



STATE OF WISCONSIN

Department of Employee Trust Funds

Eric O. Stanchfield
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December 28, 2000

Honorable Brian Burke
Senate Chair
Joint Committee on Finance
316 South, State Capitol
Madison, WI 53702

Honorable John Gard
Assembly Chair
Joint Committee on Finance
315 North, State Capitol
Madison, WI 53702

Dear Senator Burke and Representative Gard:

As required by s. 40.98(2)(a)2., Wis. Stats., the Department of Employee Trust Funds (Department) submits this report specifying the Department's reasons for not entering into a contract for administration of the Private Employer Health Care Coverage Program (Program) before January 1, 2001. Since we were not able to obtain the services of a qualified vendor, coverage will not be available through the Program by the effective date set by the Legislature.

The Department's Office of Private Employer Health Care Coverage (Office), as required by 1999 Wisconsin Act 9, initiated a procurement process to select a vendor of administrative services for the Program. The deadline for submission of proposals in response to the Office's Request for Proposals (RFP# ETA0006) has passed, and, contrary to expectations, no proposals were received.

Given the importance of the contemplated services to the success of the Program, careful attention was paid to developing the RFP. Office staff consulted with the Institute for Health Policy Solutions (IHPS), a Washington DC-based non-profit organization with particular interest and expertise in employee-choice health purchasing arrangements, to ensure that the criteria by which proposals would be evaluated were consistent with successful efforts in other states. The Office of the Commissioner of Insurance and Department of Health and Family Services were also consulted.

The Office hosted a procurement briefing in advance of releasing the RFP, to provide background about the procurement and solicit input about the process. A draft of the RFP was circulated to interested administrative vendors for comment before its final release on November 13, 2000.

Since the proposal submission deadline, Program staff have solicited feedback from potential administrators to identify barriers to their participation. The enclosed "Potential Vendor Feedback Regarding RFP# ETA0006" provides detailed comments from potential vendors. To summarize, their primary concerns include:

Health Plan Contracting: According to s. 40.98 (2) (a) 3., Wis. Stats., the administrator is required to contract with health plans to offer coverage under the program. Vendors expressed reservations about committing resources without a better understanding of health plan interest. In one vendor's words, "All of the cost and all of the risk of getting the program up and running [is placed] on the administrator." Another vendor opined, "The State would be in the best negotiating position since [Wisconsin health insurers] currently insure State employees."

Funding and Commitment: Several vendors questioned the State's commitment to the program, indicating that existing appropriations and position authorizations greatly underestimate the resources necessary to launch such a program statewide. According to one vendor, "The program is under-funded and has strong performance expectations from the Legislature. We [are] fearful that we would spend a lot of time, effort and money and either not get health plan buy in or not get continued funding."

Underlying Market Dynamics: Similar employee-choice programs have been successful in states with considerably tighter restrictions on the rates health insurers may charge small

businesses. Wisconsin's broader "rate bands" complicate the administration of such a program. "It seems you've got a conflicting situation," said one potential administrator. "On the one hand [the Legislature wants] an employee-choice program, but on the other hand, there's such a wide corridor of acceptable rating, that makes it very, very difficult for health plans/carriers to be comfortable and therefore difficult for an administrator to be able to bring health plans in..."

Vendor feedback will be used to determine how to restructure the RFP to obtain the services of a qualified administrative vendor, if possible. Specifically, can the RFP or Program expectations be modified sufficiently within current statutory requirements to encourage competitive proposals? Or will it be necessary to submit to the Legislature a request for additional funding for the administrator and/or proposed statutory changes to the Program's underlying design? The Department will carefully evaluate how to proceed in developing an actuarially sound program with coverage available as soon as possible.

Please contact Phillip Borden, Director of the Office of Private Employer Health Care Coverage, if you would like additional information about the Private Employer Health Care Coverage Program.

Sincerely,

Eric O. Stanchfield
Secretary, Department of Employee Trust Funds

EOS:abo

Enclosures

cc: Private Employer Health Care Coverage Board