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CORRESPONDENCE MEMORANDUM

DATE: September 28, 2013
TO: Group Insurance Board
FROM: Shayna Gobel, Manager Self-Insured Health Plans
Mary Statz, Director, Health Benefits and Insurance Plans Bureau
SUBJECT: Wisconsin Public Employer Standard Plans Changes

This memo is for informational purposes only. No Board action is required.

At the request of a member of the Group Insurance Board (Board) at the August 27 Board meeting, staff have reviewed the requirements to offer the Wisconsin Public Employer (WPE) Standard Plans (Standard Plan and Medicare Plus).

Background

The WPE Group Health Insurance Program was established pursuant to Wis. Stat. § 40.51 (7) in 1987 and offered insurance plans that were based on the state program. The program is optional for Wisconsin public employers that have filed a resolution to participate. Among the plans offered are the Standard Plans, which are self-insured plans administered by WPS Health Insurance (WPS). When retired Standard Plan members become eligible for Medicare, their enrollment in the Standard Plan is transferred to the Medicare Plus plan. These two Standard Plans have been administered by WPS since 2006.

ETF Administrative Code 40.10 (2)(d) sets WPE contribution toward health insurance premiums between 50% and 105% of the lowest-cost qualified plan in the employer's county. This contribution arrangement is loosely based on former Wis. Stat. § 40.05 (4)(ag) 2., which set the state's premium contribution for its employees at the lesser of 90% of the Standard Plan premium or 105% of the least costly qualifying plan within the county.

Reviewed and approved by Lisa Ellinger, Administrator, Division of Insurance Services

Electronically Signed 10/29/13

Board	Mtg Date	Item #
GIB	11.12.13	4C

Enrollment in the WPE Standard Plans is comparatively very low. As of January 2013, there were 39,569 WPE members. Of those members, 278 (0.7%) were enrolled in either the Standard Plan or Medicare Plus. The current low enrollment is the result of years of continuous cycles of higher employee cost and subsequent declining enrollment, caused by the 105% formula used by most employers. This "spiral" also existed with the State program until the 105% formula was eliminated in 2004--after that, the differential between the Standard Plans and alternate plans was reduced in areas of the state.

Discussion

Statutory Requirements

Historically, the WPE Group Health Insurance Program has been governed by the same guidelines as the State program. The Standard Plan is required under Wis. Stat. §40.52 (1) to provide coverage for all insured employees except as otherwise provided under Chapter 40.

The WPE Program must offer at least two insured or uninsured health care coverage plans as approved by the Board. The Board, in conjunction with the Department of Employee Trust Funds, has the authority by rule to establish eligibility standards and contribution requirements that differ from the State insurance options under Wis. Stat. § 40.51 (7). However, this does not appear to allow the Board authority to eliminate the Standard Plan.

Employer Contribution toward Premiums

The Standard Plans continue to be subject to the effects of adverse selection. The Standard Plans generally attract higher utilizers of care who want freedom of choice when selecting a provider. As claim costs have increased (due to higher utilization and providers who are not cost-efficient), members who use fewer services have switched to lower-cost alternative plans. This has resulted in the current cost spiral.

ETF contacted 20 participating employers with high group insurance enrollment about the formulas they use to determine the employee contribution for health insurance. Most employers pay approximately 88% of the lowest-cost plan available and employees pay the rest. Employers are only required to pay an amount not more than 88% of the average premium cost of qualified plans, as per Wis. Stat. §40.51 (7). The Standard Plan is considerably more expensive than the low-cost plans, making the Standard Plan unattractive to many members who do not require expensive medical services.

Member Displacement

The Standard Plans allow members the flexibility to use providers and hospitals nationwide. Of the 278 WPE Standard Plan members, there are currently 53 annuitants or surviving dependents that reside outside of Wisconsin. Without an alternative, these subscribers would be displaced by the elimination of the Standard Plan. However, two

of the alternate plans currently offer limited nationwide coverage:

1. WEA Trust offers a Preferred Provider Organization (PPO) plan with coverage for non-network providers nationwide at a lesser reimbursement rate of 70%, with a deductible of \$1,000 single/\$2,000 family.
2. Humana offers a non-Medicare plan with a nationwide provider network, but requires that the member's Primary Care Physician (PCP) be located in Wisconsin. It also offers a Medicare Advantage PPO plan with significant out-of-state coverage. Therefore, this plan would be feasible for Medicare Plus members, but not for any non-Medicare members living out-of-state. This is the only alternate plan to offer a nationwide Medicare PPO plan.

In addition:

- All alternate plans offer nationwide emergency or urgent care services only;
- There are no PCPs available outside of the Wisconsin network for most plans;
- The alternate health plans are not required to offer a nationwide network;
- WEA Trust and Humana can remove or reduce their nationwide provider networks at will; and
- Eliminating the Standard Plans may cause displacement if members depend on the Standard Plans for coverage while traveling overseas, relocating to warmer climates during the winter, or seeing an out-of-state provider for specialized treatment.

WPE Survey

We surveyed employers that participate in the WPE Group Health Insurance Program and currently have subscribers in either the Standard Plan or the Medicare Plus plan. They were asked for feedback regarding changes to the Standard Plans. Of the 29 employers contacted, 19 responded to the survey.

Approximately 26% of employers that responded oppose the elimination of the Standard Plans. The most frequent concern expressed was in regard to out-of-state annuitants on Medicare Plus and Standard Plan subscribers that require specialized care out-of-state. Approximately 72% of employers that responded placed at least some importance on subscriber access to non-emergency in-network coverage nationwide.

In addition, approximately 16% of employers that responded support the elimination of the Standard Plans. Of the employers who expressed support for significant change to or the elimination of the Standard Plans, most supported the elimination if it were to save money for employees overall. See Attachment A for a summary of the responses.

Alternatives

If enrollment in the WPE Standard Plans continues to decrease, the plans may become unsustainable. The following are potential alternatives to the current administration of the Standard Plans to address this concern.

- **Change Employer Contribution**

A change to Wis. Stat. § 40.51 (7) is necessary for this alternative. Increasing the threshold for employer contribution for the WPE Standard Plan may help stabilize the claims experience of the plan. Most employers are paying approximately 88% of the lowest-cost available plan to calculate contributions, and are only required to pay no more than 88% of the average of the qualified tier 1 plans. By increasing employer contribution, employee contribution is lowered and the Standard Plan may be able to attract more members to balance out the high-cost claims.

- **Eliminate the WPE Standard Plans**

A change to Wis. Stat. § 40.52 is necessary for this alternative. Eliminating the WPE Standard Plans entirely would force current subscribers to choose another plan. Current subscribers could choose WEA Trust or Humana in place of the Standard Plans for limited out-of-state benefits.

- **Require Out-of-Area Coverage**

A change to the Guidelines contract is necessary for this alternative. Employers expressed concern over the elimination of the Standard Plans, especially for members living out-of-state. An alternative to eliminating the Standard Plans would be to require all plans to offer out-of-area or nationwide coverage to accommodate members living out-of-state or requiring specialized care out-of-network. This may increase costs, as plans would be required to contract with out-of-state providers who may be less cost effective from their current provider network.

- **Apply Plan Stabilization Contribution**

No statutory or contractual change is necessary for this alternative. The Standard Plan's Plan Stabilization Contribution (PSC) was used with success in the 1990's to stabilize reserves and maintain average premium rate increases. The PSC could again be considered for a reserve subsidy to curtail the price spiral and minimize continued adverse selection.

Conclusion

The Standard Plans and the 88% formula are required by state statute. Without some action, which may include statutory changes, the Standard Plans will likely continue to experience premium increases as they are subject to adverse selection. Employers are concerned about members who receive health care outside of Wisconsin, and want that out-of-state coverage to continue either through the Standard Plans or through an alternative insurance option.

Staff will be at the Board meeting to answer any questions.