

# **WISCONSIN'S PRIVATE EMPLOYER HEALTH CARE COVERAGE PROGRAM**

## **A Report to the Legislature Describing Status of the Program**

### **REPORT OVERVIEW**

This report is submitted to comply with the legislative reporting requirement under s. 40.98(7)(a), Wis. Stats. This provision requires the Private Employer Health Care Coverage Board to annually, on or before December 31:

*Submit a report to the appropriate standing committees under s. 13.172(3) and to the governor on the operation of the health care coverage program. The report shall specify the number of employers and employees participating in the health care coverage program, calculate the costs of the health care coverage program to employers and their employees and include recommendations for improving the health care coverage program.*

This report summarizes board, program and legislative activities for calendar year 2001 and discusses the future of the Private Employer Health Care Coverage Program (PEHCCP). There is no insurance in force yet, so this report does not detail the number of employers, employees or estimated costs.

### **BOARD ACTIVITIES**

The Private Employer Health Care Coverage Board met in May and September of 2001. Minutes of the Board's meetings are available at <http://www.state.wi.us/agencies/etf/> (click "About Us" and select "Private Employer Health Care Coverage Program") or may be requested from Gina Fischer, Board Coordinator, 608-266-1652 or [gina.fischer@etf.state.wi.us](mailto:gina.fischer@etf.state.wi.us).

### **PROGRAM ACTIVITIES**

At the end of 2000, the Department of Employee Trust Funds submitted recommendations to the Legislature for statutory changes to give the program its greatest opportunity to succeed. In 2001, the staff of the Office of Private Employer Health Care Coverage focused primarily on providing consultative and technical assistance to legislators, legislative staff, state agencies and other interested parties in support of the program's policy recommendations (as discussed further under "Legislative Activities," below). Staff gave invited presentations around the state before audiences of farmers, small business owners, insurance agents, health care providers, health plan representatives, and others, increasing awareness of the dynamics of the small employer health insurance market and the challenges facing the PEHCCP.

In September 2000, the Wisconsin Department of Health and Family Services was awarded a \$1.3 million State Planning Grant (SPG) by the U.S. Department of Health and Human Services, Health Resources Services Administration. Research projects funded by the SPG have addressed a broad range of questions regarding the uninsured in Wisconsin. Two SPG-funded projects gathered information intended for use in the design and development of the PEHCCP:

- A telephone survey gauging health plan executive attitudes about two important requirements of the original program statute; and
- A written survey of health plans regarding underwriting and rating practices for small employers (with 2-50 employees).

Results of either project may be requested from A.B. Orlik, Program Manager, 608-261-0140 or [ab.orlik@etf.state.wi.us](mailto:ab.orlik@etf.state.wi.us).

### **LEGISLATIVE ACTIVITIES**

The majority of the Department's recommendations, including the following program-specific statutory provisions, were enacted as part of the 2001-2003 state budget (2001 WI Act 16), effective September 1, 2001.

- Health plan contracting responsibility shifted from the administrator to ETF.
- ETF authorized to subcontract both marketing and maintenance of a toll-free number through the administrator.
- ETF authorized to promulgate rules for administration of the program, with PEHCCP Board approval.
- PEHCCP Board directed to publish the new business premium rates for participating small employers each year.
- "Eligible employee" specified as a person who works on a permanent basis more than 30 hours a week, including a sole proprietor, a business owner, owner of a farm business, a partner of a partnership and a member of a limited liability company.
- Clarification: An employer may offer coverage to part-time employees, *to the extent authorized by participating insurer(s)*.
- Clarification: Employers must contribute a minimum of 50% of the lowest *single* coverage rate for that employee.
- Clarification: Agents must be "listed" with each health plan offering coverage and authorizes the Board to establish additional agent training requirements.
- ETF and the PEHCCP Board charged with determining the extent to which the program will guarantee coverage beyond requirements of the outside market.

The following market-wide statutory provision was also enacted. Once effective, this requirement will apply to all small business health insurance rates.

- "Occupation" subject to rate band, currently set at 30%. (Wisconsin law did not previously limit rate variation for this factor.)

The 2001-2003 budget also includes an appropriation of \$211,100 general purpose revenue (GPR) in the first year of the biennium for salaries, fringe benefits and associated supplies and services for the current 2.5 full-time positions in the Office of Private Employer Health Care Coverage. No additional program funding is provided.

### **PROGRAM FUTURE**

Implementation of this program cannot proceed without a source of funding for actuarial, legal, and marketing services. Further, it is highly unlikely that a qualified bidder to conduct the program's administrative functions could be attracted absent some assurance that funds are available to cover these start-up costs.

Legislation currently under consideration in the form of SB 81 and AB 543 would provide an \$850,000 loan of general purpose revenue (GPR) to the program, to be repaid through fees charged to participating employers. The same legislation proposes a tightening of Wisconsin's "rate band," which applies to all health insurance sold to small businesses in the state, although the rate band in SB 81 would be compressed

to 10%, while AB 543 would compress the band to 15%. SB 81 passed the Senate and is in the Assembly Committee on Health. AB 543 was recommended by the Assembly Committee on Small Business and Consumer Affairs, but has not yet been scheduled for a vote by the full Assembly.

The rate band limits how much a health insurer can vary rates for a particular small employer based on health status (determined by medical underwriting) and claims experience. Wisconsin's rate band currently requires that rates for groups with *identical* demographics and plan design not vary more than +/- 30% from a midpoint rate. The "midpoint" rate is precisely that, the premium rate half-way between the highest and lowest rates charged by that insurer for that policy to a group with identical case characteristics. It is *not* an average rate. In fact, most insurers rate standard-risk groups near the bottom of the premium range to allow maximum flexibility in rating higher-risk groups.

Tightening of the State's rate band is crucial to the implementation of a successful purchasing pool as envisioned by supporters of the original PEHCCP legislation. Under current law, the pool has only two options:

- It could attempt to mimic health plan underwriting practices, requiring employees to submit medical questionnaires and setting rates for each small employer within the 30% rate band. Unfortunately, this is an expensive process and it is unlikely that health plans would participate on these terms. Without health plans, there would be no coverage for the pool to offer.
- Alternatively, the pool could set premium rates *without* regard for the health status of any particular group. This would greatly simplify administration, but high-risk groups would almost certainly find better rates *inside* the pool (where their high-risk status was not taken into account) and low-risk groups would find better rates *outside* the pool. This potential for adverse selection would almost guarantee that health insurers would not participate, and that premium rates would be so high that, even were health plans to participate, few employers, if any, could afford to offer the coverage and/or employees to pay their share of premium.

With a tighter rate band in the overall market, the PEHCCP would face less adverse selection if it were to ignore health status when setting rates. The administrative savings could be passed on to participating employers and employees, resulting in more competitive premiums when compared with the market.

Alternatives to this fully-insured, employee-choice model may also be considered.

Submitted by the

Private Employer Health Care Coverage Board  
and the  
Office of Private Employer Health Care Coverage  
Division of Insurance Services  
Department of Employee Trust Funds

December 31, 2001