.65
2	60-64	700.88	605.47	537.82
2	65 +	1090.02	941.10	835.49
3	00-29	503.90	435.77	387.46
3	30-39	570.01	492.78	438.04
3	40-44	618.30	534.44	474.98
3	45-49	651.94	563.45	500.71
3	50-54	706.47	610.48	542.43
3	55-59	747.33	645.73	573.68
3	60-64	872.63	753.80	669.54
3	65 +	1371.97	1184.48	1051.53
4	00-29	247.04	214.16	190.85
4	30-39	281.42	243.81	217.15
4	40-44	320.50	277.52	247.04
4	45-49	345.49	299.08	266.16
4	50-54	365.82	316.61	281.71
4	55-59	373.62	323.33	287.69
4	60-64	425.99	368.50	327.74
4	65 +	789.34	681.89	605.71

Active Healthstyle

Effective September 1, 2005

		Maricopa County	
Rate Tier	Age Range	No Deductible *Option - H200*	$500 Deductible *Option - H210*
1	00-29	97.05	84.58
1	30-39	124.52	108.28
1	40-44	137.50	119.48
1	45-49	153.11	132.94
1	50-54	192.46	166.88
1	55-59	222.44	192.73
1	60-64	283.64	245.51
1	65 +	439.12	379.63
2	00-29	188.34	163.40
2	30-39	243.29	210.79
2	40-44	269.28	233.21
2	45-49	300.49	260.14
2	50-54	379.18	328.00
2	55-59	439.12	379.70
2	60-64	561.52	485.28
2	65 +	872.52	753.50
3	00-29	421.30	364.53
3	30-39	474.13	410.10
3	40-44	512.73	443.39
3	45-49	539.62	466.57
3	50-54	577.55	499.30
3	55-59	610.21	527.46
3	60-64	710.34	613.82
3	65 +	1098.13	948.29
4	00-29	199.02	172.74
4	30-39	226.50	196.44
4	40-44	257.72	223.37
4	45-49	277.70	240.61
4	50-54	293.93	254.62
4	55-59	300.17	260.00
4	60-64	342.03	296.09
4	65 +	632.39	546.54

Rate Tier: 1 = Employee Only, 2 = Employee plus Spouse, 3 = Employee plus Family, 4 = Employee plus Child(ren)

For Provider questions call: Care 1st of Arizona Member Services - 602-778-8300, 1-866-560-4042

Healthcare Group of Arizona

Mercy Healthcare Group Network

Premium Rate Chart

Classic Healthstyle

Effective September 1, 2005

		Maricopa County								Pima County								Coconino, Gila, Graham, Greenlee, Pinal, Santa Cruz, Yavapai & Yuma Counties							
		No Deductible *Option - H000*		$500 Deductible *Option - H010*		$1,000 Deductible *Option - H020*		$2,000 Deductible *Option - H030*		No Deductible *Option - H000*		$500 Deductible *Option - H010*		$1,000 Deductible *Option - H020*		$2,000 Deductible *Option - H030*		No Deductible *Option - H000*		$500 Deductible *Option - H010*		$1,000 Deductible *Option - H020*		$2,000 Deductible *Option - H030*	
Rate Tier	Age Range	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
1	00-29	223.91	258.76	205.85	237.84	184.24	212.82	155.60	179.65	198.42	229.32	182.41	210.76	163.26	188.59	137.87	159.18	195.97	226.58	180.10	208.20	161.13	186.23	135.97	157.09
1	30-39	248.08	289.65	228.03	266.20	204.07	238.15	172.28	200.95	219.84	256.70	202.08	235.91	180.83	211.04	152.65	178.07	217.20	253.71	199.59	233.11	178.54	208.47	150.61	175.81
1	40-44	283.76	325.65	260.78	299.25	233.32	267.68	196.90	225.81	251.48	288.62	231.10	265.20	206.77	237.21	174.47	200.10	248.53	285.34	228.36	262.14	204.23	234.42	172.24	197.64
1	45-49	338.20	382.01	310.75	350.97	277.95	313.89	234.45	264.69	299.73	338.57	275.40	311.05	246.33	278.17	207.76	234.57	296.34	334.82	272.24	307.57	243.43	274.99	205.23	231.78
1	50-54	406.18	420.73	373.17	386.52	333.72	345.64	281.37	291.40	360.00	372.89	330.74	342.56	295.76	306.32	249.36	258.25	356.07	368.84	327.06	338.79	292.41	302.89	246.43	255.25
1	55-59	540.03	540.03	496.05	496.05	443.46	443.46	373.72	373.72	478.65	478.65	439.64	439.64	393.04	393.04	331.21	331.21	473.62	473.62	434.98	434.98	388.81	388.81	327.55	327.55
1	60-64	591.74	575.30	543.51	528.42	485.86	472.39	409.39	398.06	524.47	509.90	481.72	468.34	430.62	418.68	362.83	352.78	519.04	504.59	476.67	463.42	426.04	414.20	358.88	348.92
1	65 +	651.30	620.48	598.18	569.89	534.70	509.43	450.50	429.22	577.27	549.95	530.19	505.09	473.92	451.51	399.27	380.42	571.34	544.27	524.70	499.84	468.94	446.74	394.98	376.29
2	00-29	466.12	466.12	428.23	428.23	382.95	382.95	322.89	322.89	413.22	413.22	379.65	379.65	339.50	339.50	286.26	286.26	408.64	408.64	375.37	375.37	335.60	335.60	282.84	282.84
2	30-39	528.21	528.21	485.24	485.24	433.87	433.87	365.73	365.73	468.26	468.26	430.17	430.17	384.64	384.64	324.24	324.24	463.18	463.18	425.44	425.44	380.33	380.33	320.47	320.47
2	40-44	606.41	606.41	557.02	557.02	497.99	497.99	419.69	419.69	537.58	537.58	493.79	493.79	441.47	441.47	372.06	372.06	531.86	531.86	488.48	488.48	436.63	436.63	367.87	367.87
2	45-49	706.72	706.72	649.10	649.10	580.24	580.24	488.90	488.90	626.49	626.49	575.42	575.42	514.39	514.39	433.41	433.41	619.96	619.96	569.36	569.36	508.87	508.87	428.65	428.65
2	50-54	823.94	823.94	756.71	756.71	676.36	676.36	569.78	569.78	730.40	730.40	670.81	670.81	599.59	599.59	505.11	505.11	722.92	722.92	663.87	663.87	593.31	593.31	499.69	499.69
2	55-59	1075.36	1075.36	987.51	987.51	882.53	882.53	743.26	743.26	953.26	953.26	875.39	875.39	782.33	782.33	658.89	658.89	943.75	943.75	866.59	866.59	774.38	774.38	652.06	652.06
2	60-64	1164.04	1164.04	1068.92	1068.92	955.24	955.24	804.45	804.45	1031.87	1031.87	947.56	947.56	846.79	846.79	713.13	713.13	1021.63	1021.63	938.10	938.10	838.24	838.24	705.81	705.81
2	65 +	1268.78	1268.78	1165.07	1165.07	1041.13	1041.13	876.72	876.72	1124.71	1124.71	1032.78	1032.78	922.93	922.93	777.20	777.20	1113.62	1113.62	1022.53	1022.53	913.68	913.68	769.28	769.28
3	00-29	692.95	692.95	636.56	636.56	569.17	569.17	479.79	479.79	614.53	614.53	564.54	564.54	504.81	504.81	425.57	425.57	607.74	607.74	558.22	558.22	499.03	499.03	420.51	420.51
3	30-39	787.90	787.90	723.73	723.73	647.04	647.04	545.31	545.31	698.69	698.69	641.80	641.80	573.82	573.82	483.65	483.65	691.14	691.14	634.77	634.77	567.41	567.41	478.06	478.06
3	40-44	934.38	934.38	858.20	858.20	767.15	767.15	646.37	646.37	828.53	828.53	761.00	761.00	680.30	680.30	573.23	573.23	819.79	819.79	752.88	752.88	672.91	672.91	566.83	566.83
3	45-49	979.02	979.02	899.18	899.18	803.76	803.76	677.18	677.18	868.11	868.11	797.33	797.33	712.75	712.75	600.54	600.54	859.00	859.00	788.87	788.87	705.06	705.06	593.89	593.89
3	50-54	1067.35	1067.35	980.27	980.27	876.19	876.19	738.12	738.12	946.39	946.39	869.20	869.20	776.94	776.94	654.56	654.56	936.57	936.57	860.09	860.09	768.67	768.67	647.41	647.41
3	55-59	1329.64	1329.64	1221.05	1221.05	1091.27	1091.27	919.11	919.11	1178.90	1178.90	1082.64	1082.64	967.60	967.60	814.99	814.99	1166.95	1166.95	1071.58	1071.58	957.58	957.58	806.38	806.38
3	60-64	1430.59	1430.59	1313.72	1313.72	1174.04	1174.04	988.76	988.76	1268.38	1268.38	1164.79	1164.79	1040.98	1040.98	876.73	876.73	1255.62	1255.62	1152.97	1152.97	1030.29	1030.29	867.56	867.56
3	65 +	1486.43	1486.43	1364.97	1364.97	1219.83	1219.83	1027.28	1027.28	1317.88	1317.88	1210.21	1210.21	1081.55	1081.55	910.88	910.88	1304.65	1304.65	1197.98	1197.98	1070.49	1070.49	901.38	901.38
4	00-29	396.60	444.61	364.48	408.56	326.10	365.48	275.21	308.33	351.70	394.26	323.25	362.31	289.22	324.12	244.10	273.47	347.70	389.87	319.49	358.21	285.80	320.37	241.08	270.18
4	30-39	454.11	510.18	417.29	468.75	373.28	419.25	314.90	353.58	402.70	452.38	370.06	415.66	331.04	371.78	279.29	313.58	398.22	447.46	365.88	411.08	327.22	367.60	275.95	309.92
4	40-44	516.83	571.18	474.86	524.75	424.70	469.27	358.17	395.67	458.29	506.45	421.08	465.30	376.62	416.12	317.64	350.87	453.31	501.02	416.44	460.25	372.38	411.52	313.95	346.87
4	45-49	550.15	610.07	505.45	560.45	452.02	501.17	381.15	422.51	487.81	540.93	448.19	496.95	400.84	444.38	338.02	374.67	482.56	535.20	443.30	491.61	396.38	439.53	334.14	370.44
4	50-54	592.21	615.23	544.06	565.19	486.52	505.38	410.18	426.06	525.10	545.49	482.42	501.14	431.40	448.13	363.74	377.82	519.50	539.72	477.21	495.76	426.67	443.26	359.63	373.58
4	55-59	773.95	773.95	710.90	710.90	635.54	635.54	535.59	535.59	686.20	686.20	630.30	630.30	563.51	563.51	474.90	474.90	679.13	679.13	623.75	623.75	557.57	557.57	469.76	469.76
4	60-64	906.21	879.01	832.31	807.34	744.00	721.68	626.83	608.07	803.43	779.33	737.93	715.79	659.65	639.86	555.79	539.16	795.29	771.41	730.38	708.46	652.82	633.23	549.92	533.43
4	65 +	938.26	890.95	861.74	818.31	770.28	731.48	648.96	616.30	831.85	789.90	764.02	725.51	682.95	648.55	575.40	546.46	823.45	781.88	756.23	718.08	675.91	641.82	569.35	540.67

Rate Tier: 1 = Employee Only, 2 = Employee plus Spouse, 3 = Employee plus Family, 4 = Employee plus Child(ren)

For Provider questions call: Mercy Healthcare Group Member Services - 602-798-2800, 1-800-780-2300

MHG 05-05

Healthcare Group of Arizona

Mercy Healthcare Group Network

Premium Rate Chart

Secure Healthstyle

Effective September 1, 2005

		Maricopa County			Pima County			Coconino, Gila, Graham, Greenlee, Pinal, Santa Cruz, Yavapai & Yuma Counties		
Rate Tier	Age Range	No Deductible *Option - H100*	$500 Deductible *Option - H110*	$1,000 Deductible *Option - H120*	No Deductible *Option - H100*	$500 Deductible *Option - H110*	$1,000 Deductible *Option - H120*	No Deductible *Option - H100*	$500 Deductible Option - *H110*	$1,000 Deductible *Option - H120*
1	00-29	132.77	115.00	102.40	130.83	113.27	100.81	134.55	116.39	103.50
1	30-39	171.93	148.78	132.37	169.56	146.67	130.44	174.60	150.93	134.14
1	40-44	190.46	164.75	146.52	187.86	162.45	144.43	193.54	167.25	148.61
1	45-49	212.70	183.94	163.55	209.85	181.42	161.26	216.28	186.88	166.03
1	50-54	268.77	232.30	206.44	265.30	229.23	203.68	273.63	236.33	209.89
1	55-59	311.49	269.15	239.13	307.52	265.66	235.99	317.30	274.00	243.31
1	60-64	398.72	344.38	305.85	393.75	340.05	301.95	406.49	350.94	311.54
1	65 +	620.36	535.53	475.40	612.86	529.01	469.56	633.11	546.39	484.89
2	00-29	262.56	227.01	201.81	259.69	224.55	199.64	267.12	230.78	205.01
2	30-39	340.88	294.57	261.73	336.62	290.84	258.37	347.21	299.86	266.28
2	40-44	377.89	326.49	290.04	373.21	322.40	286.37	385.06	332.51	295.24
2	45-49	422.40	364.89	324.10	417.22	360.36	320.04	430.58	371.76	330.06
2	50-54	534.55	461.61	409.89	528.08	455.97	404.84	545.24	470.65	417.77
2	55-59	620.01	535.31	475.26	612.57	528.83	469.46	632.62	546.02	484.61
2	60-64	794.45	685.78	608.72	785.02	677.58	601.41	810.99	699.87	621.08
2	65 +	1237.70	1068.08	947.80	1223.22	1055.53	936.62	1264.22	1090.78	967.79
3	00-29	569.69	492.09	437.06	565.08	488.14	433.57	580.87	501.52	445.25
3	30-39	645.00	557.05	494.67	637.39	550.44	488.77	657.87	567.94	504.16
3	40-44	700.01	604.48	536.75	691.76	597.33	530.36	714.11	616.44	547.18
3	45-49	738.32	637.53	566.06	729.63	630.00	559.35	753.28	650.23	577.16
3	50-54	800.43	691.10	613.58	791.05	682.97	606.32	816.81	705.01	625.74
3	55-59	846.98	731.25	649.18	837.06	722.65	641.52	864.39	746.06	662.15
3	60-64	989.70	854.35	758.37	978.16	844.34	749.46	1010.33	871.92	773.79
3	65 +	1558.47	1344.91	1193.48	1540.44	1329.32	1179.61	1591.90	1373.54	1218.69
4	00-29	277.37	239.92	213.38	275.15	238.01	211.69	282.25	243.97	216.82
4	30-39	316.54	273.69	243.32	312.57	270.22	240.19	322.30	278.50	247.44
4	40-44	361.04	312.08	277.37	356.56	308.17	273.85	367.81	317.76	282.25
4	45-49	389.52	336.65	299.16	384.71	332.45	295.38	396.92	342.86	304.53
4	50-54	412.66	356.62	316.86	407.60	352.19	312.89	420.59	363.28	322.64
4	55-59	421.56	364.28	323.67	416.39	359.77	319.62	429.69	371.12	329.60
4	60-64	481.20	415.73	369.29	475.36	410.63	364.72	490.68	423.72	376.24
4	65 +	895.07	772.70	685.92	884.51	763.53	677.74	913.86	788.73	699.99

Active Healthstyle

Effective September 1, 2005

		Maricopa County		Pima County		Coconino, Gila, Graham, Greenlee, Pinal, Santa Cruz, Yavapai & Yuma Counties	
Rate Tier	Age Range	No Deductible *Option - H200*	$500 Deductible *Option - H210*	No Deductible *Option - H200*	$500 Deductible *Option - H210*	No Deductible *Option - H200*	$500 Deductible *Option - H210*
1	00-29	105.73	91.68	104.41	90.48	107.19	92.78
1	30-39	136.70	118.39	135.12	116.97	138.94	120.18
1	40-44	151.34	131.02	149.64	129.48	153.96	133.12
1	45-49	168.93	146.20	167.08	144.53	171.99	148.68
1	50-54	213.28	184.44	211.05	182.46	217.46	187.89
1	55-59	247.07	213.58	244.56	211.35	252.11	217.77
1	60-64	316.05	273.07	312.96	270.34	322.83	278.77
1	65 +	491.30	424.23	486.73	420.23	502.51	433.75
2	00-29	208.47	180.37	206.33	178.46	212.39	183.58
2	30-39	270.41	233.79	267.74	231.43	275.90	238.35
2	40-44	299.70	259.04	296.79	256.47	305.93	264.24
2	45-49	334.88	289.39	331.67	286.57	342.00	295.36
2	50-54	423.56	365.88	419.60	362.41	432.92	373.79
2	55-59	491.13	424.16	486.61	420.20	502.20	433.54
2	60-64	629.09	543.15	623.40	538.18	643.65	555.53
2	65 +	979.60	845.47	970.96	837.96	1003.02	865.50
3	00-29	470.67	406.69	466.43	402.98	480.91	415.31
3	30-39	530.22	458.05	525.47	453.91	541.96	467.97
3	40-44	573.72	495.56	568.60	491.10	586.57	506.43
3	45-49	604.02	521.70	598.65	517.02	617.64	533.23
3	50-54	646.78	558.58	641.05	553.59	661.47	571.04
3	55-59	683.60	590.33	677.56	585.07	699.22	603.59
3	60-64	796.45	687.68	789.46	681.60	814.93	703.40
3	65 +	1233.51	1064.64	1222.83	1055.39	1263.04	1089.90
4	00-29	220.39	190.77	218.15	188.79	224.59	194.23
4	30-39	251.36	217.49	248.87	215.28	256.35	221.62
4	40-44	286.56	247.84	283.77	245.38	292.43	252.74
4	45-49	309.07	267.25	306.09	264.63	315.52	272.64
4	50-54	327.38	283.04	324.24	280.28	334.28	288.83
4	55-59	334.41	289.12	331.21	286.30	341.49	295.05
4	60-64	381.57	329.80	377.98	326.65	389.85	336.77
4	65 +	708.84	612.07	702.49	606.54	725.40	626.18

Rate Tier: 1 = Employee Only, 2 = Employee plus Spouse, 3 = Employee plus Family, 4 = Employee plus Child(ren)

For Provider questions call: Mercy Healthcare Group Member Services - 602-798-2800, 1-800-780-2300

MHH 05-05

Healthcare Group of Arizona

University Physicians Network

Premium Rate Chart

Classic Healthstyle

Effective September 1, 2005

		Pima & Pinal Counties								Cochise, Graham, Greenlee & Santa Cruz Counties							
		No Deductible *Option - H000*		$500 Deductible *Option - H010*		$1,000 Deductible *Option - H020*		$2,000 Deductible *Option - H030*		No Deductible *Option - H000*		$500 Deductible *Option - H010*		$1,000 Deductible *Option - H020*		$2,000 Deductible *Option - H030*	
Rate Tier	Age Range	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
1	00-29	154.51	176.13	142.75	162.60	128.70	146.43	110.06	124.98	151.59	172.47	140.24	159.39	126.66	143.78	108.66	123.08
1	30-39	182.93	211.45	168.85	195.02	152.01	175.39	129.67	149.35	179.03	206.56	165.43	190.70	149.17	171.74	127.60	146.61
1	40-44	213.39	243.19	196.82	224.15	176.99	201.41	150.69	171.24	208.44	237.21	192.44	218.84	173.29	196.88	147.89	167.75
1	45-49	243.83	273.73	224.74	252.19	201.93	226.46	171.69	192.32	237.83	266.71	219.40	245.92	197.39	221.07	168.17	188.10
1	50-54	304.85	315.35	280.75	290.42	251.97	260.59	213.80	221.04	296.76	306.91	273.50	282.82	245.70	254.03	208.83	215.84
1	55-59	359.11	359.11	330.57	330.57	296.47	296.47	251.23	251.23	349.16	349.16	321.60	321.60	288.66	288.66	244.99	244.99
1	60-64	446.24	434.14	410.55	399.45	367.92	357.99	311.36	303.00	433.30	421.61	398.84	388.11	357.66	348.08	303.04	294.97
1	65 +	490.49	467.79	451.19	430.35	404.21	385.60	341.88	326.23	476.03	454.11	438.07	417.95	392.71	374.74	332.53	317.40
2	00-29	306.92	306.92	282.71	282.71	253.78	253.78	215.42	215.42	298.78	298.78	275.41	275.41	247.47	247.47	210.42	210.42
2	30-39	373.20	373.20	343.56	343.56	308.14	308.14	261.14	261.14	362.79	362.79	334.16	334.16	299.96	299.96	254.58	254.58
2	40-44	443.39	443.39	408.00	408.00	365.70	365.70	309.58	309.58	430.57	430.57	396.39	396.39	355.54	355.54	301.36	301.36
2	45-49	490.95	490.95	451.66	451.66	404.70	404.70	342.40	342.40	476.49	476.49	438.55	438.55	393.20	393.20	333.05	333.05
2	50-54	605.98	605.98	557.25	557.25	499.02	499.02	421.76	421.76	587.58	587.58	540.52	540.52	484.28	484.28	409.69	409.69
2	55-59	693.42	693.42	637.52	637.52	570.71	570.71	482.10	482.10	672.01	672.01	618.03	618.03	553.52	553.52	467.94	467.94
2	60-64	869.86	869.86	799.49	799.49	715.40	715.40	603.84	603.84	842.40	842.40	774.44	774.44	693.23	693.23	585.52	585.52
2	65 +	947.80	947.80	871.05	871.05	779.31	779.31	657.63	657.63	917.66	917.66	843.53	843.53	754.95	754.95	637.44	637.44
3	00-29	467.01	467.01	429.80	429.80	385.32	385.32	326.32	326.32	453.43	453.43	417.49	417.49	374.54	374.54	317.57	317.57
3	30-39	563.77	563.77	518.62	518.62	464.66	464.66	393.08	393.08	546.86	546.86	503.27	503.27	451.15	451.15	382.04	382.04
3	40-44	672.02	672.02	617.99	617.99	553.42	553.42	467.77	467.77	651.38	651.38	599.22	599.22	536.87	536.87	454.16	454.16
3	45-49	704.72	704.72	648.01	648.01	580.23	580.23	490.34	490.34	682.96	682.96	628.20	628.20	562.76	562.76	475.95	475.95
3	50-54	824.74	824.74	758.19	758.19	678.66	678.66	573.15	573.15	798.88	798.88	734.61	734.61	657.80	657.80	555.92	555.92
3	55-59	909.07	909.07	835.61	835.61	747.81	747.81	631.35	631.35	880.31	880.31	809.36	809.36	724.58	724.58	612.11	612.11
3	60-64	1053.85	1053.85	968.52	968.52	866.54	866.54	731.25	731.25	1020.12	1020.12	937.71	937.71	839.23	839.23	708.58	708.58
3	65 +	1157.86	1157.86	1063.99	1063.99	951.82	951.82	803.01	803.01	1120.55	1120.55	1029.91	1029.91	921.58	921.58	777.89	777.89
4	00-29	264.15	292.94	243.53	269.95	218.89	242.49	186.19	206.04	257.52	285.31	237.60	263.12	213.81	236.59	182.24	201.40
4	30-39	322.79	359.72	297.36	331.27	266.97	297.25	226.66	252.15	314.15	349.81	289.59	322.33	260.24	289.49	221.31	245.91
4	40-44	374.98	412.64	345.27	379.85	309.77	340.66	262.66	288.66	364.54	400.91	335.86	369.23	301.57	331.38	256.08	281.18
4	45-49	406.38	445.93	374.11	410.40	335.52	367.94	284.34	311.62	394.88	433.04	363.69	398.73	326.43	357.74	277.01	303.35
4	50-54	458.85	476.20	422.26	438.20	378.53	392.77	320.54	332.50	445.53	462.28	410.19	425.58	367.97	381.72	311.96	323.52
4	55-59	533.50	533.50	490.79	490.79	439.75	439.75	372.05	372.05	517.61	517.61	476.36	476.36	427.08	427.08	361.70	361.70
4	60-64	686.15	665.94	630.91	612.38	564.92	548.34	477.37	463.43	665.01	645.50	611.69	593.78	547.95	531.96	463.41	449.95
4	65 +	757.09	719.39	696.05	661.44	623.10	592.18	526.32	500.31	733.52	697.12	674.58	641.16	604.13	574.28	510.69	485.56

Rate Tier: 1 = Employee Only, 2 = Employee plus Spouse, 3 = Employee plus Family, 4 = Employee plus Child(ren)

For Provider questions call: University Physicians Member Services - 520-690-6811, 1-888-708-2930

UPH 05-05

Healthcare Group of Arizona

University Physicians Network

Premium Rate Chart

Secure Healthstyle

Effective September 1, 2005

		Pima & Pinal Counties			Cochise, Graham, Greenlee, & Santa Cruz Counties		
Rate Tier	Age Range	No Deductible *Option - H100*	$500 Deductible *Option - H110*	$1,000 Deductible *Option - H120*	No Deductible *Option - H100*	$500 Deductible *Option - H110*	$1,000 Deductible *Option - H120*
1	00-29	115.59	100.95	90.58	117.85	103.18	92.78
1	30-39	147.86	128.79	115.25	150.20	131.08	117.51
1	40-44	163.09	141.93	126.92	165.48	144.26	129.21
1	45-49	181.43	157.74	140.93	183.86	160.11	143.26
1	50-54	227.63	197.59	176.28	230.18	200.06	178.70
1	55-59	262.84	227.94	203.20	265.47	230.49	205.69
1	60-64	334.68	289.93	258.18	337.49	292.63	260.80
1	65 +	517.27	447.40	397.86	520.54	450.50	400.83
2	00-29	222.68	193.40	172.63	225.21	195.86	175.04
2	30-39	287.20	249.05	222.00	289.89	251.65	224.53
2	40-44	317.71	275.37	245.34	320.48	278.03	247.93
2	45-49	354.37	307.00	273.39	357.23	309.74	276.04
2	50-54	446.77	386.67	344.06	449.86	389.61	346.89
2	55-59	517.15	447.39	397.91	520.42	450.48	400.88
2	60-64	660.88	571.34	507.86	664.50	574.74	511.10
2	65 +	1026.03	886.30	787.21	1030.57	890.49	791.14
3	00-29	482.10	417.35	371.45	485.28	420.36	374.35
3	30-39	544.15	470.86	418.89	547.48	474.01	421.91
3	40-44	589.45	509.95	453.56	592.90	513.19	456.66
3	45-49	621.03	537.18	477.71	624.55	540.49	480.88
3	50-54	670.20	579.58	515.32	673.85	582.99	518.58
3	55-59	708.55	612.66	544.67	712.29	616.16	548.00
3	60-64	826.13	714.07	634.61	830.16	717.82	638.16
3	65 +	1290.71	1114.77	990.02	1295.90	1119.53	994.46
4	00-29	235.06	204.20	182.33	237.62	206.69	184.76
4	30-39	267.32	232.03	207.01	269.96	234.58	209.50
4	40-44	303.98	263.65	235.06	306.71	266.28	237.62
4	45-49	327.46	283.90	253.01	330.25	286.58	255.62
4	50-54	346.51	300.34	267.59	349.34	303.06	270.23
4	55-59	353.84	306.66	273.20	356.70	309.40	275.85
4	60-64	402.97	349.04	310.80	405.95	351.88	313.54
4	65 +	743.95	643.12	571.63	747.78	646.70	575.03

Active Healthstyle

Effective September 1, 2005

		Pima & Pinal Counties		Cochise, Graham, Greenlee, & Santa Cruz Counties	
Rate Tier	Age Range	No Deductible *Option - H200*	$500 Deductible *Option - H210*	No Deductible *Option - H200*	$500 Deductible *Option - H210*
1	00-29	94.61	82.85	96.82	85.04
1	30-39	120.51	105.20	122.79	107.44
1	40-44	132.78	115.77	135.08	118.03
1	45-49	147.49	128.46	149.83	130.76
1	50-54	184.58	160.46	187.02	162.83
1	55-59	212.84	184.82	215.35	187.26
1	60-64	270.54	234.60	273.19	237.16
1	65 +	417.15	361.04	420.17	363.92
2	00-29	180.71	157.21	183.14	159.58
2	30-39	232.54	201.89	235.09	204.37
2	40-44	257.03	223.03	259.65	225.56
2	45-49	286.46	248.42	289.15	251.01
2	50-54	360.66	312.41	363.53	315.17
2	55-59	417.19	361.16	420.20	364.04
2	60-64	532.59	460.71	535.90	463.83
2	65 +	825.81	713.60	829.84	717.36
3	00-29	408.04	353.48	411.03	356.33
3	30-39	457.86	396.44	460.98	399.40
3	40-44	494.25	427.83	497.45	430.87
3	45-49	519.60	449.68	522.86	452.78
3	50-54	552.85	478.36	556.20	481.52
3	55-59	583.64	504.93	587.07	508.16
3	60-64	678.04	586.35	681.71	589.79
3	65 +	1038.61	897.34	1043.17	901.55
4	00-29	190.86	166.08	193.30	168.47
4	30-39	216.76	188.42	219.28	190.86
4	40-44	246.19	213.82	248.78	216.32
4	45-49	265.04	230.07	267.67	232.62
4	50-54	280.35	243.27	283.02	245.85
4	55-59	286.23	248.35	288.92	250.94
4	60-64	325.69	282.37	328.47	285.05
4	65 +	599.47	518.51	602.94	521.78

Rate Tier: 1 = Employee Only, 2 = Employee plus Spouse, 3 = Employee plus Family, 4 = Employee plus Child(ren)

For Provider questions call: University Physicians Member Services - 520-690-6811, 1-888-708-2930

UPH 05-05

Premium Rate Chart

Medallion PPO

Effective January 1, 2006

		Maricopa County						Pima County						Apache, Cochise, Coconino, Gila, Graham, Greenlee, La Paz, Mohave, Navajo,Pinal, Santa Cruz, Yavapai & Yuma Counties					
		$500 Deductible *Option - P210*		$1,000 Deductible *Option - P220*		$2,000 Deductible *Option - P230*		$500 Deductible *Option - P210*		$1,000 Deductible *Option - P220*		$2,000 Deductible *Option - P230*		$500 Deductible *Option - P210*		$1,000 Deductible *Option - P220*		$2,000 Deductible *Option - P230*	
Rate Tier	Age Range	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
1	00-29	227.00	342.00	214.00	323.00	198.00	297.00	217.00	327.00	205.00	309.00	190.00	285.00	236.00	356.00	223.00	337.00	206.00	310.00
1	30-39	240.00	332.00	227.00	314.00	209.00	289.00	230.00	318.00	217.00	301.00	201.00	277.00	250.00	347.00	236.00	327.00	218.00	301.00
1	40-44	268.00	321.00	254.00	303.00	234.00	279.00	257.00	308.00	243.00	291.00	224.00	268.00	280.00	335.00	264.00	316.00	244.00	291.00
1	45-49	325.00	357.00	307.00	338.00	283.00	311.00	312.00	342.00	295.00	323.00	271.00	298.00	339.00	373.00	321.00	352.00	295.00	324.00
1	50-54	442.00	432.00	417.00	408.00	384.00	375.00	423.00	413.00	399.00	391.00	367.00	359.00	461.00	451.00	435.00	426.00	400.00	391.00
1	55-59	623.00	519.00	588.00	490.00	541.00	450.00	597.00	497.00	563.00	469.00	517.00	431.00	651.00	541.00	614.00	511.00	564.00	470.00
1	60-64	821.00	663.00	775.00	626.00	711.00	575.00	786.00	635.00	741.00	599.00	681.00	550.00	857.00	692.00	809.00	654.00	743.00	600.00
1	65 +	866.00	727.00	817.00	686.00	750.00	630.00	828.00	696.00	782.00	657.00	718.00	603.00	904.00	759.00	853.00	716.00	783.00	658.00
2	00-29	559.00	559.00	528.00	528.00	485.00	485.00	535.00	535.00	506.00	506.00	465.00	465.00	583.00	583.00	551.00	551.00	506.00	506.00
2	30-39	563.00	563.00	532.00	532.00	489.00	489.00	539.00	539.00	509.00	509.00	468.00	468.00	587.00	587.00	555.00	555.00	510.00	510.00
2	40-44	580.00	580.00	548.00	548.00	504.00	504.00	555.00	555.00	525.00	525.00	482.00	482.00	605.00	605.00	572.00	572.00	526.00	526.00
2	45-49	673.00	673.00	636.00	636.00	584.00	584.00	644.00	644.00	609.00	609.00	559.00	559.00	703.00	703.00	663.00	663.00	610.00	610.00
2	50-54	864.00	864.00	816.00	816.00	749.00	749.00	827.00	827.00	781.00	781.00	717.00	717.00	902.00	902.00	852.00	852.00	782.00	782.00
2	55-59	1133.00	1133.00	1069.00	1069.00	981.00	981.00	1084.00	1084.00	1023.00	1023.00	939.00	939.00	1183.00	1183.00	1116.00	1116.00	1025.00	1025.00
2	60-64	1475.00	1475.00	1391.00	1391.00	1277.00	1277.00	1411.00	1411.00	1331.00	1331.00	1222.00	1222.00	1541.00	1541.00	1453.00	1453.00	1334.00	1334.00
2	65 +	1584.00	1584.00	1494.00	1494.00	1371.00	1371.00	1515.00	1515.00	1429.00	1429.00	1311.00	1311.00	1654.00	1654.00	1560.00	1560.00	1432.00	1432.00
3	00-29	831.00	831.00	785.00	785.00	722.00	722.00	796.00	796.00	752.00	752.00	692.00	692.00	867.00	867.00	819.00	819.00	753.00	753.00
3	30-39	835.00	835.00	789.00	789.00	725.00	725.00	800.00	800.00	755.00	755.00	695.00	695.00	871.00	871.00	823.00	823.00	757.00	757.00
3	40-44	852.00	852.00	805.00	805.00	740.00	740.00	816.00	816.00	771.00	771.00	709.00	709.00	890.00	890.00	840.00	840.00	772.00	772.00
3	45-49	946.00	946.00	893.00	893.00	821.00	821.00	905.00	905.00	855.00	855.00	786.00	786.00	987.00	987.00	932.00	932.00	857.00	857.00
3	50-54	1137.00	1137.00	1073.00	1073.00	986.00	986.00	1088.00	1088.00	1027.00	1027.00	944.00	944.00	1187.00	1187.00	1120.00	1120.00	1029.00	1029.00
3	55-59	1405.00	1405.00	1326.00	1326.00	1218.00	1218.00	1345.00	1345.00	1269.00	1269.00	1166.00	1166.00	1467.00	1467.00	1385.00	1385.00	1272.00	1272.00
3	60-64	1747.00	1747.00	1649.00	1649.00	1514.00	1514.00	1672.00	1672.00	1578.00	1578.00	1448.00	1448.00	1825.00	1825.00	1722.00	1722.00	1581.00	1581.00
3	65 +	1856.00	1856.00	1751.00	1751.00	1608.00	1608.00	1776.00	1776.00	1675.00	1675.00	1538.00	1538.00	1938.00	1938.00	1829.00	1829.00	1679.00	1679.00
4	00-29	499.00	614.00	472.00	580.00	434.00	534.00	478.00	588.00	452.00	556.00	416.00	511.00	520.00	641.00	492.00	605.00	453.00	557.00
4	30-39	512.00	605.00	484.00	571.00	446.00	526.00	491.00	579.00	464.00	547.00	427.00	504.00	534.00	631.00	505.00	596.00	465.00	548.00
4	40-44	541.00	593.00	511.00	561.00	470.00	516.00	518.00	568.00	490.00	537.00	451.00	494.00	564.00	619.00	533.00	585.00	490.00	538.00
4	45-49	598.00	630.00	565.00	595.00	520.00	547.00	572.00	603.00	541.00	570.00	498.00	524.00	624.00	657.00	589.00	621.00	542.00	571.00
4	50-54	714.00	704.00	674.00	665.00	620.00	612.00	684.00	674.00	646.00	637.00	594.00	586.00	745.00	735.00	704.00	694.00	647.00	638.00
4	55-59	896.00	791.00	846.00	747.00	777.00	687.00	857.00	757.00	810.00	715.00	744.00	658.00	935.00	826.00	883.00	780.00	811.00	717.00
4	60-64	1093.00	936.00	1032.00	883.00	948.00	812.00	1046.00	896.00	988.00	845.00	907.00	777.00	1142.00	977.00	1077.00	922.00	990.00	847.00
4	65 +	1138.00	999.00	1074.00	943.00	987.00	867.00	1089.00	956.00	1028.00	903.00	944.00	830.00	1189.00	1043.00	1122.00	985.00	1030.00	905.00

Rate Tier: 1 = Employee Only, 2 = Employee plus Spouse, 3 = Employee plus Family, 4 = Employee plus Child(ren)

PPO 08-05

Healthcare Group of Arizona

Premium Rate Chart

Medallion PPO Plus

Effective January 1, 2006

		Maricopa County				Pima County				Apache, Cochise, Coconino, Gila, Graham, Greenlee, La Paz, Mohave, Navajo,Pinal, Santa Cruz, Yavapai & Yuma Counties			
		$1000 Deductible *Option - P320*		$2,000 Deductible *Option - P330*		$1000 Deductible *Option - P320*		$2,000 Deductible *Option - P330*		$1000 Deductible *Option - P320*		$2,000 Deductible *Option - P330*	
Rate Tier	Age Range	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
1	00-29	189.00	284.00	175.00	263.00	182.00	272.00	168.00	252.00	197.00	296.00	183.00	274.00
1	30-39	200.00	276.00	186.00	256.00	192.00	265.00	178.00	245.00	209.00	288.00	193.00	267.00
1	40-44	224.00	267.00	207.00	247.00	214.00	256.00	199.00	237.00	233.00	279.00	216.00	258.00
1	45-49	271.00	297.00	251.00	275.00	260.00	285.00	240.00	263.00	282.00	310.00	261.00	286.00
1	50-54	367.00	359.00	339.00	331.00	351.00	344.00	325.00	317.00	383.00	374.00	354.00	346.00
1	55-59	517.00	430.00	477.00	397.00	495.00	412.00	457.00	381.00	539.00	449.00	498.00	415.00
1	60-64	680.00	550.00	627.00	507.00	650.00	526.00	600.00	486.00	710.00	574.00	655.00	529.00
1	65 +	717.00	602.00	661.00	556.00	686.00	576.00	633.00	532.00	748.00	629.00	690.00	580.00
2	00-29	464.00	464.00	429.00	429.00	445.00	445.00	411.00	411.00	484.00	484.00	448.00	448.00
2	30-39	467.00	467.00	432.00	432.00	448.00	448.00	414.00	414.00	488.00	488.00	451.00	451.00
2	40-44	482.00	482.00	445.00	445.00	461.00	461.00	426.00	426.00	503.00	503.00	464.00	464.00
2	45-49	559.00	559.00	516.00	516.00	535.00	535.00	494.00	494.00	583.00	583.00	538.00	538.00
2	50-54	716.00	716.00	661.00	661.00	686.00	686.00	633.00	633.00	748.00	748.00	690.00	690.00
2	55-59	938.00	938.00	865.00	865.00	897.00	897.00	828.00	828.00	979.00	979.00	903.00	903.00
2	60-64	1220.00	1220.00	1125.00	1125.00	1167.00	1167.00	1076.00	1076.00	1274.00	1274.00	1175.00	1175.00
2	65 +	1310.00	1310.00	1208.00	1208.00	1253.00	1253.00	1155.00	1155.00	1368.00	1368.00	1261.00	1261.00
3	00-29	691.00	691.00	638.00	638.00	662.00	662.00	611.00	611.00	720.00	720.00	666.00	666.00
3	30-39	694.00	694.00	641.00	641.00	665.00	665.00	614.00	614.00	724.00	724.00	669.00	669.00
3	40-44	708.00	708.00	654.00	654.00	678.00	678.00	627.00	627.00	739.00	739.00	683.00	683.00
3	45-49	785.00	785.00	725.00	725.00	752.00	752.00	695.00	695.00	819.00	819.00	757.00	757.00
3	50-54	943.00	943.00	870.00	870.00	902.00	902.00	833.00	833.00	984.00	984.00	908.00	908.00
3	55-59	1164.00	1164.00	1074.00	1074.00	1114.00	1114.00	1028.00	1028.00	1215.00	1215.00	1121.00	1121.00
3	60-64	1446.00	1446.00	1334.00	1334.00	1384.00	1384.00	1277.00	1277.00	1510.00	1510.00	1393.00	1393.00
3	65 +	1536.00	1536.00	1417.00	1417.00	1470.00	1470.00	1356.00	1356.00	1604.00	1604.00	1479.00	1479.00
4	00-29	416.00	511.00	385.00	472.00	398.00	489.00	369.00	452.00	433.00	533.00	401.00	492.00
4	30-39	427.00	503.00	395.00	465.00	409.00	482.00	378.00	446.00	445.00	524.00	411.00	485.00
4	40-44	450.00	494.00	416.00	456.00	431.00	473.00	399.00	437.00	469.00	515.00	434.00	476.00
4	45-49	497.00	523.00	460.00	484.00	476.00	501.00	441.00	464.00	518.00	546.00	479.00	505.00
4	50-54	593.00	585.00	548.00	541.00	568.00	560.00	525.00	518.00	619.00	610.00	572.00	564.00
4	55-59	743.00	657.00	686.00	607.00	711.00	629.00	657.00	581.00	775.00	685.00	716.00	633.00
4	60-64	906.00	776.00	836.00	716.00	867.00	743.00	801.00	686.00	946.00	810.00	873.00	748.00
4	65 +	943.00	828.00	870.00	765.00	903.00	793.00	833.00	732.00	984.00	865.00	909.00	798.00

Rate Tier: 1 = Employee Only, 2 = Employee plus Spouse, 3 = Employee plus Family, 4 = Employee plus Child(ren)

DENTAL AND VISION PLAN RATES

Effective October 1, 2005

EMPLOYERS DENTAL SERVICES (EDS)

Employers Dental Services has been delivering dental care services in Arizona since 1974. Healthcare Group of Arizona offers the following rate tier structure for dental coverage:

DENTAL	
Rate Tier	**Monthly Premium**
Tier 1: Employee Only	$10.50
Tier 2: Employee + Spouse	$21.00
Tier 3: Employee + Family	$28.75
Tier 4: Employee + Child(ren)	$27.50

No deductibles. No yearly maximum. No waiting period for basic, preventive or major services. Coverage for pre-existing conditions, except procedures in progress. Orthodontic benefits for children and adults. Emergency benefit 24 hours a day.

AVESIS ADVANTAGE PLUS VISION CARE PLAN

Avesis Incorporated has been providing vision insurance in Arizona for over 27 years. Healthcare Group of Arizona offers the following rate tier structure for vision coverage:

VISION	
Rate Tier	**Monthly Premium**
Tier 1: Employee Only	$6.95
Tier 2: Employee + Spouse	$12.25
Tier 3: Employee + Family	$18.25
Tier 4: Employee + Child(ren)	$15.00

After applicable co-payments are met ($10 exam co-payment, $10 optical materials co-payment) the following benefits are available every 12 months:

- Vision Exam
- Lenses (standard single vision, bifocal & trifocal)
- Contact Lens (in lieu of spectacle lenses & frame)
- Frame (within plan allowance)

APPENDIX B

Healthcare Group Medical Benefit Plan Comparisons

- HMO Benefit Plan Comparison (pages b-iii through b-iv)
- PPO Benefit Plan Comparison (pages b-v through b-vi)

Source: Healthcare Group.

HMO Benefit Plan Comparison

Healthcare Group of Arizona

Healthstyles Benefit Plans

Effective January 1, 2006 through June 30, 2006

Benefits are subject to change. For current benefits contact Healthcare Group or visit the HCG Website at www.healthcaregroupaz.com

Covered Services	Subject to Ded?	Classic Healthstyles HMO	Secure Healthstyles HMO	Active Healthstyles HMO
Lifetime Maximum		$2,000,000	$2,000,000	$2,000,000
Deductibles *Co-pays and coinsurance do not apply towards meeting the annual deductible.*		Choice of $0, $500, $1000, $2000. Deductibles are calculated on a calendar year basis, regardless of enrollment date. Co-pays and coinsurance do not apply towards meeting the annual deductible.	Choice of $0, $500, $1000. Deductibles are calculated on a calendar year basis, regardless of enrollment date. Co-pays and coinsurance do not apply towards meeting the annual deductible.	Choice of $0, $500. Deductibles are calculated on a calendar year basis, regardless of enrollment date. Co-pays and coinsurance do not apply towards meeting the annual deductible.
Out-of-Network Benefit		None. Member pays 100% of all non-emergency services received Out-of-Network.	None. Member pays 100% of all non-emergency services received Out-of-Network.	None. Member pays 100% of all non-emergency services received Out-of-Network.
Out-of-Pocket Maximum		No Out-of-Pocket Maximum	No Out-of-Pocket Maximum	No Out-of-Pocket Maximum
Physician's Office Visits *Primary Care Provider (PCP) and Specialist*	Yes	PCP: $20 co-pay Specialist: $20 co-pay ** *After deductible*	PCP: No co-pay Specialist: $20 co-pay ** *After deductible*	PCP: $10 co-pay Specialist: $30 co-pay ** *After deductible*
Preventive Care *Includes Well Man, Well Woman, and Well Child Care from a primary care provider.*	No	$20 co-pay *Deductible does not apply*	No co-pay *Deductible does not apply*	$10 co-pay *Deductible does not apply*
Mammography	No	No co-pay *Deductible does not apply*	No co-pay *Deductible does not apply*	No co-pay *Deductible does not apply*
Family Planning	Yes	$20 co-pay *After deductible*	No co-pay *After deductible*	20% coinsurance *After deductible*
Prenatal and Maternity Care	Yes	$20 co-pay for first prenatal visit Inpatient: $100 per Admission *After deductible*	No Benefit - Services Not Covered	No Benefit - Services Not Covered
Sterilization Procedures	Yes	Vasectomy & Tubal Ligation Co-pay determined by site of service. *After deductible*	Vasectomy & Tubal Ligation Co-pay determined by site of service. *After deductible*	Vasectomy & Tubal Ligation Co-pay determined by site of service. *After deductible*
Urgent Care	No	$40 co-pay *Deductible does not apply*	$20 co-pay *Deductible does not apply*	$20 co-pay *Deductible does not apply*
Emergency Medical Services *Co-pay/coinsurance waived if member is admitted*	No	$100 co-pay for In-Network Hospital $150 co-pay for Out-of-Network Hospital *Deductible does not apply*	$50 co-pay *Deductible does not apply*	20% coinsurance *Deductible does not apply*
Ambulance & Medical Transportation *Emergency transportation only*	Yes	No co-pay *After deductible*	No co-pay *After deductible*	20% coinsurance *After deductible*
Inpatient Hospital Services	Yes (except Emerg)	$100 co-pay each Inpatient Admit * *After deductible*	100% coverage for a maximum of 10-days (cumulative) each calendar year. Thereafter, member pays 50% coinsurance. * *After deductible*	20% coinsurance * *After deductible*
Outpatient Surgery	Yes	$100 each Outpatient Admission * *After deductible*	20% coinsurance * *After deductible*	20% coinsurance * *After deductible*
Outpatient Diagnostic Services *Laboratory testing, X-Ray Services, and Medical Imaging*	Yes	No co-pay *** *After deductible*	No co-pay *** *After deductible*	20% coinsurance *** *After deductible*
Dental Trauma	Yes	Specialist: $20 co-pay * *After deductible*	20% coinsurance * *After deductible*	20% coinsurance * *After deductible*

* Requires Prior Authorization
** Requires PCP Referral
*** May require Prior Authorization

Revised 11/01/05

HMO Benefit Plan Comparison (concl'd)

Healthcare Group of Arizona

Healthstyles Benefit Plans

Effective January 1, 2006 through June 30, 2006

Benefits are subject to change. For current benefits contact Healthcare Group or visit the HCG Website at www.healthcaregroupaz.com

Covered Services	Subject to Ded?	Classic Healthstyles HMO	Secure Healthstyles HMO	Active Healthstyles HMO
Oral Surgery	Yes	Specialist: $20 co-pay each visit * Surgery requiring hospital admission subject to Inpatient Hospital benefit. * *After deductible*	Specialist: 20% coinsurance * Surgery requiring hospital admission subject to Inpatient Hospital benefit. * *After deductible*	Specialist: 20% coinsurance * Surgery requiring hospital admission subject to Inpatient Hospital benefit. * *After deductible*
Organ Transplants *Kidney and Cornea Only*	Yes	Subject to Inpatient Hospital benefit. * *After deductible*	Subject to Inpatient Hospital benefit. * *After deductible*	Subject to Inpatient Hospital benefit. * *After deductible*
Skilled Nursing Facility	Yes	No co-pay. Limit: 30 days per calendar year. * *After deductible*	20% coinsurance. Limit: 15 days per calendar year. * *After deductible*	20% coinsurance. Limit: 15 days per calendar year. * *After deductible*
Home Healthcare	Yes	No co-pay. Limit: 30 visit per calendar year. * *After deductible*	40% coinsurance. Limit: 10 visits per calendar year. * *After deductible*	40% coinsurance. Limit: 10 visits per calendar year. * *After deductible*
Infusion Therapy	Yes	No co-pay. Limit: 45 visits per calendar year. * *After deductible*	No Benefit – Services Not Covered	No Benefit – Services Not Covered
Rehabilitation Services *Physical Therapy, Speech Therapy, Occupational Therapy, Pulmonary Rehab, Cardiac Rehab*	Yes	Inpatient: Subject to Inpatient Hospital benefit. * Outpatient: $15 co-pay per visit. Limit: 24 visits per calendar year. * *After deductible*	Inpatient: Subject to Inpatient Hospital benefit. * Outpatient: 20% coinsurance. Limit: 24 visits per calendar year. * *After deductible*	Inpatient: Subject to Inpatient Hospital benefit. * Outpatient: 20% coinsurance. Limit: 24 visits per calendar year. * *After deductible*
Hospice Care	Yes	No co-pay. Limit: 60 days per calendar year. * *After deductible*	No Benefit - Services Not Covered	No Benefit – Services Not Covered
Cosmetic, Plastic and Reconstructive Surgery	Yes	Subject to Inpatient Hospital benefit. * *After deductible*	Subject to Inpatient Hospital benefit. * *After deductible*	Subject to Inpatient Hospital benefit. * *After deductible*
Dialysis	Yes	No co-pay. No limit on visits. * *After deductible*	50% coinsurance. No limit on visits. * *After deductible*	50% coinsurance. No limit on visits. * *After deductible*
Durable Medical Equipment (DME)	Yes	No co-pay. Limit: $2,500 benefit per calendar year paid by health plan. * *After deductible*	40% coinsurance. Limit: $1000 benefit per calendar year paid by health plan. * *After deductible*	40% coinsurance. Limit: $1000 benefit per calendar year paid by health plan. * *After deductible*
Orthotics, and Protheses	Yes	Included in DME benefit (above).	40% coinsurance. Limit: $1000 benefit per calendar year paid by health plan. * *After deductible*	40% coinsurance. Limit: $1000 benefit per calendar year paid by health plan. * *After deductible*
Prescription Drugs *(ends 01/31/06)*	No	$15 co-pay for Generic $30 co-pay for Brand *Deductible does not apply*	$ 0 co-pay for Generic $20 co-pay for Brand *Deductible does not apply*	$ 0 co-pay for Generic $20 co-pay for Brand *Deductible does not apply*
Prescription Drugs *(effective 02/01/06)*	No	$10 co-pay for Generic $30 co-pay for Brand $50 co-pay for Non-Preferred Brand *Deductible does not apply*	$10 co-pay for Generic $30 co-pay for Brand $50 co-pay for Non-Preferred Brand *Deductible does not apply*	$10 co-pay for Generic $30 co-pay for Brand $50 co-pay for Non-Preferred Brand *Deductible does not apply*

* Requires Prior Authorization
** Requires PCP Referral
*** May require Prior Authorization

Effective 11/01/05

PPO Benefit Plan Comparison

Healthcare Group of Arizona

Medallion PPO Benefit Plans

Effective January 1, 2006 through June 30, 2006

Covered Services	Medallion PPO	Medallion PPO Plus (80/20 with optional HSA)
Lifetime Maximum	$3,000,000	$3,000,000
Deductible Options *Co-pays and coinsurance do not apply towards meeting the annual deductible.*	Individual: Choose between $500, $1000, or $2000 Family: Family deductible is 2 times Individual Deductible Deductibles apply to all covered services except **preventive care**, **mammography**, and **prescription drugs**. Any co-pay paid for these services will not be applied towards the annual deductible. Deductibles are calculated on a calendar year basis and may not correspond to a member's anniversary date.	Individual: Choose between $1000 and $2000 Family: Family deductible is 2 times Individual Deductible Deductibles apply to all covered services except **preventive care** and **mammography**. Any co-pay paid for these services will not be applied towards the annual deductible. Deductibles are calculated on a calendar year basis and may not correspond to a member's anniversary date.
Out-of-Pocket Maximum *After deductible*	Individual: $2500 Family: $3500 When the deductible has been met, member pays co-pays and coinsurance up to the Out-of-Pocket maximum. Once reached, the health plan pays covered services at 100% for the remainder of the calendar year.	Individual: $2500 Family: $3500 When the deductible has been met, member pays co-pays and coinsurance up to the Out-of-Pocket maximum. Once reached, the health plan pays covered services at 100% for the remainder of the calendar year.
Health Savings Account	Not available.	Optional HSA available.
Out-of-Network Benefit	When Out-of-Network, member pays 50% coinsurance on all covered services except emergency care. Deductibles and Out-of-Pocket maximums are doubled when a member is Out-of-Network and are accumulated separately. Emergency services received Out-of-State will be covered at the In-Network benefit. Urgent services received Out-of-State from an NPPN urgent care provider will be covered at the In-Network benefit. Routine services received from a primary care physician in the NPPN network will be subject to Out-of-Network benefits. Routine services received from non-NPPN physicians are not covered See the Member Handbook for more information.	When Out of Network, member pays 50% coinsurance on all covered services except emergency care. Deductibles and Out-of-Pocket maximums are doubled when a member is Out-of-Network and are accumulated separately. Emergency services received Out-of-State will be covered at the In-Network benefit. Urgent services received Out-of-State from an NPPN urgent care provider will be covered at the In-Network benefit. Routine services received from a primary care physician in the NPPN network will be subject to Out-of-Network benefits. Routine services received from non-NPPN physicians are not covered See the Member Handbook for more information.
Physician's Office Visits	Primary care: Member pays $20 co-pay per visit. Specialist care: Member pays $30 co-pay per visit. *After deductible*	Primary care: Member pays $20 co-pay per visit. Specialist care: Member pays $30 co-pay per visit. *After deductible*
Preventive Care *Includes Well Man, Well Woman, and Well Child Care received from a primary care provider.*	Member pays $0 co-pay per visit. *Deductible does not apply*	Member pays $0 co-pay per visit. *Deductible does not apply*
Mammography	Member pays $0 co-pay per visit. *Deductible does not apply*	Member pays $0 co-pay per visit. *Deductible does not apply*
Family Planning	See Physician Office Visit.	See Physician Office Visit.
Prenatal and Maternity Care	Prenatal Care: Member pays $0 for prenatal visits. Delivery: Member pays $250 per delivery admission. *After deductible*	Prenatal Care: Member pays $0 for prenatal visits. Delivery: Member pays $250 per delivery admission. *After deductible*
Sterilization Procedures	Tubal Ligation and Vasectomies only. Member responsibility determined by site of care. *After deductible*	Tubal Ligation and Vasectomies only. Member responsibility determined by site of care. *After deductible*
Urgent Care	Member pays $50 co-pay. *After deductible*	Member pays $50 co-pay. *After deductible*
Emergency Medical Services	Member pays $150 co-pay. Co-pay is waived if member is admitted to the hospital. *After deductible*	Member pays $150 co-pay. Co-pay is waived if member is admitted to the hospital. *After deductible*
Ambulance & Medical Transportation	Member pays 20% coinsurance. Only emergency transportation is covered. *After deductible*	Member pays 20% coinsurance. Only emergency transportation is covered. *After deductible*
Inpatient Hospital Services*	Member pays $250 co-pay per admission. *After deductible*	Member pays 20% coinsurance. *After deductible*
Outpatient Surgery*	Member pays $100 co-pay per outpatient admission. *After deductible*	Member pays 20% coinsurance. *After deductible*
Laboratory Services	Member pays 10% coinsurance. *After deductible*	Member pays 20% coinsurance. *After deductible*
X-ray Services	Member pays $25 co-pay per visit. *After deductible*	Member pays 20% coinsurance. *After deductible*

* Requires Prior Authorization

Revised: 11/01/05

Benefits are subject to change. For current benefits contact Healthcare Group or visit the HCG Website at www.healthcaregroupaz.com

PPO Benefit Plan Comparison (concl'd)

Covered Services	Medallion PPO	Medallion PPO Plus (80/20 with optional HSA)
Medical Imaging* *MRI, CT, PET, Nuclear Medicine, etc.*	Member pays 20% coinsurance. *After deductible*	Member pays 20% coinsurance. *After deductible*
Dental Trauma*	Member pays $20 co-pay per visit. *After deductible*	Member pays 20% coinsurance. *After deductible*
Oral Surgery*	Member pays $20 co-pay per visit. Surgery requiring hospital admission subject to Inpatient Hospital benefit. *After deductible*	Member pays 20% coinsurance. Surgery requiring hospital admission subject to Inpatient Hospital benefit. *After deductible*
Organ Transplants* Kidney and Cornea Only	Subject to Inpatient Hospital benefit. *After deductible*	Member pays 20% coinsurance. *After deductible*
Skilled Nursing Facility*	Member pays $0 co-pay per day. Limit: 30 days per calendar year. *After deductible*	Member pays 20% coinsurance. Limit: 60 days per calendar year. *After deductible*
Home Healthcare*	Member pays $0 co-pay per visit. Limit: 30 visits per calendar year. *After deductible*	Member pays 20% coinsurance. Limit: 60 visits per calendar year. *After deductible*
Infusion Therapy*	Member pays $0 co-pay per visit. Limit: 45 visits per calendar year. *After deductible*	Member pays 20% coinsurance. Limit: 45 visits per calendar year. *After deductible*
Rehabilitation Services* *Physical Therapy, Speech Therapy, Occupational Therapy, Pulmonary Rehab, Cardiac Rehab.*	Inpatient: Subject to Inpatient Hospital benefit. Outpatient: Member pays $15 co-pay per visit. Limit: 24 visits per calendar year. *After deductible*	Inpatient: Subject to Inpatient Hospital benefit. Outpatient: Member pays 20% coinsurance. Limit: 24 visits per calendar year. *After deductible*
Hospice Care*	Member pays $0 co-pay per day. Limit: 90 days per calendar year. *After deductible*	Member pays 20% coinsurance. Limit: 90 days per calendar year. *After deductible*
Cosmetic, Plastic and Reconstructive Surgery*	Inpatient: Subject to Inpatient Hospital benefit. Outpatient: Subject to Outpatient Surgery benefit.	Inpatient: Subject to Inpatient Hospital benefit. Outpatient: Subject to Outpatient Surgery benefit.
Dialysis*	Member pays $0 co-pay per visit. No limit on visits per calendar year. *After deductible*	Member pays $0 co-pay per visit. No limit on visits per calendar year. *After deductible*
Durable Medical Equipment (DME)*	Member pays $0 co-pay. Limit: $5,000 benefit per calendar year paid by plan. *After deductible*	Member pays 20% coinsurance. Limit: $5,000 benefit per calendar year paid by plan. *After deductible*
Orthotics, and Prostheses*	Included in DME benefit.	Included in DME benefit.
Mental Health/ Substance Abuse - Outpatient Treatment	Member pays $30 co-pay per visit. Limit: 12 outpatient visits per calendar year for Mental Health and Substance Abuse combined. *After deductible*	Member pays $30 co-pay per visit. Limit: 12 outpatient visits per calendar year for Mental Health and Substance Abuse combined. *After deductible*
Mental Health/ Substance Abuse - Inpatient/Partial Hospitalization*	Member pays $250 per admission. Limit: 30 inpatient days per calendar year for Mental Health or Substance Abuse admissions combined. Partial hospitalization (PHP) days or intensive outpatient (IOP) days may be substituted for inpatient days, but are included in the 30-day limit. $25,000 lifetime maximum paid by plan. *After deductible*	Member pays 20% coinsurance. Limit: 30 inpatient days per calendar year for Mental Health or Substance Abuse admissions combined. Partial hospitalization (PHP) days or intensive outpatient (IOP) days may be substituted for inpatient days, but are included in the 30-day limit. $25,000 lifetime maximum paid by plan. *After deductible*
Prescription Drugs	**$10** co-pay for Generic **$30** co-pay for preferred Brand **$45** co-pay for non-preferred Brand **50**% coinsurance for Specialty, yearly cap of $10,000 *Member pays co-pay or coinsurance only. Deductible does not apply.*	**$10** co-pay for Generic **$30** co-pay for preferred Brand **$45** co-pay for non-preferred Brand **50**% coinsurance for Specialty drugs, yearly cap of $10,000 *Member must pay for covered medications until the annual deductible has been met. Member pays co-pay or coinsurance after deductible has been met.*

* Requires Prior Authorization

Revised: 11/01/05

Benefits are subject to change. For current benefits contact Healthcare Group or visit the HCG Website at www.healthcaregroupaz.com

AGENCY RESPONSE

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February 23, 2006

Debra K. Davenport, CPA
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

I would like to thank you and your audit team for the professional and thorough way that you managed the audit of the Healthcare Group of Arizona (HCG). The audit was invaluable to my office and the management of Healthcare Group as we had the opportunity to evaluate the processes, procedures and financial management of the health plan. We also appreciate the disciplined way your staff reviewed the financial reserving methodology used by HCG. Now that HCG is self funded it is critical that our financial reserving methodology assure there are adequate reserve funds to reimburse health plan contractors for extraordinary medical losses and to maintain financial long term financial stability. The audit provided an outside validation of HCG effective financial management and statutory compliance.

Although there were no specific recommendations to respond to, the audit findings will serve as a basis to improve processes and procedures going forward. There are areas we agreed to continue to strengthen and improve such as operational and financial performance metrics, bare period insurance validation beyond just an attestation, and financial oversight of contracted health plan operations and financial stability. HCG financial management will continue to closely monitor the adequacy of the health plan financial reserves. I also plan to have an outside actuary peer review our methodology as soon as our HCG administrative budget will permit. As a self funded health care coverage program, it is important to validate our reserving methodology and management of medical cost risk meets appropriate health insurance actuarial practice.

As your audit documents, Healthcare Group now offers more than 15 different health benefit options including Health Saving Account plans, contracts for dental, vision and four health plan networks, and has expanded to offer statewide health plan coverage. In a recent satisfaction survey, HCG received strong satisfaction results from members, especially regarding the new benefit options and expanded networks. Healthcare Group has grown more than 50% over the last 12 months. Managing the business and operational processes for the current level of membership growth has required HCG to update telecommunication equipment, reengineer systems and improve operational processes. Over the next 18 months HCG expects to grow to over 50,000 members, doubling the number of small businesses and public employers participating in the program.

As membership has grown, the percent of premium dollars allocated for HCG administration and operations has been reduced. To properly manage this enterprise and provide the level of ongoing membership support small businesses need, HCG must be appropriated adequate funds from the premium revenues collected for its general administration and customer care operations. As the audit points out, there are high expectations placed on the effective financial management and statutory compliance of HCG and the continued self-sufficiency of the program. Your findings state the HCG administrative cost was 8.5% of total program cost between July 2003 and September 2005; however, by next fiscal year that percent will drop to 6.8%.

The key to financial sufficiency and keeping HCG premiums affordable is continued membership growth and attracting not only the "*forty-somethings"* but also the "*twenty-somethings"* to our health plan benefits. Marketing and sales expenditures for HCG are well below expenditures of commercial health plans. Interest in HCG by small businesses remains high. For HCG to be able to meet with businesses to explain all the benefits, premium rate, verify employer eligibility and process all the enrollments requires an increasing amount of resources and close oversight.

Finally, I would like to take this opportunity to remind those who have an interest in this audit and the success of Healthcare Group of Arizona, that a high percentage of small businesses in Arizona remain uninsured. The number one reason according to the Kaiser Foundation for small business failure or declared bankruptcy is because of a major illness suffered by the small business owner. Additionally, small businesses must now compete with large employers for the same pool of employees. Large employers often have the competitive advantage for Arizona's labor market because they can offer health benefits. Nearly every state and local chamber of commerce action agenda includes advocacy for affordable healthcare coverage for small business. With the support and leadership of the Governor and the state legislature, HCG will be part of the solution for affordable health care for Arizona small businesses.

Thank you for this opportunity to comment on the Healthcare Group of Arizona audit findings.

Sincerely

Anthony D. Rodgers
Director

Performance Audit Division reports issued within the last 24 months

04-03 Behavioral Health Services' HB2003 Funding for Adults with Serious Mental Illness
04-04 Department of Emergency and Military Affairs and State Emergency Council
04-05 Department of Environmental Quality—Water Quality Division
04-06 Department of Environmental Quality—Waste Programs Division
04-07 Department of Environmental Quality—Air Quality Division
04-08 Department of Environmental Quality—Sunset Factors
04-09 Arizona Department of Transportation, Motor Vehicle Division— State Revenue Collection Functions
04-10 Arizona Department of Transportation, Motor Vehicle Division—Information Security and E-government Services
04-11 Arizona Department of Transportation, Motor Vehicle Division—Sunset Factors
04-12 Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers
05-L1 Letter Report—Department of Health Services—Ultrasound Reviews
05-01 Department of Economic Security—Division of Employment and Rehabilitation Services—Unemployment Insurance Program
05-02 Department of Administration—Financial Services Division
05-03 Government Information Technology Agency (GITA) & Information Technology Authorization Committee (ITAC)
05-04 Department of Economic Security—Information Security
05-05 Department of Economic Security—Service Integration Initiative
05-06 Department of Revenue—Audit Division
05-07 Department of Economic Security—Division of Developmental Disabilities
05-08 Department of Economic Security—Sunset Factors
05-09 Arizona State Retirement System
05-10 Foster Care Review Board
05-11 Department of Administration—Information Services Division and Telecommunications Program Office
05-12 Department of Administration—Human Resources Division
05-13 Department of Administration—Sunset Factors
05-14 Department of Revenue—Collections Division
05-15 Department of Revenue—Business Reengineering/ Integrated Tax System
05-16 Department of Revenue—Sunset Factors
06-01 Governor's Regulatory Review Council

Future Performance Audit Division reports

Arizona Department of Education