



STATE OF WISCONSIN

Department of Employee Trust Funds

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PROGRESS REPORT Office of Private Employer Health Care Coverage

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Third Quarter 2001 Highlights

- PEHCCP Future in Governor McCallum's Hands
- Conference Committee Package, In Brief
- Rationale for Tighter Rate Band

PEHCCP Future in Governor McCallum's Hands

As many of you know, the Office of Private Employer Health Care Coverage has been working closely with legislative leaders of both parties in both houses to incorporate into the 2001-2003 state budget both statutory changes and sufficient funding to maximize the Program's chances of success. Senate and Assembly budget proposals put forward in the last few weeks included provisions to support the Program.

On Friday, July 6, the budget conference committee adopted a funding and policy package regarding the Program. After consideration by the full Legislature (once the conference committee has addressed all remaining issues), the proposal will reach Governor McCallum's desk. This update outlines the conference committee package and provides detailed rationale for one critical item that may be challenged, especially by the insurance industry. The conference committee package, in its entirety, represents the Program's best opportunity to become operational.

Conference Committee Package, In Brief

The budget conference committee adopted the following provisions:

- Funding of \$211,100 general purpose revenue in fiscal year 2001-02 for staff salaries, fringes and supplies.
- Provision of an interest-free loan of \$850,000 from the State Life Insurance Fund to be repaid through a percent of premium charged to participating employers.
- All recommended changes to the Program's statutes contained in SB81 (see Progress Report dated March 19, 2001, for details).
- Authority for the Department of Employee Trust Funds, with approval of the Private Employer Health Care Coverage Board, to promulgate administrative rules regarding administration of the program and to determine to what extent and at what point in its development the Program guarantees coverage beyond requirements in the outside market.

- Alignment of definitions of “employee” and “employer” within the Program with definitions of “eligible employee” and “small employer” in the outside market. Modification of the definition of “small employer” in the outside market to reference the definition of “eligible employee.”
- Tightening to 10% the rate band for health status, claims experience and duration of coverage and inclusion of occupation within this rate band.

All of the Office’s recommendations were designed to align practices within the Program as closely as possible with those in the outside market while achieving the objectives of the Program’s supporters. It is highly unlikely that the Program can be launched successfully without passage of this complete package.

Rationale for Tighter Rate Band

It is likely that the conference committee’s position on small employer rate regulation is the most controversial aspect of their proposal. The arguments for tightening Wisconsin’s 30% rate band fall into two categories: Program-specific and market-wide.

Program-Specific Argument

The prospect of different rating practices inside and outside the Program has been identified as a significant barrier to insurer participation. Health insurers are not required to offer coverage under the Program, but their participation is a prerequisite to Program operation. To align rating practices within the Program with current market conditions (including the 30% rate band), the Program must develop a medical underwriting and rating methodology to adjust rates based on the health status of each employer group applying for coverage and reach agreement with each prospective health insurer regarding this process. If Wisconsin’s rate band is tightened to 10% and extended to include occupation, it is possible that the Program could offer rates without regard to health status, thus simplifying administration (no health questionnaires), reducing costs, and encouraging greater health insurer participation.

Market-Wide Rationale

Currently, health insurers face *no* restriction on the ways in which they vary rates charged to small employers based on the age, sex, geographic location and occupation of their workforce. The 30% rate band applies *only* to health status (gauged by medical underwriting), claims experience and how long the employer has been with that particular insurer. This limited regulation means Wisconsin’s small employers face more rate variation based on the health of their workers than those in 36 other states do. Tightening Wisconsin’s rate band and including occupation in the rate band will encourage insurers to compete based on how well they *manage* risk (take care of sicker people) rather than *avoid* risk (by increasing their rates). This approach is better for the State’s overall health and will stabilize the small employer health insurance market.

Contacts for Further Information

Please feel free to contact the program staff identified at the top of this update with questions or requests for additional information.

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