



DEPARTMENT OF SOCIAL SERVICES

MEDICAL SERVICES
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November 3, 2000

Cindy Shirk
HCFA - CMSO
Mail Stop S2-01-16
7500 Security Boulevard
Baltimore, MD 21207-5187

Re: CHIP-NM State Plan

Dear **Ms.** Shirk:

South Dakota Medical Assistance (MA) submitted a separate Children's Health Insurance Plan (CHIP-NM) on August 4, 2000, in an effort to provide health insurance for more children in South Dakota.

Since the state plan submittal, HCFA and MA have been working informally to clarify HCFA's concerns and obtain approval of the plan. The opportunity to work informally is appreciated, as the informal process certainly creates better communication between the agencies. In working together, we have been able to clarify several of HCFA's concerns regarding the plan. However, one issue remains unresolved at this time. The issue involves whether dependents of employees of the State of South Dakota are eligible for CHIP-NM.

The State of South Dakota, as an employer, provides health insurance coverage for its members through the use of self-insurance provisions. In its methods the State provides coverage for its employees at no cost - 100% employer paid. For dependents of employees, the State establishes the cost (premiums) based on the open market concept - (what the open market will support). Once this dependent premium is established it is the responsibility of the employee to fully pay the premium - 100% employee paid.

The State acknowledges that it is an insurance company, and as such must offer a competitive product at an affordable price. As an insurance company the state must recognize the cost of health care being offered in the open market in order to maintain a viable and workable group. If not, the group will lose the healthy population and be left with only the high cost health care users.

Therefore it is important to note that in establishing the dependent premiums in a self-insured plan, the State cannot always use the full claim expenditure history to determine the dependent premium. This methodology is no different than that used by private open market health care providers when they are competing for business.

However, HCFA has informally determined and advised us that dependents of state employees will not be eligible, because the State of South Dakota has a self-insured plan for its employees and because it may cover a portion of any losses in its calculation of the dependent's premium.

We do not agree with this determination. South Dakota feels that the federal regulation is vague as to what the term "contribution of coverage" means, but we do not believe it to mean that governmental self-insured plans must be exempted. If the State of South Dakota had purchased a private group health plan, the issue of covering losses, or the setting of premiums at the open-market rate would not even be questioned.

Clearly, once the premium is set, there is no contribution to the employee by the employer for the direct cost of the premium in the South Dakota State Employees Plan.

We respectfully request HCFA to reconsider their determination regarding this provision and we ask that you grant approval of our plan to allow enrollment of uninsured children in South Dakota, regardless of who employs their parents.

Again, thank you for the opportunity to work informally to resolve this matter. We are hopeful this issue may be resolved quickly.

Sincerely,

Damian L. Prunty, Administrator
Office of Medical Services

Cc: Sharon Sonnenschein
Assistance Division Director

Janet Lehmkuhl, Administrator
Office of Economic Assistance