AVERDE HEALTH, INC.

WRITTEN COMMENTS TO THE CONSUMER OPERATED AND ORIENTED PLAN (CO-OP) ADVISORY BOARD

April 15, 2011

Thank you for the work that you and your colleagues are putting into getting CO-OPs off the ground and making sure that they have the best possible chance of being built-to-last and competing effectively against the big insurers.

We are not a CO-OP, but rather a three-year old healthplan that currently serves the large employer, self-insured market. We are very interested in partnering with CO-OPs to deliver efficient, high-quality coverage to fully-insured individuals and small groups.

As we've participated in the formal CO-OP discussions and have held our own conversations with several aspiring CO-OPs, we have registered the following risks:

- Likely addressable market – it is difficult for most individual CO-OPs to have a large addressable market; most are focused on a particular population segment and/or geography
- Network/Service Infrastructure – many potential CO-OPs are having and will likely continue to have a difficult time establishing broad networks with competitive discounts and efficient operating infrastructure at all, and certainly in the near future
- Timing – the elements that need to be completed in order to launch are many, and currently are arranged largely in series. That is, each CO-OP applicant will need to pull together many elements – but each only after the preceding step has been completed. With a long list and 2014 looming, it will be difficult to have robust CO-OPs in place in many markets in time

The combinations of each of these items in a single CO-OP – marketing, operations, network discounts, state licensing approvals – and all in a row within a very short development window – increases the potential failure rate of each CO-OP. That is, any slip on any one element can seriously damage the likely success of the entire CO-OP.

We would like to propose the following for your consideration: break apart the risk into its component elements, and address each separately. In practical terms, this would mean allocating development funds in two parallel streams that come together to deliver competitive product faster and with less execution risk. For example:

A: Direct CO-OP Development Fund – Membership and insurance risk management

1) Most of the aspiring CO-OPs seem to be rooted in a team of consumer-oriented organizers who are experienced in growing membership organically. Given a competitive product cost, they could be well-positioned to grow effectively. They could focus their efforts on building the business plan and determining how to grow the CO-OP once established
2) CO-OPs that so choose may elect to leverage existing outside support for network development and many operating considerations. Only the CO-OP itself can apply for a state license and to HHS for funds to support the capital requirements. This time-consuming process does require the precursor steps regarding network and service infrastructure to be completed beforehand, but could have been accomplished by parallel development by the entity below.

B: Network/Service Infrastructure Development Fund

A Network/Service Infrastructure entity (N/SI) could develop in parallel with multiple CO-OPs within one market or across a large number of markets to significantly shorten the time-to-market. This would allow CO-OPs to:

- Get competitive unit cost quickly in a large number of markets
- Efficiently experiment over time with multiple product and network constructs as the market continues to evolve towards new provider models
- Comply with PPACA's requirement to exclude existing insurers from receiving funding

In practical terms, this could mean that HHS allocate development loans directly to N/SI entities that develop defined geographic markets that are then made available to any CO-OP approved by HHS in that geography. This could work as follows:

1) Development funds are made available for N/SI in targeted geographic markets *before* qualified CO-OPs have completed the selection process
2) Development loan repayment
    - Loans are granted to the N/SI and then assumed by participating CO-OPs once approved by HHS, OR
    - Loan amounts remain N/SI responsibility over life of loan. This decreases the development funding required by the CO-OP itself and further encourages the N/SI to help more aspiring CO-OPs get to market

Parallel development could significantly decrease the time-to-market while also cost-effectively increasing variation in types of CO-OP models entering the market. All together, this decreases overall execution risk for both individual CO-OPs and the CO-OP program as well.

If this or similar roles were made possible, Averde Health would stand ready to participate. We have integrated operating infrastructure in place today. We also have spent three years getting hospital master agreements signed, and today they cover systems in 41 states. Our networks are broad, and we have discounts and terms that compare favorably with the big insurers and are far better than those of the rental networks. Our networks are fully launched in 6 markets, and 22 more are in various stages of development right now. With development funds, we could aggressively leverage our master agreements and to serve even more markets even more quickly. And we are not and never have been a competing insurance company, so we have every incentive to see CO-OPs succeed.

We believe that CO-OPs do not have to be niche players; they can help re-shape the market to make it better serve consumers and their health needs. Aggressive growth is possible, and we look forward to trying to help in whatever way we can.

Thank you,

Tom Policelli
CEO, Averde Health
tom@averdehealth.com
860.270.0255