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☞ Details: Informational Hearing: Health Insurance Risk Sharing Program (HIRSP), October 19, 1995

(FORM UPDATED: 08/11/2010)

# WISCONSIN STATE LEGISLATURE ...
# PUBLIC HEARING - COMMITTEE RECORDS

## 1995-96
(session year)

## Assembly
(Assembly, Senate or Joint)

## Committee on Insurance, Securities and Corporate Policy...

## COMMITTEE NOTICES ...

- Committee Reports ... **CR**
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## INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
  (**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
  (**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

* Contents organized for archiving by: Stefanie Rose (LRB) (October 2012)

October 19, 1995

To: Members of Senate Committee on Insurance and Assembly Committee on Insurance, Securities and Corporate Policy

From: Dan C. Johnson, Member, HIRSP Board of Governors

RE: CURRENT STATUS OF HIRSP

As a member of the Board of Governors, one of my very important roles is to represent the needs of the Plan participants. I am currently serving my second term on the Board and was involved in discussions which lead to the development of the original HIRSP legislation.

Over the last 15 years I have watched the annual premium increase, often times, at very alarming rates. Just in the last five years participants have had significant rate increases: July 1991 - 28%, July 1992 - 27%, July 1993 - 18%, July 1994 - 3%, and July 1995 - 19%. Some Board members feel that there is need for another 5% increase in January 1996.

HIRSP is once again facing a critical point because the costs of services are greater than the income available. Important changes must be made, but not at the expense of HIRSP participants. I am strongly opposed to any rate increases for HIRSP participants. It is time to energetically pursue initiatives to control costs.

I believe that we must reduce the amount that we pay as "usual and customary"reimbursement to providers and aggressively pursue managed care alternatives. The Board is actively working on these initiatives. When initiating the reduction and the amount of usual and customary reimbursement to providers, we must protect plan participants from providers billing them for the balance. Your help may be needed to develop legislation to prevent providers from doing balance billing.

While I believe HIRSP is currently a vital health care plan for people with disabilities and appreciate the legislature's continued support, there must be significant changes to the health care system to provide coverage to everyone. There would be no need for HIRSP if significant changes were made to:

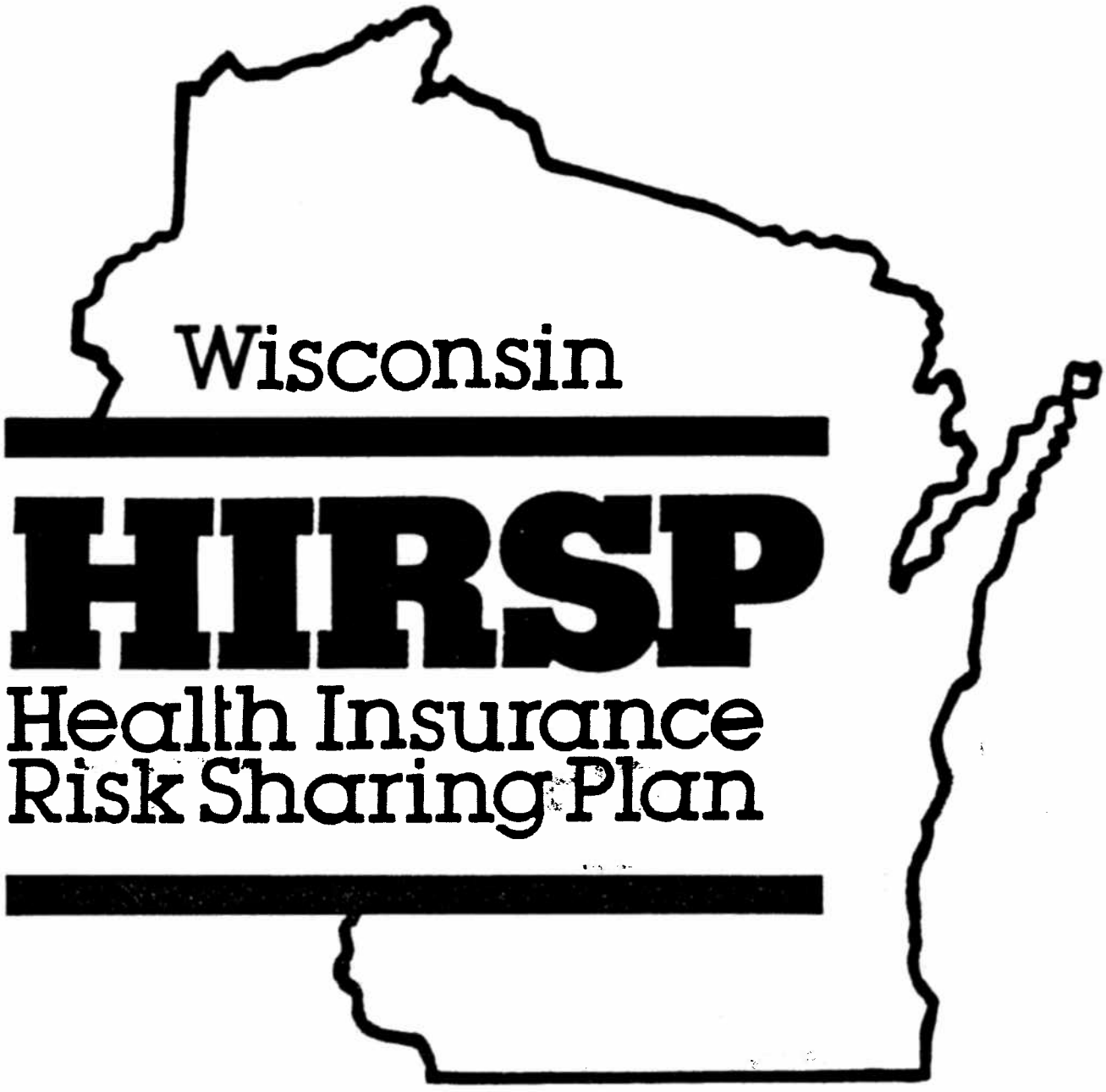
Provide people with disabilities of all ages and their families with access to health care which prohibits pre-existing condition exclusions; prohibits rating practices that discriminate against high users of health care; and ensures continuity and portability of coverage;

Provide comprehensive health-related services;

Provide services based on individual need, preference and choice; and

Limits out-of-pocket expenses and cost sharing requirements for participants, provides access to services based on health care need, not income level or employment status and ensures adequate reimbursement for services.

# The Wisconsin Health Insurance Risk Sharing Plan




## Recommended Modifications to Current Law Offered by the HIRSP Board of Governors

# The Wisconsin Health Insurance Risk Sharing Plan

## Recommended Modifications to Current Law
## Offered by the HIRSP Board of Governors

# The Wisconsin Health Insurance Risk Sharing Plan

## Recommended Modifications to Current Law Offered by the HIRSP Board of Governors

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The Wisconsin Health Insurance Risk Sharing Plan

Recommended Modifications to Current Law
Offered by the HIRSP Board of Governors

## List of Exhibits

State of Wisconsin \ OFFICE OF THE COMMISSIONER OF INSURANCE

*Tommy G. Thompson*
*Governor*

*Robert D. Haase*
*Commissioner*

123 West Washington Avenue
P.O. Box 7873
Madison, Wisconsin 53707
(608) 266-3585

February 23, 1990

The Honorable Jerome Van Sistine
State Senator
14 South, State Capitol
Madison, WI 53702

The Honorable John R. Plewa
State Senator
35 South, State Capitol
Madison, WI 53702

The Honorable John M. Antaramian
State Representative
117 West, State Capitol
Madison, WI 53702

Dear Senator Van Sistine, Senator Plewa, and Representative Antaramian:

In response to your written request dated October 5, 1989, (Exhibit 1, page 1), I respectfully submit for your attention this report of recommendations prepared by the Board of Governors for modifications to current law governing the Wisconsin Health Insurance Risk Sharing Plan (HIRSP).

I believe that the Board's recommendations provide sufficient detail and documentation for the preparation of draft legislation. Once draft legislation is available, staff of the Office of the Commissioner of Insurance and the Department of Administration can then proceed with more detailed review and evaluation of how the costs of the recommended changes are to be funded.

In this regard, the Board's recommendations project general purpose revenue (GPR) biennium costs on the order of $10 million. These are significant costs. I am particularly concerned that the initial costs of the Board's recommendations would be "off budget," and the Department of Administration shares my concern.

At the same time, I believe we all agree that problems associated with HIRSP rates and with funding of HIRSP deficits need to be addressed and that if we do not fix these problems soon, we may not be able to fix them at all. In short, you have given us a present window of opportunity, and I believe we should continue to move forward with draft legislation so that we can then address the funding issue more directly.

The Board's recommendations presented in this report are the result of more than three months of discussion and debate and represent a sincere effort to fairly allocate the costs of the program to HIRSP enrollees, the State, and the health insurance industry. The members of the Board are confident that their recommendations will improve the entire spectrum of HIRSP operations.

HIRSP premiums, unlike premiums in the private health insurance market, have not increased since 1985 and are clearly inadequate. The Board recommends that future premium levels be set by statute to recover 70% of projected annual program costs to ensure that program income can promptly respond to cost trends.

To improve the affordability of the Plan, the Board recommends increasing the maximum premium subsidy and increasing the number of subsidy levels to more efficiently allocate subsidy revenue to those most in need. The Board also recommends negotiations with providers to accept reduced fees for care provided to HIRSP participants.

Finally, we need further study of the Board's recommendation that HIRSP deficits, now exclusively the liability of the Wisconsin health insurance industry, be borne equally by the insurers and the State.

The Board appreciates the Legislature's intent in addressing the present difficulties in HIRSP rates and funding and is prepared to work closely with the Legislature and with the executive agencies to try to reach more detailed agreement on the issues raised in this report.

Sincerely yours,

Robert D. Haase
Commissioner of Insurance

RDH:HN:sf
694Q

1989 HIRSP Board of Governors:
Robert D. Haase, Chair
Commissioner of Insurance

Diane Greenley
Wisconsin Coalition for Advocacy (Public Member)

Claire Johnson
Group Health Cooperative

Dan Johnson
Public Member

Donna Lutzow
Employers Insurance of Wausau

Mary Traver
Blue Cross & Blue Shield United of Wisconsin

Robert T. Wood
Wisconsin Physicians Service

cc: James Klauser
Secretary, DOA

# Legislative Instructions to the HIRSP Board of Governors, October 5, 1989


# WISCONSIN LEGISLATURE

P.O. Box 7882 • Madison, WI 53707-7882


5 October 1989

Robert Haase
Insurance Commissioner
7th Floor
123 West Washington Avenue
Madison, Wisconsin 53703

Hilde Nuejahr, Chairperson
HIRSP Board of Governors
7th Floor
123 West Washington Avenue
Madison, Wisconsin 53703

Dear Commissioner Haase and Chairperson Nuejahr:

As you know, the proposed increase in HIRSP rates has generated a great deal of controversy. This discussion has been healthy and the issues raised provide an opportunity to improve this successful program.

It is our understanding that the Board of Governors has already been discussing modifications to the current law governing HIRSP. The consideration of Senate Bill 248 and passage through one house of Assembly Bill 457 provide an opportunity to substantially improve HIRSP. At this time, the Board of Governors should carefully review four areas including the establishment of premiums, scope of subsidies, funding of plan deficits and reasons for enrollment.

The first issue relates to the determination of the HIRSP premium level. Currently, 619.14 (2), stats, provides that the premium should not exceed 150% of the individual rate for a standard risk. Plan actuaries have always had difficulty defining what constitutes a "standard risk". The board should consider equitable alternative mechanisms for determining the premium rates.

The second issue involves the affordability of the HIRSP plan. Considering the make up of HIRSP participants, the subsidy component is a critical facet of the program. Representative Antaramian and others have correctly identified affordability as an area to be improved. Evaluation of changes which would enhance the subsidy program such as increasing the maximum subsidy, altering the allotment of costs and considering additional financial information should be undertaken.

# Legislative Instructions to the HIRSP Board of Governors, October 5, 1989



A third issue centers on the mechanism used to fund plan deficits. In the past, insurers have advocated that general purposes revenues be used to relieve assessment increases. Although insured plans currently cover only about half of those persons with health coverage, they are assessed to cover the entire plan deficit. It would be appropriate for the HIRSP board to consider options for deficit management including capping assessments, altering the allotment of costs or expanding the assessment base beyond insured health plans.

Finally, marketplace forces including underwriting standards and affordability have played a role in increasing HIRSP participation rates. In order to address the nature of HIRSP participation, we respectfully request that all plan enrollees be surveyed regarding their previous health care coverage and reasons for entering the HIRSP plan.

We sincerely hope that your office and the Board of Governors will take this opportunity to consider a broad range of alternatives. It is our hope that the Board of Governors and the Office of the Insurance Commissioner could provide their recommendations to the Legislature for consideration before the next legislative floorperiod beginning in January 1990. Thank you for your attention, and we look forward to your response.

Sincerely,

Jerome Van Sistine, Chairperson
Senate Committee on Labor,
Business, Insurance, Veterans'
and Military Affairs

John Plewa, Co-Chairperson
Joint Committee for the Review
of Administrative Rules

John Antaramian, Co-Chairperson
Joint Committee for the Review
of Administrative Rules

## Executive Summary

On October 5, 1989, Senator Jerome Van Sistine, Chairman of the Senate Committee on Labor, Business, Insurance, Veterans' and Military Affairs, and the Co-chairs of the Joint Committee for Review of Administrative Rules, Senator John Plewa and Representative John Antaramian, wrote to Wisconsin Insurance Commissioner Robert Haase and the HIRSP Board of Governors (see Exhibit 1, page 1) to request that the Board "carefully review" four issues related to HIRSP:

- Alternative mechanisms for determining premiums;
- Improved affordability of the plan;
- Options for deficit management;
- Plan participants' previous health care coverage and reasons for entering the plan.

This document summarizes the results of the Board's review of these four issues.

- Alternative Mechanisms for Determining Premiums

The Board recommends enactment of legislation that will specify that:

-- In determining needed rate increases or decreases, the Board will review projected program costs and related trend data, and shall determine annual HIRSP premiums so as to recover 70 percent of projected annual program costs. The premium so established by the Board for calendar year 1990 will become effective upon approval by the Board;

-- Consistent with recovery of 70 percent of projected annual program costs, the premium increases for calendar year 1991 and subsequent years will become effective upon approval by the Board if the premium increases are not, in the aggregate, more than two times the most recent 12-month change in the medical component of the Consumer Price Index (CPI). That portion of any needed premium increase for calendar year 1991 and subsequent years in excess of two times the most recent 12-month change in the medical component of the CPI will be submitted to the Joint Finance Committee of the Legislature for review;

-- The premium increase for current (but not new) participants will be capped at $40 per month in 1990;

-- The number of age bands used for rating will be reduced from eight to three bands, which shall be 0-39, 40-54, and 55-64 years;

-- Gender and geographic location will be eliminated as rating criteria.

- Improved Affordability of the Plan

The Board recommends enactment of legislation that will:

-- Increase the income ceiling for subsidy eligibility from $16,500 to $20,000;

-- Increase the maximum premium subsidy from 33-1/3 percent to 45 percent of total premium cost and increase the number of premium-subsidy levels from four to six levels which shall be 20, 25, 30, 35, 40 and 45 percent of applicable premium rates;

-- Cap state general purpose revenue (GPR) liability for deductible subsidies (not premium subsidies) at 60 percent of the potential total cost of the subsidies and assess Wisconsin health insurers when additional funds in excess of the 60-percent liability are needed to subsidize deductibles.

- Options for Deficit Management

The Board recommends that:

-- 50 percent of HIRSP deficits for catastrophic program costs (see Exhibit 12, page 31) not covered by premiums be assessed against Wisconsin health insurers in proportion to each insurer's Wisconsin market share and that state GPR fund the remaining 50 percent of HIRSP deficits. [The HIRSP claims administrator (Mutual of Omaha) classifies costs for heart disease, arthritis, mental illness, and cancer as catastrophic program costs];

-- The Board negotiate with providers to accept reduced payment for services rendered to HIRSP participants.

Exhibit 2 (page 6) provides data showing the major effects of the recommended changes. Exhibit 3 (page 7) shows for comparison purposes the effects of changes if HIRSP premiums are set to recover 75 percent of projected annual program costs.

- Plan Participants' Previous Health Care Coverage and Reasons for Entering the Plan

Included in this document (Exhibit 13, page 32) is a report prepared by the Wisconsin Office of the Commissioner of Insurance addressing plan participants' previous health care coverage and their reasons for entering the plan.

## Projected Allocation of Costs to Participants, the State, and the Health Insurance Industry If Total Premium Recovers 70 Percent of Program Cost

HIRSP 1990

| | TOTAL FUNDS | FUND ALLOCATION | | |
|---|---|---|---|---|
| | | INSURED | GOVERNMENT | INSURERS |
| *Premium base | 11,384,748 | 11,384,348 | | |
| Deficit due to catastrophic costs | 5,731,278 | | 2,865,639 | 2,865,639 |
| Premium subsidy | 1,244,899 | | 1,244,899 | |
| $40/mo. premium-increase cap | 743,335 | | | 743,335 |
| Fully funded level | 19,104,260 | 11,384,748 | 4,110,538 | 3,608,974 |
| ** Deductible subsidy | 585,414 | | 351,248 | 234,166 |
| TOTAL COST | 19,689,674 | 11,384,748 | 4,461,786 | 3,843,140 |

Data are approximations for discussion purposes.

* Premium base=(70% of fully funded level)-(premium subsidy)-($40/mo. premium-increase cap).

** Assumes full utilization of deductible by subsidy population. The deductible subsidy is an additional benefit for lower-income participants that is not included in fully funded level.

Exhibit 3

## Alternate Allocation of Costs for Comparison Purposes (Total Premium Recovers 75 Percent of Program Cost)

HIRSP 1990

| | TOTAL FUNDS | FUND ALLOCATION | | |
|---|---|---|---|---|
| | | INSURED | GOVERNMENT | INSURERS |
| *Premium base | $11,212,717 | $11,212,717 | | |
| Deficit due to catastrophic costs | 4,776,065 | | $2,388,033 | $2,388,033 |
| Premium subsidy | 1,333,820 | | 1,333,820 | |
| $40/mo. premium-increase cap | 1,781,658 | | | 1,781,658 |
| Fully funded level | 19,104,260 | 11,212,717 | 3,721,853 | 4,169,691 |
| ** Deductible subsidy | 585,414 | | 351,248 | 234,166 |
| TOTAL COST | $19,689,674 | 11,212,717 | $4,073,101 | $4,403,857 |

Data are approximations for discussion purposes.

* Premium base=(75% of fully funded level)-(premium subsidy)-($40/mo. premium-increase cap).

** Assumes full utilization of deductible by subsidy population. The deductible subsidy is an additional benefit for lower-income participants that is not included in fully funded level.

## A. Introduction: Instructions, Data and Methodology

In a letter dated October 5, 1989 (Exhibit 1, page 1), the Chairman of the Senate Committee on Labor, Business, Insurance, Veterans' and Military Affairs, Senator Jerome Van Sistine, and the Co-chairs of the Joint Committee for Review of Administrative Rules, Senator John Plewa and Representative John Antaramian, instructed the HIRSP Board of Governors to examine four issues related to HIRSP:

- Alternative mechanisms for determining premiums;
- Improved affordability of the plan;
- Options for deficit management;
- Plan participants' previous health care coverage and reasons for entering the plan.

The Board based its discussion and responses on the following HIRSP data:

- Claim dollars, hospital days, hospital admissions, and lengths of stay for HIRSP participants for calendar years 1986, 1987, and 1988 (Exhibit 12, page 31). These data show that HIRSP costs for catastrophic care average in excess of 40 percent of total program costs for medical care. The HIRSP claims administrator (Mutual of Omaha) classifies costs for heart disease, arthritis, mental illness, and cancer as catastrophic program costs;
- Summary of HIRSP enrollments, income, and expenses, 1981 through 1989 (Exhibit 14, page 36). This summary assumes a HIRSP population of 6,000 as of January 1, 1990 and 7,000 by July 1, 1990. The summary shows that in calendar years 1986, 1987, and 1988, total HIRSP premiums have accounted for between 70 percent and 75 percent of total program costs, including administrative costs;
- HIRSP population receiving subsidies by age, gender, and subsidy level as of October 27, 1989 (Exhibit 15, page 37);
- HIRSP population by age and gender as of October 27, 1989 (Exhibit 16, page 38);
- Subsidy population as of October 27, 1989, aggregated within the recommended consolidated age bands (Exhibit 17, page 39).

The Board used these data to project estimated enrollment (7,000) and subsidy (1,758) populations as of July 1, 1990 and used those midyear population estimates to project total premium and subsidy costs for calendar year 1990. The projected total premium and subsidy costs do not reflect a potential reduction in program costs that could result from negotiated provider discounts for services rendered to HIRSP participants.

Recommendations presented are for HIRSP Plan 1. Plan 1, with more than 90 percent of participants, provides coverage for major medical costs.

Plan 2, with less than 10 percent of participants, supplements Medicare coverage. The Board will develop approaches for Plan 2 similar to those outlined for Plan 1.

## B. Determination of HIRSP Premiums

### B.1. Current Procedure

Section 619.14(5)(a) Wisconsin statutes, requires that HIRSP premiums shall not be "greater than 150% of the rate which a standard risk would be charged under an individual policy providing substantially the same coverage and deductibles as provided under this section."

The Actuarial Subcommittee of the HIRSP Board of Governors is responsible for recommending HIRSP premium levels subject to approval by the full Board and the Commissioner of Insurance. The Commissioner is required to propose modifications of HIRSP premiums through the administrative-rule process. The Legislature may accept, reject, or request modifications to the proposed administrative rules.

The current HIRSP rating methodology is based on the age, gender, and location of the participant. The younger ages are assigned lower premiums than the older ages by means of a graduated rate table. At the lower ages women are assigned higher premiums than men; at the higher ages men have higher premiums than women.

There are two rating zones based on varying health care costs between rural areas and urban areas. Participants living in urban areas are assigned higher premiums because of the generally higher cost of health care in an urban setting. This rating methodology is based on the traditional insurance-industry practice of basing premiums on demonstrated loss experience of the above-mentioned categories.

HIRSP adopted this approach because, since the inception of the plan, HIRSP premiums were determined by industry standards to ensure that they would not exceed the prescribed statutory maximum of 150 percent of "standard" premiums. One of the problems with the current HIRSP approach is that there is no relationship between premiums and losses in the aggregate, and as premiums have failed to keep pace with program costs, deficits have mounted.

### B.2. Recommended Modifications

The Board recommends enactment of legislation that will specify that:

-- In determining needed rate increases or decreases, the Board will review projected program costs and related trend data,

and shall determine annual HIRSP premiums so as to recover 70 percent of projected annual program costs. The premium so established by the Board for calendar year 1990 will become effective upon approval by the Board;

-- Consistent with recovery of 70 percent of projected annual program costs, the premium increases for calendar year 1991 and subsequent years will become effective upon approval by the Board if the premium increases are not, in the aggregate, more than two times the most recent 12-month change in the medical component of the Consumer Price Index (CPI). That portion of any needed premium increase for calendar year 1991 and subsequent years in excess of two times the most recent 12-month change in the medical component of the CPI will be submitted to the Joint Finance Committee of the Legislature for review;

-- Premium increases for current (but not new) participants will be capped at $40 per month in 1990;

-- The number of age bands used for rating will be reduced from eight to three, which shall be 0-39, 40-54 and 55-64 years;

-- Gender and geographic location will be eliminated as rating criteria.

B.3. Rationale for Recommendations

| Recommendations | Rationale |
|---|---|
| B.3.a. Aggregate annual premiums should recover 70 percent of projected annual program costs. The premium so established by the Board for calendar year 1990 will become effective upon approval by the Board. | In calendar years 1986, 1987, and 1988, premiums recovered 70 percent to 75 percent of annual program costs. Lack of a premium increase since 1985 is largely responsible for the downward trend in premium recovery of program costs. Setting premiums to recover 70 percent of projected annual program costs is balanced by expanded eligibility for subsidies and higher subsidy levels (see Section C.3., page 19). |

B.3.b. Consistent with recovery of 70 percent of annual program costs, the premium increases for calendar year 1991 and subsequent years up to two times the most recent 12-month change in the medical component of the CPI will become effective upon approval by the Board. That portion of any needed premium increase for calendar year 1991 and subsequent years in excess of this amount will be submitted to the Joint Finance Committee of the Legislature for review.

Under the current system, the Board has been unable to respond promptly to trends in HIRSP claims experience by adjusting premiums. The new procedure will give the Board strengthened authority to maintain premiums that keep pace with program costs, and provides for appropriate Legislative oversight when needed.

B.3.c. Current participants should not pay a premium increase of more than $40 per month in 1990. New participants should pay the premium in force at the time of enrollment.

This approach protects current participants from the full effects of the realistic premium increases that are needed in 1990 after four years of no premium increases.

B.3.d. Gender and geographic location should be eliminated as rating criteria. The current eight age bands used for rating individual enrollees (0-18, 19-29, 30-39, 40-44, 45-49, 50-54, 55-59, and 60-64) should be consolidated into three age bands (0-39, 40-54, and 55-64.)

HIRSP data indicate that the importance of gender and geographic location as rating factors may diminish in a high-risk group like the HIRSP population: among high-risk individuals loss exposure is less related to age, gender, and geographic location than to the medical condition of the individual.

Fewer age bands represent a compromise between the current system and one in which all participants would pay an identical (or "composite") premium. The Board found that a composite premium would heavily favor older participants and harm younger participants.

Exhibit 4 (page 14) provides a summary of alternative approaches to determination of HIRSP premiums.

### B.4. HIRSP Premiums Compared to Premiums for an Individual Health Insurance Policy Offering Similar Coverage

Proposed HIRSP premiums for 1990 compared to 1990 premiums for a comparable health insurance policy in the marketplace are significantly less than 150 percent of the cost of that policy. Indeed, the range (depending upon the age and location) is from 99.5 percent to 128 percent.

Exhibit 5 (page 15) compares premiums for the WPS Individual Care Share Plan (CSP), $1,000 deductible comprehensive major-medical policy, with:

- Current HIRSP premiums;
- HIRSP premiums necessary to recover 70 percent of program costs;
- HIRSP premiums necessary to recover 75 percent of program costs;
- HIRSP premiums necessary to recover 100 percent of program costs.

The CSP and HIRSP plans provide similar, but not identical, coverage. The CSP rates are effective January 1 - June 30, 1990. The CSP policy limits participants' out-of-pocket expenses to $1,400 per year. The HIRSP plan limits participants' out-of-pocket expenses to $2,000 per year.

Although equalizing the out-of-pocket limits would make the difference between HIRSP premiums and CSP premiums relatively greater (higher coinsurance out-of-pocket costs would be expected to lower the CSP premium), Exhibit 5 clearly shows that the recommended HIRSP premiums fall well below the statutory limit of 150 percent of "standard" premium and that current HIRSP premiums are comparable to premiums available in the private health insurance marketplace.

Exhibit 4

## Summary of Alternative Approaches to Determination of HIRSP Premiums

| | A<br>TOTAL ENROLLMENTS (JAN.01) | B<br>ESTIMATED PREMIUM NEEDED TO RECOVER 100% OF COSTS | C<br>COMPOSITE RATED PREMIUM | D<br>0-39 | E<br>40-54 | F<br>55-64 | G<br>COMPOSITE DEFICIT PER CONTRACT (B-C) | H<br>PROJECTED TOTAL ENROLLMENTS (JUL.01) | I<br>PROJECTED TOTAL PREMIUM GENERATED (CxH) | J<br>TOTAL PROJECTED YEAR-END DEFICIT (GxH) | K<br>50% GPR (J÷2) | L<br>50% INSURERS (J÷2) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A. CURRENT RATE (1986) | | | | | | | | | | | | |
| 1. 1988 | 2,476 | $1,960.05 | $1,347.85 | $795.10 | $1,242.25 | $1,703.22 | $ 612.20 | 3,100 | $ 4,178,335 | $1,897,820 | $ 998,910 | $ 998,910 |
| 2. 1989 | 3,760 | 2,312.86 | 1,347.85 | 795.10 | 1,242.25 | 1,703.22 | 965.01 | 5,000 | 6,739,250 | 4,825,050 | 2,412,525 | 2,412,525 |
| 3.1990 (A.1.+18%) | 6,000 | 2,729.18 | 1,590.46 | 938.22 | 1,465.86 | 2,009.80 | 1,138.72 | 7,000 | 11,133,220 | 7,971,040 | 3,985,520 | 3,985,520 |
| B. PROPOSED RULE RATE | | | | | | | | | | | | |
| 1. 1989 (A.1.+10%) | 3,760 | 2,312.86 | 1,576.81 | 899.74 | 1,466.65 | 2,001.01 | 736.05 | 5,000 | 7,884,050 | 3,680,260 | 1,840,125 | 1,840,125 |
| 2. 1990 (B.1.+18%) | 6,000 | 2,729.18 | 1,860.64 | 1,061.70 | 1,730.65 | 2,361.19 | 868.54 | 7,000 | 13,024,480 | 6,079,780 | 3,039,890 | 3,039,890 |
| C. COMPOSITE EXPERIENCE RATE | | | | | | | | | | | | |
| 1. 1989 (100%) | 3,760 | 2,312.86 | 2,312.86 | 1,364.37 | 2,131.66 | 2,922.67 | -0- | 5,000 | 11,564,300 | -0- | -0- | -0- |
| 2. 1990 (C.1.+18%) | 6,000 | 2,729.18 | 2,729.18 | 1,609.96 | 2,515.36 | 3,448.76 | -0- | 7,000 | 19,104,260 | -0- | -0- | -0- |
| 3. 1990 (C.2.x70%) | 6,000 | 2,729.18 | 1,910.43 | 1,126.97 | 1,760.76 | 2,414.14 | 818.75 | 7,000 | 13,373,010 | 5,731,250 | 2,865,625 | 2,865,625 |
| 4. 1990 (C.2.x75%) | 6,000 | 2,729.19 | 2,046.89 | 1,207.47 | 1,886.53 | 2,586.58 | 682.30 | 7,000 | 14,328,230 | 4,776,100 | 2,388,050 | 2,388,050 |

Alternative Approaches to Determination of HIRSP Premium Rates
(all data approximate and for discussion purposes only)

Note in particular the geometric increase in annual deficits in column J, lines A.1, A.2, and A.3. The $1.9 million deficit for calendar year 1988 increases to a projected $4.8 million deficit for calendar year 1989, and $7.9 million in calendar year 1990. These dramatic increases reflect inadequate premiums and a consequent significant growth in enrolled population.

Exhibit 5

# Comparison of HIRSP Premiums with Premiums for a Similar Private-sector Health Insurance Policy



HIRSP PREMIUM NEEDED TO FUND 70 PERCENT OF PROGRAM COST
(RECOMMENDED HIRSP PREMIUM)

| | A | B | C | D | E |
|---|---|---|---|---|---|
| Age | Milwaukee Area CSP Premium | HIRSP Current Premium | HIRSP Current Premium as Percent of CSP Premium (B/A) | HIRSP Recommended Premium (Will Fund 70% of Program Cost) | HIRSP Recommended Premium as Percent of CSP Premium (D/A) |
| 39 | $1,010.68 | $1,006 | 99.5% | $1,126.97 | 112% |
| 54 | 1,735.62 | 1,504 | 86.6 | 1,760.75 | 101 |
| 64 | 2,425.54 | 2,022 | 83 | 2,414.13 | 99.5 |

| | A | B | C | D | E |
|---|---|---|---|---|---|
| Age | Madison, Appleton CSP Premium | HIRSP Current Premium | HIRSP Current Premium as Percent of CSP Premium (B/A) | HIRSP Recommended Premium (Will Fund 70% of Program Cost) | HIRSP Recommended Premium as Percent of CSP Premium (D/A) |
| 39 | $ 878.88 | $1,006 | 114% | $1,126.97 | 128% |
| 54 | 1,509.24 | 1,504 | 99 | 1,760.75 | 117 |
| 64 | 2,109.52 | 2,022 | 96 | 2,414.13 | 114 |

For Comparison Purposes:

| | Deductible Limit | Coinsurance Limit | Out-of-pocket Limit |
|---|---|---|---|
| CSP | $1,000 | $ 400 | $1,400 |
| HIRSP | 1,000 | 1,000 | $2,000 |

# Comparison of HIRSP Premiums with Premiums for a Similar Private-sector Health Insurance Policy



HIRSP PREMIUM NEEDED TO FUND 75 PERCENT OF PROGRAM COST

| | A | B | C | D | E |
|---|---|---|---|---|---|
| Age | Milwaukee Area CSP Premium | HIRSP Current Premium | HIRSP Current Premium as Percent of CSP Premium (B/A) | HIRSP Premium Needed to Fund 75% of Program Cost | HIRSP Premium for 75% Funding as Percent of CSP Premium (D/A) |
| 39 | $1,010.68 | $1,006 | 99.5% | $1,207.47 | 119% |
| 54 | 1,735.62 | 1,504 | 86.6 | 1,886.52 | 109 |
| 64 | 2,425.54 | 2,022 | 83 | 2,586.57 | 107 |

| | A | B | C | D | E |
|---|---|---|---|---|---|
| Age | Madison, Appleton CSP Premium | HIRSP Current Premium | HIRSP Current Premium as Percent of CSP Premium (B/A) | HIRSP Premium Needed to Fund 75% of Program Cost | HIRSP Premium for 75% Funding as Percent of CSP Premium (D/A) |
| 39 | $ 878.88 | $1,006 | 114% | $1,207.47 | 137% |
| 54 | 1,509.24 | 1,504 | 99 | 1,886.52 | 125 |
| 64 | 2,109.52 | 2,022 | 96 | 2,586.57 | 123 |

For Comparison Purposes:

| | Deductible Limit | Coinsurance Limit | Out-of-pocket Limit |
|---|---|---|---|
| CSP | $1,000 | $ 400 | $1,400 |
| HIRSP | 1,000 | 1,000 | $2,000 |

Exhibit 5

# Comparison of HIRSP Premiums with Premiums for a Similar Private-sector Health Insurance Policy



HIRSP PREMIUM NEEDED TO FUND 100 PERCENT OF PROGRAM COST

| Age | A<br>Milwaukee Area CSP Premium | B<br>HIRSP Current Premium | C<br>HIRSP Current Premium as Percent of CSP Premium (B/A) | D<br>HIRSP Premium Needed to Fund 100% of Program Cost | E<br>Fully-funded HIRSP Premium as Percent of CSP Premium (D/A) |
|---|---|---|---|---|---|
| 39 | $1,010.68 | $1,006 | 99.5% | $1,609.96 | 159% |
| 54 | 1,735.62 | 1,504 | 86.6 | 2,515.36 | 145 |
| 64 | 2,425.54 | 2,022 | 83 | 3,448.76 | 142 |

| Age | A<br>Madison, Appleton CSP Premium | B<br>HIRSP Current Premium | C<br>HIRSP Current Premium as Percent of CSP Premium (B/A) | D<br>HIRSP Premium Needed to Fund 100% of Program Cost | E<br>Fully-funded HIRSP Premium as Percent of CSP Premium (D/A) |
|---|---|---|---|---|---|
| 39 | $ 878.88 | $1,006 | 114% | $1,609.96 | 183% |
| 54 | 1,509.24 | 1,504 | 99 | 2,515.36 | 167 |
| 64 | 2,109.52 | 2,022 | 96 | 3,448.76 | 163 |

For Comparison Purposes:

| | Deductible Limit | Coinsurance Limit | Out-of-pocket Limit |
|---|---|---|---|
| CSP | $1,000 | $ 400 | $1,400 |
| HIRSP | 1,000 | 1,000 | $2,000 |

## C. Affordability of HIRSP

### C.1. Current Procedure

HIRSP participants may be eligible for premium subsidies of as much as 33-1/3 percent of total premium cost (section 619.165, Wisconsin Statutes) and deductible subsidies of as much as $500 [section 619.14(5)(a), stats.], depending on income. The income ceiling for subsidy eligibility is based on the income ceiling for Homestead Tax Credit eligibility ($18,000 in 1990).

### C.2. Recommended Modifications

Premium increases in 1990 to recover 70 percent of projected annual program costs, after four years of no premium increases, will need to be balanced by greater subsidies for lower-income participants.

The HIRSP Board of Governors recommends enactment of legislation that will:

- Increase the income ceiling for subsidy eligibility from $16,500 to $20,000;

- Increase the maximum premium subsidy from 33-1/3 percent to 45 percent of total premium cost and increase the number of premium-subsidy levels from four (17 percent, 23 percent, 29 percent, and 33-1/3 percent) to six (20 percent, 25 percent, 30 percent, 35 percent, 40 percent, and 45 percent);

- Cap state general purpose revenue (GPR) liability for deductible subsidies (not premium subsidies) at 60 percent of the potential total cost of the subsidies and assess Wisconsin health insurers when additional funds in excess of the 60-percent liability are needed to subsidize deductibles;

- Cap the premium increase for current (but not new) participants at $40 per month in 1990.

C.3. Rationale for Recommendations

| Recommendations | Rationale |
|---|---|
| C.3.a(1). The income ceiling for subsidy eligibility should increased from $16,500 to $20,000. | Consistent with legislative instructions to improve the be affordability of HIRSP (Exhibit 1, page 1) this change moderates the effects of higher premiums on lower-income participants. |
| C.3.a(2). Income eligibility for subsidy should not be based on a percentage of the federal poverty level. | The federal poverty level varies according to family size. Use of such a standard would adversely affect those in the HIRSP population who currently receive the highest subsidies (i.e., older people who have few or no dependents). |
| C.3.b. The maximum premium subsidy should be increased from 33-1/3 percent of total premium cost to 45 percent of total premium cost. | Consistent with legislative instructions to improve the affordability of HIRSP (Exhibit 1, page 1), this change moderates the effects of higher premiums on lower-income participants. |
| C.3.c. The number of premium-subsidy levels should be increased from four (17 percent, 23 percent, 29 percent, and 33-1/3 percent) to six (20 percent, 25 percent, 30, percent, 35 percent, 40 percent, and 45 percent). | Consistent with legislative instructions to increase the affordability of HIRSP, (Exhibit 1, page 1), a greater number of subsidy levels increases the state's ability to target subsidy revenues to more accurately reflect individual needs. |

| | |
|---|---|
| C.3.d. State general purpose revenue (GPR) should fund up to 60 percent of the total potential deductible subsidy; assessments against health insurers in proportion to each insurer's Wisconsin market share should fund any deductible subsidies beyond that amount. | This recommendation would reduce the state's potential liability for deductible subsidies. Currently, the state has full liability for these subsidies. |
| C.3.e. Current participants should not pay a premium increase of more than $40 per month. New participants should pay the premium in force at the time of enrollment. | This approach protects current participants from the full effects of the realistic premium increases that are needed after four years of no rate increases. |

Exhibit 6 (page 21) provides the current HIRSP premiums for each age band.

Exhibit 7 (page 22) provides the current and recommended subsidy levels.

Exhibit 8 (page 23) provides the recommended HIRSP premiums for the recommended age bands and subsidy levels, if premiums are set to recover 70 percent of total program costs. For comparison purposes, Exhibit 9 (page 24) provides the same information if premiums are set to recover 75 percent of total program costs.

C.4. Estimated Effects of Recommended 1990 Premium Increases on Existing HIRSP Population

Exhibit 10 (page 25) provides the estimated effects of the recommended 1990 premium increases on the existing subsidized and non-subsidized HIRSP populations.

Exhibit 11 (page 27) compares estimates of 1989 subsidized premiums with estimates of recommended subsidized premiums. In general, HIRSP participants with the lowest incomes would experience the lowest premium increases under the recommended premium and subsidy structure.

## Exhibit 6

## Current Premiums for Each Age Band

Zone 1

| Age Group | Annual | | Quarterly | |
|---|---|---|---|---|
| | Male | Female | Male | Female |
| 0-18 | $ 676.00 | $ 676.00 | $169.00 | $169.00 |
| 19-29 | 676.00 | 1,040.00 | 169.00 | 260.00 |
| 30-39 | 820.00 | 1,192.00 | 205.00 | 298.00 |
| 40-44 | 996.00 | 1,320.00 | 249.00 | 330.00 |
| 45-49 | 1,216.00 | 1,420.00 | 304.00 | 355.00 |
| 50-54 | 1,468.00 | 1,540.00 | 367.00 | 385.00 |
| 55-59 | 1,784.00 | 1,660.00 | 446.00 | 415.00 |
| 60-64 | 2,140.00 | 1,904.00 | 535.00 | 476.00 |

Zone 2

| Age Group | Annual | | Quarterly | |
|---|---|---|---|---|
| | Male | Female | Male | Female |
| 0-18 | $ 576.00 | $ 576.00 | $ 144.00 | $ 144.00 |
| 19-29 | 576.00 | 884.00 | 144.00 | 221.00 |
| 30-39 | 700.00 | 1,012.00 | 175.00 | 253.00 |
| 40-44 | 848.00 | 1,120.00 | 212.00 | 280.00 |
| 45-49 | 1,036.00 | 1,208.00 | 259.00 | 302.00 |
| 50-54 | 1,248.00 | 1,312.00 | 312.00 | 328.00 |
| 55-59 | 1,516.00 | 1,412.00 | 379.00 | 353.00 |
| 60-64 | 1,820.00 | 1,620.00 | 455.00 | 405.00 |

## Current and Recommended Subsidy Levels

### Current Subsidy Levels

| Income | Percent Reduction in Premium | $ Reduction in Deductible |
|---|---|---|
| $ 0- 5,999 | 33.3% | $ 500 |
| 6,000- 8,999 | 33.3% | 400 |
| 9,000-11,999 | 29.0% | 300 |
| 12,000-14,999 | 23.0% | 200 |
| 15,000-16,500 | 17.0% | 100 |

### Recommended Subsidy Levels

| Income | Percent Reduction in Premium | $ Reduction in Deductible |
|---|---|---|
| $ 0- 5,999 | 45.0% | $ 500 |
| 6,000- 8,999 | 40.0% | 400 |
| 9,000-11,999 | 35.0% | 300 |
| 12,000-14,999 | 30.0% | 200 |
| 15,000-17,999 | 25.0% | 100 |
| 18,000-19,999 | 20.0% | -0- |

# Projected Premiums for Recommended Age Bands and Subsidy Levels If Total Premium Recovers 70 Percent of Program Cost

| Premium Reduction | Income Level | Deductible Level | Premium | | | | | | Total Premium Subsidies | Total Deductible Subsidies* | Grand Total Subsidies | Estimated Population Distribution | | | Estimated Total Population | Percent of Subsidies |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 0-39 Annual | 0-39 Monthly | 40-54 Annual | 40-54 Monthly | 55-64 Annual | 55-64 Monthly | | | | 0-39 | 40-54 | 55-64 | | |
| SUBSIDIZED POPULATION: | | | | | | | | | | | | | | | | |
| 45% | $0-5,999 | 500 | $619.83 | $51.65 | $ 968.41 | $80.70 | $1,327.77 | $110.64 | $397,417 | $228,540 | $625,957 | 116 | 108 | 233 | 457 | 26% |
| 40% | $6,000-8,999 | 600 | 676.18 | 56.34 | 1,056.45 | 88.03 | 1,448.48 | 120.70 | 312,498 | 161,736 | 476,234 | 103 | 95 | 206 | 404 | 23% |
| 35% | $9,000-11,999 | 700 | 732.53 | 61.04 | 1,444.49 | 120.37 | 1,569.19 | 130.76 | 261,548 | 116,028 | 377,576 | 99 | 91 | 197 | 387 | 22% |
| 30% | $12,000-14,999 | 800 | 788.88 | 65.74 | 1,232.53 | 102.71 | 1,689.89 | 140.82 | 183,423 | 63,288 | 246,711 | 81 | 75 | 161 | 317 | 18% |
| 25% | $15,000-17,999 | 900 | 845.23 | 70.43 | 1,320.56 | 110.04 | 1,810.60 | 150.88 | 76,426 | 15,822 | 92,248 | 40 | 37 | 81 | 158 | 9% |
| 20% | $18,000-19,999 | 1000 | 901.58 | 75.13 | 1,408.60 | 117.38 | 1,931.31 | 160.94 | 13,587 | 0 | 13,587 | 9 | 8 | 18 | 35 | 2% |
| SUBTOTAL: | | | | | | | | | | | | 448 | 414 | 896 | 1,758 | |
| NON-SUBSIDIZED POPULATION: | | | | | | | | | | | | | | | | |
| 0% | $20,000+ | 1000 | $1,126.97 | $93.91 | $1,760.75 | $146.73 | $2,414.13 | $201.18 | 0 | 0 | 0 | 1,311 | 1,520 | 2,411 | 5,242 | 0% |
| TOTAL: | | | | | | | | | $1,244,899 | $585,414 | $1,830,313 | 1,759 | 1,934 | 3,307 | 7,000 | 100% |

*Full utilization of deductible

These are not recommended rates. They represent approximations for discussion purposes.

# Projected Premiums for Comparison Purposes: Recommended Age Bands and Subsidy Levels If Total Premium Recovers 75 Percent of Program Cost

| Premium Reduction | Income Level | Deductible Level | Premium: 0-39 Annual | Premium: 0-39 Monthly | Premium: Age 40-54 Annual | Premium: Age 40-54 Monthly | 55-64 Annual | 55-64 Monthly | Total Premium Subsidies | Total Deductible Subsidies* | Grand Total Subsidies | Estimated Population Distribution: Age 0-39 | Age 40-54 | Age 55-64 | Estimated Total Population | Percent of Subsidies |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| SUBSIDIZED POPULATION: | | | | | | | | | | | | | | | | |
| 45% | $0-5,999 | 500 | $664.11 | $55.34 | $1,037.59 | $86.46 | $1,422.61 | $118.55 | $425,803 | $228,540 | $654,343 | 116 | 108 | 233 | 457 | 26% |
| 40% | $6,000-8,999 | 600 | 724.48 | 60.37 | 1,131.91 | 94.32 | 1,551.94 | 129.32 | 334,820 | 161,736 | 496,556 | 103 | 95 | 206 | 404 | 23% |
| 35% | $9,000-11,999 | 700 | 784.86 | 65.40 | 1,226.24 | 102.18 | 1,681.27 | 140.10 | 280,230 | 116,028 | 396,258 | 99 | 91 | 197 | 387 | 22% |
| 30% | $12,000-14,999 | 800 | 845.23 | 70.43 | 1,320.56 | 110.04 | 1,810.60 | 150.88 | 196,525 | 63,288 | 259,813 | 81 | 75 | 161 | 317 | 18% |
| 25% | $15,000-17,999 | 900 | 905.60 | 75.46 | 1,414.89 | 117.90 | 1,939.93 | 161.66 | 81,885 | 15,822 | 97,707 | 40 | 37 | 81 | 158 | 9% |
| 20% | $18,000-19,999 | 1000 | 965.98 | 80.45 | 1,509.22 | 125.76 | 2,069.26 | 172.43 | 14,557 | 0 | 14,557 | 9 | 8 | 18 | 35 | 2% |
| SUBTOTAL: | | | | | | | | | | | | 448 | 414 | 896 | 1,758 | |
| NON-SUBSIDIZED POPULATION: | | | | | | | | | | | | | | | | |
| 0% | $20,000+ | 1000 | $1,207.47 | $100.62 | $1,886.52 | $157.21 | $2,586.57 | $215.55 | 0 | 0 | 0 | 1,311 | 1,520 | 2,411 | 5,242 | 0% |
| TOTAL: | | | | | | | | | $1,333,820 | $585,414 | $1,919,234 | 1,759 | 1,934 | 3,307 | 7,000 | 100% |

*Full utilization of deductible

These are not recommended rates. They represent approximations for discussion purposes.

# Estimated Effects of the Recommended 1990 Premium Increases on the Subsidized and Non-subsidized HIRSP Populations

(page 1 of 2)

ESTIMATED EFFECT OF ANTICIPATED AVERAGE 1990 HIRSP MONTHLY RATE INCREASES ON EXISTING SUBSIDIZED HIRSP POPULATION

| | TOTAL POPULATION OCT. 1989 | NON SUBSIDY POPULATION OCT. 1989 | SUBSIDY POPULATION OCT. 1989 | 1989 ESTIMATED AVERAGE (29%) SUBSIDY PER CONTRACT CURRENT PREMIUMS | | 1989 AVERAGE RATE SUBSIDIZED PARTICIPANT PAYS | | 1990 ESTIMATED AVERAGE (35%) SUBSIDY PER CONTRACT | | 1990 ESTIMATED PAYMENTS BY SUBSIDIZED PARTICIPANTS @35% SUBSIDY | | SUBSIDIZED @35% ESTIMATED AVERAGE INCREASE SUBSIDIZED PARTICIPANT PAYS PER MONTH |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | PER YEAR | PER MONTH | PER YEAR | PER MONTH | PER YEAR | PER MONTH | PER YEAR | PER MONTH | |
| 0-18 | 273 | 247 | 28 | $165 | $14 | $447 | $37 | $395 | $32 | $732 | $61 | $24 |
| 19-29 | 441 | 296 | 145 | $235 | $20 | $520 | $43 | $395 | $32 | $732 | $61 | $18 |
| 30-39 | 569 | 416 | 153 | $275 | $23 | $670 | $56 | $395 | $32 | $732 | $61 | $5 |
| SUBTOTAL 0-39 | 1285 | 959 | 326 | $248 | $21 | $561 | $47 | $395 | $32 | $732 | $61 | $14 |
| 40-44 | 357 | 278 | 79 | $308 | $26 | $755 | $63 | $616 | $51 | $1145 | $95 | $32 |
| 45-49 | 426 | 329 | 97 | $354 | $30 | $1079 | $90 | $616 | $51 | $1145 | $95 | $5 |
| 50-54 | 615 | 489 | 126 | $403 | $34 | $970 | $81 | $616 | $51 | $1145 | $95 | $14 |
| SUBTOTAL 40-54 | 1398 | 1096 | 302 | $363 | $30 | $949 | $79 | $616 | $51 | $1145 | $95 | $16 |
| 55-59 | 888 | 664 | 224 | $430 | $36 | $1122 | $94 | $845 | $70 | $1569 | $131 | $37 |
| 60-64 | 1526 | 1098 | 428 | $488 | $41 | $1327 | $111 | $845 | $70 | $1569 | $131 | $20 |
| SUBTOTAL 55-64 | 2414 | 1762 | 652 | $468 | $39 | $1250 | $104 | $845 | $70 | $1569 | $131 | $27 |
| TOTAL | 5097 | 3817 | 1280 | | | | | | | | | |

NOTE: 1990 data assumes 7,000 total participants of whom 1,757 receive subsidy, with an average subsidy of $709 per contract.
All data are working estimates for discussion purposes only.

# Estimated Effects of the Recommended 1990 Premium Increases on the Subsidized and Non-subsidized HIRSP Populations



ESTIMATED EFFECT OF ANTICIPATED
AVERAGE 1990 HIRSP MONTHLY PREMIUM INCREASES ON
EXISTING NON-SUBSIDIZED HIRSP POPULATION

| | TOTAL POPULATION OCT. 1989 | NON-SUBSIDY POPULATION OCT. 1989 | SUBSIDY POPULATION OCT. 1989 | 1989 AVERAGE PREMIUM PER CONTRACT PER YEAR | 1989 AVERAGE PREMIUM PER CONTRACT PER MONTH | 1990 ESTIMATED PREMIUM NEEDED TO RECOVER 70% OF PROGRAM COSTS PER YEAR | 1990 ESTIMATED PREMIUM NEEDED TO RECOVER 70% OF PROGRAM COSTS PER MONTH | 1990 ESTIMATED AVERAGE PREMIUM INCREASE PER MONTH | ESTIMATED AVERAGE ASSESSMENT PER CONTRACT PER MONTH | 1990 ESTIMATED AVERAGE INCREASE NON-SUBSIDIZED PARTICIPANT PAYS PER MONTH |
|---|---|---|---|---|---|---|---|---|---|---|
| 0-18 | 275 | 247 | 28 | $612 | $51 | $1127 | $94 | $43 | $ 3 | $40 |
| 19-29 | 441 | 296 | 145 | $755 | $63 | $1127 | $94 | $31 | | $31 |
| 30-39 | 569 | 416 | 153 | $945 | $79 | $1127 | $94 | $15 | | $15 |
| SUBTOTAL 0-39 | 1285 | 959 | 326 | $809 | $67 | $1127 | $94 | $27 | | |
| 40-44 | 357 | 278 | 79 | $1063 | $89 | $1761 | $147 | $58 | $18 | $40 |
| 45-49 | 426 | 329 | 97 | $1433 | $119 | $1761 | $147 | $28 | | $28 |
| 50-54 | 615 | 489 | 126 | $1373 | $114 | $1761 | $147 | $33 | | $33 |
| SUBTOTAL 40-54 | 1398 | 1096 | 302 | $1312 | $109 | $1761 | $147 | $38 | | |
| 55-59 | 888 | 664 | 224 | $1552 | $129 | $2414 | $201 | $72 | $32 | $40 |
| 60-64 | 1526 | 1098 | 428 | $1815 | $151 | $2414 | $201 | $50 | $10 | $40 |
| SUBTOTAL 55-64 | 2414 | 1762 | 652 | $1718 | $143 | $2414 | $201 | $58 | | |
| TOTAL | 5097 | 3817 | 1280 | | | | | | | |

NOTE: 1990 data assumes 7,000 total participants of whom 1,757 receive subsidy, with an average subsidy of $709 per contract.
All data are working estimates for discussion purposes only.

# Comparison of Estimated 1989 Subsidized Premiums with Estimates of Recommended Subsidized Premiums

| | 1989 MONTHLY PAYMENTS BY PARTICIPANTS AFTER APPLICATION OF ESTIMATED AVERAGE SUBSIDY | | | | 1990 MONTHLY PAYMENTS BY PARTICIPANTS AFTER APPLICATION OF ESTIMATE AVERAGE SUBSIDY | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | S=33-1/3% | S=29% | S=23% | S=17% | S=45% | S=40% | S=35% | S=30% | S=25% | S=20% |
| 0-18 | $34 | $36 | $39 | $42 | $52 | $56 | $61 | $66 | $70 | $75 |
| 19-29 | $42 | $45 | $48 | $52 | $52 | $56 | $61 | $66 | $70 | $75 |
| 30-39 | $52 | $56 | $61 | $65 | $52 | $56 | $61 | $66 | $70 | $75 |
| 0-39 | $45 | $48 | $52 | $56 | $52 | $56 | $61 | $66 | $70 | $75 |
| 40-44 | $59 | $63 | $68 | $73 | $81 | $88 | $95 | $103 | $110 | $117 |
| 45-49 | $79 | $85 | $92 | $99 | $81 | $88 | $95 | $103 | $110 | $117 |
| 50-54 | $76 | $85 | $92 | $99 | $81 | $88 | $95 | $103 | $110 | $117 |
| 40-54 | $73 | $78 | $84 | $91 | $81 | $88 | $95 | $103 | $110 | $117 |
| 55-59 | $86 | $92 | $100 | $107 | $111 | $120 | $131 | $141 | $150 | $161 |
| 60-64 | $101 | $107 | $116 | $126 | $111 | $120 | $131 | $141 | $150 | $161 |
| 55-64 | $95 | $102 | $110 | $119 | $111 | $120 | $131 | $141 | $150 | $161 |

NOTE: ESTIMATED AVERAGE SUBSIDY = 29%

NOTE: ESTIMATED AVERAGE SUBSIDY = 35%

## D. Options for Deficit Management

### D.1. Current Procedure

Section 619.13, Wisconsin Statutes, requires that HIRSP deficits be assessed against Wisconsin health insurers in proportion to each insurer's Wisconsin market share. Deficits in 1989 have exceeded $3.7 million.

When HIRSP was created, there was an explicit expectation by the Legislature that premiums paid by participants would eventually cover the costs of claims and expenses. The Legislature specified that after a three-year period of subsidization to cover any deficits, provided by assessments on all health insurers doing business in Wisconsin as well as sponsors of self-insured health plans, HIRSP should become self-sufficient.

The Legislature recognized at the time that the issue of assessments on self-insurers was a potential problem. However, the case law was not clear-cut on the issue, and a determination was made to include self-insurers in the assessment formula. As a result of subsequent litigation and Supreme Court decisions that prohibited states from deeming employee-welfare benefit plans to be insurance for any type of state regulation, including assessment of insurers, the Legislature eliminated self-insurers from the assessment base for HIRSP.

Since an estimated one-half of those who work in Wisconsin have employers who are self-insured, the entire burden of financing HIRSP was placed on HIRSP participants and the remaining one-half of health benefit plans insured by the insurance industry. In 1984, the HIRSP Board of Governors determined that this was an inequitable method of funding deficits and requested that the Legislature use GPR as a funding base to offset any losses and that the insurer assessment be phased out over four years. The statutory changes needed to accomplish this failed to be adopted by the Joint Finance Committee as part of the 1985-87 budget bill, and the assessment subsidy from insurers continued.

### D.2. Recommended Modifications

Determination of premiums to recover 70 percent of projected annual program costs leaves 30 percent of costs to be funded from other sources. These costs are principally associated with costs of catastrophic care, which the HIRSP claims administrator (Mutual of Omaha) classifies as costs for heart disease, arthritis, mental illness, and cancer (see Exhibit 12, page 31).

The HIRSP Board of Governors recommends that:

- 50 percent of HIRSP deficits for catastrophic costs not covered by premiums be assessed against Wisconsin health insurers in proportion to each insurer's Wisconsin market share and that state GPR fund 50 percent of HIRSP deficits;

- The Board negotiate with providers to accept reduced payment for services rendered to HIRSP participants.

D.3. Rationale for Recommendations

| Recommendations | Rationale |
|---|---|
| D.3.a. The state and the health insurance industry should bear an equal burden with regard to HIRSP deficits. | Catastrophic health-care costs incurred by the HIRSP population represent about 40 percent of total HIRSP costs. HIRSP participants and society as a whole should bear some of the cost of this care. The Board's premium recommendations (see Exhibit 8, page 23) allocate 10 percent of catastrophic costs to participants. The Board recommends that assessments of Wisconsin health insurers and state GPR equally share the remaining 30 percent. |
| D.3.b. The Board should negotiate with providers to accept reduced payment for services rendered to HIRSP participants. | This recommendation would reduce HIRSP costs and reduce deficits. This is preferable to an alternative approach, such as allocation of the deficit equally among the state, insurers, and providers. |

Exhibit 2 (page 6) summarizes the allocation of all costs to HIRSP participants, state GPR, and th e health insurance industry, based on the recommended premiums, subsidies and age bands, if premiums are established to recover 70 percent of total program costs and if current HIRSP participants are protected from premium increases of more than $40 per month in 1990. For comparison purposes, Exhibit 3 (page 7) provides the same information assuming that premiums recover 75 percent of total program costs.

## E. HIRSP Participants' Previous Health Care Coverage and Reasons for Entering HIRSP

In a recent study, the Wisconsin Office of the Commissioner of Insurance (OCI) reviewed 235 applications received by the plan administrator over a three-week period.

Of the 235 individuals, 107 said that they were covered by health insurance at the time of application. Of those who said that they were covered, 65 said that they intended to allow their coverage lapse in favor of HIRSP. Another 38 did not respond to the question.

Exhibit 13 (page 32) provides a copy of a complete report prepared by the OCI.

# HIRSP Claim Dollars, Hospital Days, Hospital Admissions, and Lengths of Stay, Calendar Years 1986, 1987, and 1988

CALENDAR YEAR 1986

| TYPE OF CARE | CLAIM DOLLARS | % OF TOTAL | NATIONAL NORM | % DIFFERENCE | HOSPITAL DAYS | % OF TOTAL | HOSPITAL ADMISSIONS | % OF TOTAL | LENGTH OF STAY | NATIONAL NORM | % DIFFERENCE |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Catastrophic Care | $1,479,016 | 45.8% | 29.7% | 54.2% | 1,884 days | 52.5% | 179 | 43.5% | 10.5 days | 9.1 days | 15.4% |
| Non-Catastrophic Care | 1,753,542 | 54.2 | 70.3 | -22.9 | 1,729 days | 47.5 | 233 | 56.5 | 7.49 days | ... | ... |
| Totals | $3,232,558 | 100.0% | 100.0% | -- | 3,613 days | 100.0% | 412 | 100.0% | 8.8 days | 5.9 days | 49.2% |

CALENDAR YEAR 1987

| TYPE OF CARE | CLAIM DOLLARS | % OF TOTAL | NATIONAL NORM | % DIFFERENCE | HOSPITAL DAYS | % OF TOTAL | HOSPITAL ADMISSIONS | % OF TOTAL | LENGTH OF STAY | NATIONAL NORM | % DIFFERENCE |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Catastrophic Care | $1,587,176 | 41.0 | 30.6 | 34.0 | 1,929 | 50.1 | 175 | 40.6 | 11.2 days | 9.6 days | 16.7 |
| Non-Catastrophic Care | 2,283,602 | 59.0 | 69.4 | -15.0 | 1,919 | 49.9 | 256 | 59.4 | 7.33 | ... | ... |
| Totals | $3,870,778 | 100.0 | 100.0 | -- | 3,848 | 100.0 | 431 | 100.0 | 8.9 days | 6.0 days | 48.3 |

CALENDAR YEAR 1988

| TYPE OF CARE | CLAIM DOLLARS | % OF TOTAL | NATIONAL NORM | % DIFFERENCE | HOSPITAL DAYS | % OF TOTAL | HOSPITAL ADMISSIONS | % OF TOTAL | LENGTH OF STAY | NATIONAL NORM | % DIFFERENCE |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Catastrophic Care | $2,474,883 | 45.2 | 30.1 | 50.2 | 2,103 | 54.7 | 243 | 44.3 | 8.7 days | 9.0 days | -3.3 |
| Non-Catastrophic Care | 3,006,029 | 54.8 | 69.9 | -21.6 | 1,741 | 45.3 | 305 | 55.7 | 5.6 | .... | .... |
| Totals | $5,480,912 | 100.0 | 100.0 | -- | 3,844 | 100.0 | 548 | 100.0 | 7.0 days | 6.0 days | 16.7 |

Summary of Calendar Years 1986, 1987, and 1988

| TYPE OF CARE | CLAIM DOLLARS | % OF TOTAL |
|---|---|---|
| Catastrophic Care | $5,541,075 | 44 |
| Non-Catastrophic Care | 7,043,173 | 56 |
| TOTAL | $12,584,248 | 100% |

# HIRSP Participants' Previous Health Care Coverage and Reasons for Entering HIRSP



State of Wisconsin \ OFFICE OF THE COMMISSIONER OF INSURANCE

*Tommy G. Thompson*
*Governor*

*Robert D. Haase*
*Commissioner*
123 West Washington Avenue
P.O. Box 7873
Madison, Wisconsin 53707
(608) 266-3585

DATE: December 8, 1989

TO: Alan Patek
Senator Van Sistine's Office

FROM: Mary Grossman
Office of the Commissioner of Insurance

SUBJECT: Information on HIRSP enrollees

At our recent meeting you asked us to review HIRSP applications and rejection notices to determine, to the extent possible:

1. Whether HIRSP enrollees have other health coverage at the time they apply to the program?

2. Whether this coverage is provided by an insurer or through an employer self-funded plan?

3. Whether the person intends to lapse the coverage they have when they become eligible for HIRSP?

4. The reason the person is eligible for HIRSP.

We reviewed 235 applications and rejection notices received by the HIRSP administrator over a recent three-week period. Our review consisted of tabulating the answers to three questions on the applications and reviewing rejection notices to determine which insurance company issued the rejection.

The questions we reviewed were:

Questions 3 B

Please indicate which of the following actions or notifications you have received in the last nine months due to health reasons:

A notice of rejection or cancellation of health insurance coverage from one or more health insurers;

A notice of health insurance benefit reduction or limitation which substantially reduces benefits compared to benefits available to others such as a rider that excludes or modifies benefits for a condition;

# HIRSP Participants' Previous Health Care Coverage and Reasons for Entering HIRSP





A notice of an increase in premium exceeding the premium then in effect for the insured person by 50% or more, unless the increase applies to substantially all of the insurer's health insurance policies in effect;

A notice of premium for a policy not yet in effect from one or more health insurers which exceeds by 50% or more the premium charged a person considered a standard risk.

Question 9

Are you currently covered by other health insurance? If "Yes," please provide name of insurance company.

Question 11

Do you intend to allow to lapse or otherwise terminate your present policy, to be replaced by HIRSP coverage?

The results of our review are summarized on the attached chart. As the chart indicates, almost half of the applicants indicated that they were currently covered by insurance. All except a few gave an insurance company name. We cannot tell from this information whether the person is in an insured plan with that company or whether the insurer is acting as an administrator for a self-funded plan. In most cases, we also are not able to tell whether the person has group or individual coverage. The insurers which were most commonly listed by respondents were WPS, Blue Cross, and Employers Health of Green Bay. These are all companies with large market shares in the group health market. WPS and Blue Cross also have large market shares in the individual market.

Of those who indicated they had insurance, about half said they intended to lapse or terminate the coverage they had. The others did not answer the question. It is impossible for us to tell from the information on the survey whether they are terminating the coverage voluntarily or are losing eligibility for the coverage and therefore are not able to continue it.

Almost 90% of the applicants indicated that the reason for their eligibility in the plan was because of a notice of rejection from an insurance company. The insurers most commonly listed were Time, American Family, and Rural Security. These are all large individual health insurance writers.

Another large category was eligible because of what we've called "doctor letters." Although not outlined in the statutes, there is a procedure for getting into HIRSP through which doctors describe a person's medical condition and send the information to the Plan Administrator. Mutual of Omaha reviews this medical information and states whether, based on this information, the person would be rejected for coverage with Mutual of Omaha.

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# HIRSP Participants' Previous Health Care Coverage and Reasons for Entering HIRSP



REVIEW OF HIRSP APPLICATIONS AND REJECTION NOTICES

| Currently Covered by Insurance | Name of Insurance Company Person Currently Insured With | | Type of Coverage | | Intention to Lapse | | Reason Eligible for HIRSP | | Company Issuing Eligibility, Rejection Notice | |
|---|---|---|---|---|---|---|---|---|---|---|
| Yes 107 | WPS | 23 | Group | 43 | Yes | 65 | Notice of rejection | 205 | Time | 47 |
| No 128 | Blue Cross & Blue Shield | 17 | Individual | 5 | No | 4 | Notice of health ins. reduction | 10 | Doctor's Letters | 31 |
| Total 235 | Employers Health | 12 | Unknown | 59 | Unknown | 38 | Notice of increase in premium | 5 | American Family | 24 |
| | TPAs | 9 | | 107 | | 107 | Notice premium exceeds 50% | 2 | Rural Security | 17 |
| | Union Fund | 6 | | | | | Nothing checked | 13 | Goden Rule | 14 |
| | Golden Rule | 4 | | | | | | 235 | Employers Health | 9 |
| | Connecticut General | 3 | | | | | | | MidAmerica Mutual | 8 |
| | American Medical Sec. | 3 | | | | | | | State Farm | 8 |
| | American Family Mutual | 3 | | | | | | | WPS | 7 |
| | Prudential | 2 | | | | | | | Bankers Life & Casualty | 6 |
| | Prudential AARP | 2 | | | | | | | Midwestern National | 5 |
| | Midwestern National | 1 | | | | | | | Greater Marshfield | 4 |
| | Mutual Benefit Life | 1 | | | | | | | Deancare | 4 |
| | NAIT | 1 | | | | | | | American Medical Sec. | 4 |
| | National Travelers | 1 | | | | | | | Blue Cross & Blue Shield | 3 |
| | Michael Reese Senior Plan | 1 | | | | | | | AAL | 3 |
| | MidAmerica Mutual | 1 | | | | | | | American Republic | 2 |
| | Primecare | 1 | | | | | | | American Mutual | 2 |
| | Rural Security | 1 | | | | | | | Aetna | 2 |
| | Samaritan Health | 1 | | | | | | | HMO Midwest | 2 |
| | Security Health | 1 | | | | | | | John Alden Life | 2 |
| | Time | 1 | | | | | | | Mutual of Omaha | 2 |
| | Union Bankers | 1 | | | | | | | Principal | 2 |
| | Metropolitan Life | 1 | | | | | | | Security Health Plan | 2 |
| | John Hancock | 1 | | | | | | | Physicians Mutual | 2 |
| | Illinois Mutual | 1 | | | | | | | Life Investors Plus | 2 |
| | Greater Marshfield | 1 | | | | | | | Travelers | 2 |
| | Employers of Wausau | 1 | | | | | | | Insurance Agencies | 2 |
| | Durham Life | 1 | | | | | | | Lutheran Brotherhood | 1 |
| | Compreshensive Assoc. of North Dakota | 1 | | | | | | | Federal Life | 1 |
| | Celtic Life | 1 | | | | | | | Continental General | 1 |
| | | | | | | | | | HMO of Wisconsin | 1 |

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# HIRSP Participants' Previous Health Care Coverage and Reasons for Entering HIRSP



| Currently Covered by Insurance | Name of Insurance Company | Type of Coverage | Intention to Lapse | Reason Eligible for HIRSP | Company Issuing Eligibility Notice |
|---|---|---|---|---|---|
| | New York Life 1 | | | | National Travelers 1 |
| | Association Life 1 | | | | Life Ins Co of N. Amer. 1 |
| | North Central Health Protection 1 | | | | Physicians Plus 1 |
| | Total 107 | | | | Pioneer Life 1 |
| | | | | | Mutual Service Life 1 |
| | | | | | Commercial Life 1 |
| | | | | | Network 1 |
| | | | | | Sentry 1 |
| | | | | | Central Life 1 |
| | | | | | Bankers Multiple Line 1 |
| | | | | | TPA 1 |
| | | | | | Pekin 1 |
| | | | | | Association Life 1 |
| | | | | | Total 235 |

Exhibit 14

# Summary of HIRSP Participants, Income, and Expenses, 1981 through 1988

| | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|---|---|
| A. Claim $ (Plus Admin.) | 37,166 | 1,144,687 | 2,463,703 | 3,104,604 | 3,265,492 | 3,336,088 | 3,956,056 | 5,518,189 |
| B. # Claims | | 2,918 | 8,862 | 10,651 | 10,959 | 13,735 | 16,606 | 24,125 |
| C. # Checks | 21 | 1,760 | 4,275 | 4827 | 5,687 | 7,350 | 9,920 | 13,494 |
| D. Policies in force at year-end | 278 | 864 | 1,595 | 1,693 | 1,687 | 1,779 | 2,143 | 3,350 |
| E. Annual Terminations | 8 | 182 | 448 | 743 | 649 | 525 | 682 | 747 |
| F. Premiums collected* | | | | | | 2,698,268 | 2,959,861 | 4,056,670 |
| G. Premiums as a percent of total cost* | | | | | | 81 | 75 | 74 |
| H. Premiums as a percent of covered claims and administrative costs* | | | | | | 75 | 69 | 68 |
| I. Assessments | | | | | | 750,000 | 1,200,000 | 1,900,000 |
| J. Admin. Expenses | | | | | | 243,729 | 322,583 | 432,275 |
| K. Subsidy funds allocated | | | | | | | | 408,212 |

*There were no premium increases in these years. This is the principal reason for the declines noted in lines G. and H.

Exhibit 15

# HIRSP Population Receiving Premium Subsidies by Age, Gender, and Subsidy Level, October 1989

HIRSP POPULATION RECEIVING 17% PREMIUM SUBSIDY
BY AGE AND GENDER

| | 0-18 | 19-29 | 30-39 | 40-44 | 45-49 | 50-54 | 55-59 | 60-64 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| F | 1 | 0 | 6 | 3 | 2 | 7 | 22 | 29 | 70 |
| M | 2 | 4 | 2 | 4 | 3 | 6 | 4 | 10 | 35 |
| TOTAL | 3 | 4 | 8 | 7 | 5 | 13 | 26 | 39 | 105 |

HIRSP POPULATION RECEIVING 23% PREMIUM SUBSIDY
BY AGE AND GENDER

| | 0-18 | 19-29 | 30-39 | 40-44 | 45-49 | 50-54 | 55-59 | 60-64 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| F | 3 | 7 | 15 | 13 | 14 | 14 | 36 | 90 | 192 |
| M | 4 | 12 | 15 | 8 | 9 | 6 | 13 | 28 | 95 |
| TOTAL | 7 | 19 | 30 | 21 | 23 | 20 | 49 | 118 | 287 |

HIRSP POPULATION RECEIVING 29% PREMIUM SUBSIDY
BY AGE AND GENDER

| | 0-18 | 19-29 | 30-39 | 40-44 | 45-49 | 50-54 | 55-59 | 60-64 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| F | 4 | 12 | 12 | 4 | 13 | 16 | 33 | 108 | 202 |
| M | 5 | 11 | 11 | 7 | 8 | 9 | 17 | 26 | 94 |
| TOTAL | 9 | 23 | 23 | 11 | 21 | 25 | 50 | 134 | 296 |

HIRSP POPULATION RECEIVING 33% PREMIUM SUBSIDY
BY AGE AND GENDER

| | 0-18 | 19-29 | 30-39 | 40-44 | 45-49 | 50-54 | 55-59 | 60-64 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| F | 6 | 45 | 45 | 24 | 31 | 51 | 70 | 105 | 377 |
| M | 3 | 54 | 47 | 16 | 17 | 17 | 29 | 32 | 215 |
| TOTAL | 9 | 99 | 92 | 40 | 48 | 68 | 99 | 137 | 592 |

Exhibit 16

# HIRSP Population by Age and Gender, October 1989

| | 0-18 | 19-29 | 30-39 | 40-44 | 45-49 | 50-54 | 55-59 | 60-64 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| F | 128 | 171 | 273 | 189 | 221 | 351 | 548 | 1,014 | 2,895 |
| M | 147 | 270 | 296 | 168 | 205 | 264 | 340 | 512 | 2,202 |
| TOTAL | 275 | 441 | 569 | 357 | 426 | 615 | 888 | 1,526 | 5,097 |

# HIRSP Subsidy Population Aggregated Within Recommended Consolidated Age Bands, October 1989

Current Subsidy Population
Aggregated Within Recommended Consolidated Age Bands

| | | T O T A L S | | | |
|---|---|---|---|---|---|
| | | Total | 0-39 | 40-54 | 55-64 |
| 1. | Total Population | 5,097 | 1,285 | 1,398 | 2,414 |
| 2. | Percent of Total Population | 100 | 25.2 | 27.4 | 47.3 |
| 3. | Subsidy Population | 1,280 | 326 | 302 | 652 |
| | a. 33% | 592 | 200 | 156 | 236 |
| | b. 29% | 296 | 55 | 57 | 184 |
| | c. 23% | 287 | 56 | 64 | 167 |
| | d. 17% | 105 | 15 | 25 | 65 |
| 4. | Percent of Subsidy Population Receiving Subsidy | 100 | 25.47 | 23.59 | 50.94 |
| | a. 33% | 46.25 | 15.63 | 12.19 | 18.43 |
| | b. 29% | 23.13 | 4.30 | 4.45 | 14.38 |
| | c. 23% | 22.42 | 4.37 | 5.00 | 13.05 |
| | d. 17% | 8.20 | 1.17 | 1.95 | 5.08 |
| 5. | Premium Payments | 1,021,730 | 1,039,140 | 1,834,654 | 4,147,936 |
| 6. | Average Premium Per Contract | 1,377.62 | 808.67 | 1.312.35 | 1,718.28 |
| 7. | Total Subsidy Payments | 505,594 | 82,080 | 115,112 | 308,402 |
| 8. | Average Subsidy Payment | 395.00 | 251.78 | 381.17 | 473.01 |
| 9. | Subsidy Payments as Percent of Premium with Population | 7.20 | 7.90 | 6.27 | 7.44 |
| 10. | Subsidy Payments as Percent of Total Premium | 7.20 | 1.17 | 1.64 | 4.39 |
| 11. | Subsidy Payments as Percent of Total Subsidy Payments' | 100 | 16.23 | 22.77 | 61.00 |
| 12. | Average Subsidy as Percent of Average Premium Per Contract | 28.67 | 31.14 | 29.04 | 27.53 |