



STATE OF WISCONSIN

Department of Employee Trust Funds

Eric O. Stanchfi

Secretary

801 West Badger Rd

P.O. Box 75

Madison, WI 53707-75

March 28, 2003

Honorable James Doyle
Governor
115 East, State Capitol
Madison, WI 53702

Honorable Alan Lasee
President of the Senate
219 South, State Capitol
Madison, WI 53702

Honorable John Gard
Speaker of the Assembly
211 West, State Capitol
Madison, WI 53702

Dear Governor Doyle, Senator Lasee and Representative Gard:

Attached is a report from Rick Curtis, President of the Institute for Health Policy Solutions (IHPS), which offers recommendations on conditions that are necessary to implement the Private Employer Health Care Coverage Program (PEHCCP). Mr. Curtis and the staff at the IHPS are considered to be some of the nation's leading experts on the development and operation of health care purchasing coalitions. The IHPS was asked by the Department of Employee Trust Funds (Department) and the PEHCCP Board to study the situation in Wisconsin and develop recommendations on what changes were required to begin operation of this program.

Since enactment of the PEHCCP legislation in late 1999, the Department and the PEHCCP Board have worked diligently to create and implement the program as envisioned in the law. The Department solicited proposals for administrative and marketing services from interested vendors. Despite previous strong indications of interest from potential vendors in the program, no bids were received. When questioned, these potential vendors cited low potential for profitability, several program design problems, and requirements in the law that created additional barriers to their participation. Many of the technical changes the vendors saw as problems were addressed in the 2001-2003 budget bill (2001 WI Act 16). However, the main barrier to successful implementation was identified as the existing small group health insurance market regulations. The changes that the PEHCCP Board and the Department felt were necessary failed passage when Governor McCallum vetoed the provision in Act 16 that would have restricted the health insurance premium rate bands.

The PEHCCP Board and the Department then sought advice from the IHPS, which has extensive experience in designing and developing health care purchasing pools in many states across the country. In the attached report, the IHPS independently reached the conclusion that without fundamental changes to the current market regulations or, in the alternative, a substantial commitment by the state to artificially subsidize the premium contributions of participants in the purchasing pool, the PEHCCP program cannot work, and is unlikely to attract any insurer to participate.

The report suggests three strategies, either alone or together, that offer the best, and perhaps only, hope for successful implementation of the program:

- **Small Group Market Rating Reforms** – moving to a modified community rating system where the only variation allowed for premium rates charged to small groups would be due to size, age and geography.
- **Extending Coverage to the Uninsured and Making Coverage More Affordable for Small Employers** – providing subsidies for those obtaining coverage through the pool.

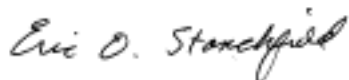
- **The Pool is the Only Small Employer Health Insurance Market** – requiring that all health insurance sold to small employers be sold only through the pool.

The PEHCCP Board and the Department acknowledge that these strategies are controversial. Small group market rating reforms as previously proposed were criticized by the health insurance industry as having the potential to increase costs for some small employers who currently are enjoying favorable rates. The report suggests that those rate bands as proposed were not tight enough, and suggests moving to modified community rating. In addition, with the current fiscal climate, we realize that there is little likelihood that sufficient funds could be allocated to provide the subsidies necessary for the second strategy to work. Finally, requiring that the PEHCCP be the only venue through which small employer health insurance could be offered could cause much greater disruption to the current marketplace.

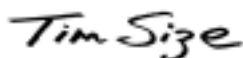
Despite this, the PEHCCP Board and the Department believe that one of these changes must be accomplished or the program can never be implemented. Therefore, we ask that if the Legislature wants the Department to proceed, changes in the law must be pursued now. If these changes are not to be pursued, we ask that the law creating the program be repealed, the PEHCCP Board be disbanded, and the funds for the program's operation be returned to the general fund.

We do not make this recommendation lightly, and we acknowledge the dedication and efforts of many legislators and other interested parties that have worked so hard to make this program a reality. In addition, we are certain that the problems faced by small businesses in purchasing health insurance coverage have not diminished, they have probably grown. But if there is not sufficient support to implement fundamental market changes, then we believe that it would be more productive to focus our efforts on finding some alternative solution that is practical and could be more widely accepted. If the Legislature wishes to pursue alternatives, a change in the mission of the PEHCCP Board could be considered. The Board has many dedicated individuals who have a wealth of knowledge about this problem and they may be a valuable resource if they were asked to develop an alternative solution. In any case, the members of the Board and the Department offer our help to the Legislature or any other policy makers and will gladly share what we have learned about the small employer health insurance market and its problems.

Sincerely,



Eric O. Stanchfield, Secretary
Department of Employee Trust Funds



Tim Size, Chair
Private Employer Health Care Coverage Program Board

cc: Private Employer Health Care Coverage Board Members
Members of the Legislature