STATE OF WISCONSIN

Department of Employee Trust Funds

Eric O. Stanchfield
Secretary
801 West Badger Road
P.O. Box 7931
Madison, WI 53707-7931

December 29, 2000

TO: Legislative Leadership

Sen. Fred Risser, President of the Senate, 220 South
Sen. Charles Chvala, Senate Majority Leader, 211 South
Sen. Rodney Moen, Assistant Majority Leader, 8 South
Sen. Mary Panzer, Minority Leader, 202 South
Sen. Margaret Farrow, Assistant Minority Leader, 106 South

Rep. Scott Jensen, Speaker of the Assembly, 211 West
Rep. Steven Foti, Assembly Majority Leader, 215 West
Rep. Bonnie Ladwig, Assistant Majority Leader, 113 West
Rep. Shirley Krug, Minority Leader, 201 West
Rep. Spencer Black, Assistant Minority Leader, 219 North

RE: Private Employer Health Care Coverage Program

We are writing to bring to your attention some serious problems that may jeopardize the future of the Private Employer Health Care Coverage Program, and to seek your help and guidance in resolving those problems. The provisions in 1999 Wisconsin Act 9 that created the program set January 1, 2001 as the expected start date of this program. Despite diligent efforts on the part of the Department, that start date will not be met.

There are several issues that need immediate attention if this program is to survive. Foremost among these is the anticipated shortfall of adequate funding for program staff and operations. 1999 Wisconsin Act 9 allocated only $200,000 for operations and granted the Department authority to collect fees from the premiums of participants to fund ongoing operations. Because the program is not operational and no premiums are being collected, there are no funds to supplement the original appropriation. Without additional funding, the Department will have to suspend operation of the Office of Private Employer Health Care Coverage before the end of the current fiscal year.

As required by the Act, the Department developed and released a comprehensive Request for Proposals (RFP) to secure a vendor to provide administrative services for the program. There were no responses to the RFP. We contacted several vendors who had earlier indicated an interest in the program and asked why they declined to bid. (Vendor comments are detailed in an attachment to this letter.) Most frequently, their replies cited the following key problem areas:

- Concerns that the administrator, rather than the State, is required to secure and hold the contracts with participating health plans.
- Concerns about inadequate funding available to the administrator to cover the costs of program start-up and initial marketing.
- Concerns over certain program requirements that may limit any likelihood for program success.

Consistent with the original vision of the law, we had hoped that we could develop a program that would be operated and administered predominantly by the private sector with only minimal oversight and involvement by the State. It now appears that, to get the program up and running, the State must play a much larger role, at least initially.

If the Legislature does not wish to repeal this law, we feel that it is necessary to take immediate action to make adequate funding available and enact some adjustments to the program requirements.

The Department will need its current appropriation supplemented by $141,600 GPR in fiscal year 2001 to enable it to:

- Continue current program operations through the end of the fiscal year and fill the remaining position authorized in 1999 Wisconsin Act 9, to handle information requests and staff the toll-free telephone line required in the Act ($41,600).
- Secure actuarial and legal assistance in developing and negotiating contracts with insurers in the State to provide coverage under the program ($50,000 for contracted actuarial services and $50,000 for contracted legal services).

To assure that adequate funding is available for implementation and initial operations of the program, the Department recommends that program funding of $285,000 GPR be provided in the first year of the upcoming biennium. Once operational, the program is intended to be funded through fees paid by participants.

We also recommend that:

- Statutory changes be enacted to specify that the Department will initially secure and hold the contracts with the health insurers, thereby relieving one of the key concerns of the prospective administrators and increasing the likelihood of a successful bid process.
- Additional funds of $315,000 GPR be made available to supplement the $200,000 grant provided in Act 9 for the purposes of marketing the program.
- The Private Employer Health Care Coverage Board be given greater authority to determine key program requirements in order to respond to health insurance market dynamics and health plan negotiations.

We have detailed the budget requirements in an attachment to this letter.

Finally, we recommend that the Legislature consider more fundamental changes that would increase the likelihood of success of this program. The small employer health insurance market has become very volatile of late, with several insurers either leaving the market or drastically increasing their premium rates to their current customers. As a way of mitigating this, the State could agree to continue funding the administrative costs of this program, including all marketing and advertising, the costs of the administrator and the Department, and the cost of agent commissions. These costs typically represent between 10% to 20% of the premium costs, and represent a significant part of the difference in the costs paid by small employers versus the cost of insurance to large employers who frequently self-insure their employees. Alternatively, the State could establish a reinsurance program for insurers who participate in the program to relieve their concerns about adverse selection. The portion of premium allocated to risk charges for the small group market is much higher than for comparable coverage for large groups, primarily because of the uncertainty and volatility of the participant base. These two approaches could be combined to provide even greater likelihood of this program's success. We would be happy to talk with you further if you have any interest in these strategies.

Thank you for the opportunity to present these issues and to ask for your help. The Department remains committed to the success of this program and will continue to devote our best efforts to carry out the intent of the Legislature. We would be happy to meet with you if you have any questions and to work with you to secure passage of the requested legislation.

Sincerely,

Eric O. Stanchfield, Secretary

Enclosures
Administrative and Marketing Costs for the Private Employer Health Care Coverage Program
Potential Vendor Feedback Regarding RFP# ETA0006
A Report to the Legislature Describing Status of the Program

cc: Senator Roger Breske
Representative Lorraine Seratti
Representative Marc Duff
Private Employer Health Care Coverage Board

ADMINISTRATIVE AND MARKETING COSTS
for the
Private Employer Health Care Coverage Program

Program Costs	**FY01** (to 6/30/01)	**FY02**
Current staff salary and fringe		155,200
Program Assistant 2* salary and fringe	10,300	30,800
PA 2 supplies and services	300	1,200
PA 2 workspace and personal computer	8,100	0
Board expenses	2,600	6,600
Non-PEHCCP staff time	20,000	20,000
Legal consulting services	50,000	5,000
Actuarial consulting services	50,000	25,000
Rent		13,100
Messenger service		1,100
Supplies and services		26,400
Toll-free telephone charges and usage	300	600
Marketing (includes promotion material development, printing, postage, TV and radio ads and Internet development)		315,000
TOTAL	**141,600**	**600,000**

* Authorized under Act 9; will hire for four months in FY01.

POTENTIAL VENDOR FEEDBACK
REGARDING RFP# ETA0006

Administration and Marketing of the
Private Employer Health Care Purchasing Alliance
December 2000

Contrary to expectations, the Department received no proposals in response to RFP# ETA0006. Since the proposal deadline, staff have contacted vendors from whom the Department had expected to receive proposals or who had expressed interest in the procurement process at some point. Each vendor was asked to identify barriers to their participation. Their responses are presented much as they were conveyed to staff.

Vendor A

“The main reason was having to negotiate with the respective carriers for each county(s). As a TPA we would have no negotiating power to bring these carriers to the table. It was our thought that the State would be in the best negotiating position since these carriers currently insure State employees. Honestly, it was not worth our time to start from the ground up.”

In an earlier telephone conversation, Vendor A wondered why carriers already participating in the State employees’ program wouldn’t be required to participate in the PEHCCP.

“Also, the RFP called for the TPA to be responsible for underwriting. I think that the carriers would retain that responsibility.

“Lastly, the timing of what you were trying to get done was very aggressive, especially at calendar year end, that is our busiest time of the year.”

Vendor B

“The concern we had with the RFP was that it placed all of the cost and all of the risk of getting the program up and running on the administrator. In addition, the program is under funded and has strong performance expectations from the legislature. We were 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. In short, the risk was just too great.”

In two telephone conversations, representatives of Vendor B indicated: (1) Part of their reluctance is due to the timing: Have taken on a lot of new business recently and are focusing on serving those customers well. (2) They are also concerned about the considerable responsibility placed on the administrator for "gathering health plans.” Didn’t get a good sense from the RFP of health plan interest. Anticipate health plan contracting tasks would require placing a full-time staff person in Wisconsin. No provision to pay for that person until/unless the program is successful. Would help if administrator were paid up front for those costs. (3) Concerned about funding in general: Not enough for Department staff, let alone to cover marketing, broker relations, etc. “A couple million” dollars would be more realistic. (Spent almost $2 million in New York City and $11 million in Florida.) Suggested modifying contract so financial risk to the administrator is limited: The State should either pay up-front health plan contracting costs directly or “get it up and running” and sent out an RFP just for traditional administrative services.

Vendor C

In a telephone conversation, Vendor C identified three main reasons for not submitting a proposal: (1) Looked like California vendors seemed well-positioned: understood the market, benefits and risks, and seemed interested (sent representatives all the way here for the procurement briefing). (2) Contract term is too short to amortize up-front costs (mentioned 10 years as reasonable). Would need longer contract or reimbursement for implementation costs. (3) Turn-around for submitting proposals was too short. If re-issued, put bidder's conference back in, so vendors can get quick verbal answers to questions to facilitate speedy response. Busy time of year, too.

Vendor D

Transcribed voicemail message from Vendor D:

"We took two steps in the direction that we were considering it, looked at the RFP, and it really doesn't fit into our long-range strategic plan to pursue it at this point."

Vendor E

In a telephone conversation, Vendor E relayed the corporate office's position: They don't want to expend resources in that direction right now. They know from experience it takes five years to get a project like this up and running, that any growth projections at this point are "sheer guess," that short-term (start-up) spending is risky, and there's a mismatch between expenditures by month and income by month. In a follow-up call, Vendor E relayed the corporate office's concern about what they interpreted as a "completeness bond," holding the administrator at risk for program success. [Author's note: The performance bond required by the RFP is to secure contractor performance of specific tasks, not to ensure success of the program. This should be clarified in a future RFP.] Vendor E also shared that various internal issues made the financial risks associated with this project unattractive.

Vendor F

Transcribed voicemail message from Vendor F:

"I don't want to minimize the genuineness of the fact that we have lots of work on our plates. But we will take on other projects when we think they have a stronger likelihood of success than the projects we've already prioritized. With your +/- 30 % [rate bands], we do not think that creates a conducive environment for an employee-choice program. It opens up huge selection issues. Frankly, we think this would be a stumbling block to get health plans/carriers to want to play.

"Is the legislature looking at small group underwriting reform? It seems you've got a conflicting situation: On the one hand, they want 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 and to run the program once it's up and going, on a profitable basis.

"I also don't see clearly how we would get paid. We have invested literally millions in building our program and it would cost a fair amount of money to adapt our program. And frankly, for us to make that effort, we would want to be compensated for the investment we've made in systems. I don't see how, as an outside vendor, we'd be compensated for our time in building a program—we'd be compensated if the program proved to be

successful, but I didn't see any guarantee that if it were successful that we'd be able to get our money back in subsequent years and not have another administrator walk in.

"For us to work on an outside program, we need to know that it would have a good chance of success, in a positive environment, that we'd be compensated whether it worked or not, otherwise, how can we make a business decision to do otherwise?"