State of Wisconsin
Department of Health and Family Services

Tommy G. Thompson, Governor
Joe Leean, Secretary

DHFS SUPPORT OF SB 417

SB 417 amends Chapter 149 of our Wisconsin Statutes to distinguish between the setting of HIRSP premium rates for Plan 2 versus those of Plan 1. The HIRSP Board of Governors and DHFS support this bill as necessary to avoid the drastic increases of Plan 2 premiums that would now be necessary to bring Plan 2 rates in adherence with a strict interpretation of the statutes.

SB 417:

- Eliminates the requirement that HIRSP Plan 2 premiums be set based on a "standard risk rate."
- Allows the program to have the discretion, responsibility and authority to set HIRSP Plan 2 premiums based upon comparable claims costs, enrollment, industry trends, and other factors as deemed appropriate by the board and the department.

Background:

The State's Health Insurance Risk Sharing Plan offers two basic plans of coverage: "Plan 1" is the general major medical expense coverage, while "Plan 2" refers to the HIRSP plan available to persons eligible for Medicare (providing coverage for services not covered under Medicare). There are currently 1,263 Plan 2 policyholders out of 7,655 HIRSP policyholders in total. Most Plan 2 policyholders are 55-64 years old and fairly evenly split between males and females.

Current statutory language requires that in general HIRSP premiums be set *at no less than 150%* and no greater than 200% of the rate that a standard risk would be charged under an individual policy *providing substantially the same coverage and deductibles* as are provided under HIRSP. However, Plan 2 premiums have never been set based upon the "standard risk rate," because until November 1999 there had never been established a comparable standard market policy. Instead, the HIRSP Board of Governors has always reviewed and approved Plan 2 premiums in relation to Plan 1 premiums based upon the relation of Plan 2 claims costs to Plan 1 claims costs.

Actuarial Information:

Recently, a legislatively directed actuarial study was conducted to check for the existence of a standard market individual policy that is comparable to what HIRSP offers under Plan 2. After applying a benefit level adjustment factor to account for the vast discrepancy in deductibles and co-insurance required in the standard market, the actuarial study constructed such a comparison. ***The study found that Plan 2 premiums would need to be increased by 66% in order to be at the lowest level permitted by current law.***

As a result of identifying such a comparison in the marketplace, Legislative Council has found that the requirement to set premiums in the manner prescribed under s. 149.143 applies to both Plan 1 *and* Plan 2 policies. If Plan 2 policy premiums were hiked to the mandatory minimum of 150%, the annual premium for a male enrollee who is 60 years of age or older would increase from $4,308 to $7,143. <u>This represents an increase of $236.25 per month</u>, or 66%.

Note: *This proposal does not alter the current distribution of plan funding. Plan costs will continue to be reconciled in accord with the current distribution of plan funding.*

FISCAL ESTIMATE FORM

1999 Session

☒ ORIGINAL ☐ UPDATED

☐ CORRECTED ☐ SUPPLEMENTAL

LRB # LRB 4004/4

INTRODUCTION #

Admin. Rule #

Subject

HIRSP Plan II Rates

Fiscal Effect

State: ☒ No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation.

☐ Increase Existing Appropriation ☐ Increase Existing Revenues

☐ Decrease Existing Appropriation ☐ Decrease Existing Revenues

☐ Create New Appropriation

☐ Increase Costs - May be possible to Absorb Within Agency's Budget ☐ Yes ☐ No

☐ Decrease Costs

Local: ☐ No local government costs

1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenues ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenues ☐ Permissive ☐ Mandatory
5. Types of Local Governmental Units Affected: ☐ Towns ☐ Villages ☐ Cities ☐ Counties ☐ Others ____ ☐ School Districts ☐ WTCS Districts

Fund Sources Affected

☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEG-S

Affected Ch. 20 Appropriations

Assumptions Used in Arriving at Fiscal Estimate:

Funding for DHFS's Health Insurance Risk Sharing Plan (HIRSP) program is provided by state GPR, policyholder premiums, assessments to the insurance industry, and assessments to health-care providers in the form of provider discounts. Because the level of state GPR support for the program is fixed, policyholders, the insurance industry and health-care providers support any additional cost to the program in a 60/20/20 split, respectively.

Under current law, HIRSP offers its enrollees who are not eligible for Medicare an annual choice of coverage options. For persons who are eligible for Medicare, HIRSP provides an alternative policy that reduces the benefits payable by the amounts paid under Medicare. Premiums for the general major medical coverage may not be less than 150% nor more than 200% of the rate that standard risk would be charged under an individual policy providing the same coverage and deductibles as are provided under HIRSP. Current law does not distinguish between the premium rates for the coverage provided to persons who are eligible for Medicare and the coverage provided to persons who are not eligible for Medicare.

The bill provides that the rates for the alternative, reduced-benefit coverage provided to persons who are eligible for Medicare must be determined on that basis of 1.) Comparison between the average per capita amount of covered expenses paid by HIRSP in the previous calendar year on behalf of persons who are eligible for Medicare and the average per capita amount of covered expenses paid by HIRSP in the previous calendar year on behalf of persons not eligible for Medicare; 2) HIRSP enrollment levels of persons who are eligible for Medicare; and 3) other economic factors that DHFS and the HIRSP board consider relevant. Under the bill, on the premiums for the general major-medical coverage for persons not eligible for Medicare must be set between 150% and 200% of what a standard risk would pay for the same coverage and deductibles. The bill also provides that if, in order to cover HIRSP expenses, premiums for persons who are not eligible for Medicare are increased above 150% of what a standard risk would pay, premiums for the coverage provided to persons who are eligible for Medicare must be increased by a comparable amount.

It is estimated that this proposal would not alter the current funding levels, funding distribution or expenditures of the HIRSP program. Therefore it is estimated that the proposal will have no fiscal effect.

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