

**1999 DRAFTING REQUEST**

**Bill**

Received: **01/15/99**

Received By: **kahlepj**

Wanted: **Soon**

Identical to LRB:

For: **Administration-Budget 7-9546**

By/Representing: **Jablonsky**

This file may be shown to any legislator: **NO**

Drafter: **kahlepj**

May Contact:

Alt. Drafters:

Subject: **Insurance - health**

Extra Copies:

**Topic:**

DOA:.....Jablonsky - OCI to provide grant to private entity for establishing a small employer health insurance purchasing pool

**Instructions:**

See Attached

**Drafting History:**

| <u>Vers.</u> | <u>Drafted</u>      | <u>Reviewed</u>     | <u>Typed</u>         | <u>Proofed</u> | <u>Submitted</u>         | <u>Jacketed</u> | <u>Required</u> |
|--------------|---------------------|---------------------|----------------------|----------------|--------------------------|-----------------|-----------------|
| /?           | kahlepj<br>01/18/99 | gilfokm<br>01/18/99 |                      | _____          |                          |                 | State           |
| /1           |                     |                     | jfrantze<br>01/19/99 | _____          | lrb_docadmin<br>01/19/99 |                 |                 |

FE Sent For:

<END>

**1999 DRAFTING REQUEST**

**Bill**

Received: **01/15/99**

Received By: **kahlepj**

Wanted: **Soon**

Identical to LRB:

For: **Administration-Budget 7-9546**

By/Representing: **Jablonsky**

This file may be shown to any legislator: **NO**

Drafter: **kahlepj**

May Contact:

Alt. Drafters:

Subject: **Insurance - health**

Extra Copies:

**Topic:**

DOA:.....Jablonsky - OCI provide grant to private entity for establishing a small employer health insurance purchasing pool

**Instructions:**

See Attached

**Drafting History:**

| <u>Vers.</u> | <u>Drafted</u> | <u>Reviewed</u>  | <u>Typed</u> | <u>Proofed</u> | <u>Submitted</u> | <u>Jacketed</u> | <u>Required</u> |
|--------------|----------------|------------------|--------------|----------------|------------------|-----------------|-----------------|
| 1/?          | kahlepj        | 1-1-1899<br>King | Jo/19        | Jo/wlj<br>1/19 |                  |                 |                 |

FE Sent For:

<END>

STATE OF WISCONSIN



Department of Administration  
Division of State Management, Budget and Planning  
101 S. Webster - 7th Floor  
Telephone: 266

Date:

To:

Steve Miller

From: Sue Jablonsky 7-9546

I am sending 2 possible proposals  
(won't know til the weekend if  
either is a go yet)

1. Small employe purchasing pool  
similar to 383 332 only now  
a grant to a private sector  
organization rather than a  
state agency. Agency to  
administer yet to be set.
2. Medicaid buy in for drugs.  
Non MA eligibles can get drug  
rebates.

I'm sending these as a heads-up  
I will know more after this  
weekend

1. Small Employer Purchasing Pool
2. MA Drug Buy In TMA



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Tommy G. Thompson**  
Governor

**Randy Blumer**  
Commissioner (Acting)

121 East Wilson Street  
P.O. Box 7873  
Madison, Wisconsin 53707-7873  
(608) 266-3585

## Small Employer Purchasing Alliances Private Sector Alternative

A number of states have experimented with both state administered and privately administered purchasing alliances or pools. All of the pools share the goal of pooling small employer groups together to purchase health insurance in an effort to achieve a greater level of premium stability.

### State Run Pools - Background

The state of California, for example, created a pool administered as a quasi-governmental unit with the intent of transferring control to the private sector in 3 years. The pool has been moderately successful in controlling premium rate increases and continues to grow in size with 130,000 enrollees, although as a percentage of the overall market remains small. Translated to Wisconsin population base, the pool would have the equivalent of approximately 30,000 enrollees in Wisconsin. California has twice attempted to turn over administration of the pool to the private sector and has been unable to find a vendor.

### Private Sector Pools -

In a number of other states, notably Florida, Ohio and Colorado, private sector entities have set up small employer pools, with or without state assistance.

In Florida, the pool, which is known as the Community Health Purchasing Alliance (CHPA), works with 27 insurers to offer small businesses health insurance. The plan offers three different benefit packages, with a variety of coinsurance and deductibles.

Both Cleveland and Cincinnati have local Chambers of Commerce sponsoring health insurance pools for local small employers that have been in operation for many years. The pools contract with insurers to provide access to several different policies that any pool member may elect. The Cincinnati pool contracts with both Humana and United Health to offer products to members.

### Madison Alliance - A-CHIP

A number of states, including Wisconsin have experience with successful privately run pools. The Alliance, which has for years pooled the purchasing power for Madison area large employers, began a program for small employers two years ago (groups of 1-99). The plan includes some of the restrictions OCI had identified to control adverse selection by only high-cost groups. For example, if a group leaves the plan, they cannot re-enter for three years. This is also similar to the requirement ETF has for local government plans.

The A-CHIP program offers insurance through only one insurer, Group Health Cooperative HMO. As part of the plan, they guarantee limits on rate increases for three years of less than 6% per year. The plan is community rated. Employers are required to contribute 50% of single premium. Policies for two individuals and families are also available.

|                   |              |         |              |
|-------------------|--------------|---------|--------------|
| Post-it® Fax Note | 7871         | Date    | # of pages ▶ |
| To                | <i>Tom K</i> | From    | <i>Sue</i>   |
| Co./Dept.         |              | Co.     |              |
| Phone #           |              | Phone # |              |
| Fax #             |              | Fax #   |              |

In two years, they have enrolled about 400 groups and almost 4,000 individuals, with a retention rate of 97%.

The Alliance feels the plan is doing very well and offered few suggestions for change. They would like to offer a choice of plans and are working with other insurers to negotiate new options. In addition, they would like to be able to establish better communication with agents and improve marketing.

The strategy the Alliance is taking with their program seems to be a good one. The plan will never be able to offer the lowest rate to enough employers to avoid adverse selection. It is possible that by obtaining some rate guarantees to attract groups initially, they can sell the plan based on its rate stability in the future, and not on current rates. This will be an interesting experiment, since most small employers are notorious rate-shoppers.

#### **Proposal for Reform – Facilitate Private Sector Purchasing Pools**

The best approach for the state is to facilitate the proliferation of private purchasing pools. Other states have recognized that a privately run pool is preferable to a state run pool. While California chose to start the pool and later transfer control to a private entity, a more appropriate approach may be to facilitate the private creation of pools. Since private pools are functioning now in Wisconsin, it would seem to indicate that they can operate effectively, and should not be done by the government. These pools would be allowed to market only licensed insurance products.

There are a number of ways to facilitate purchasing pools:

**Seed Money** – One of the chief concerns regarding purchasing pools is that they would have trouble reaching a critical mass. In order to create purchasing muscle, a significant number of employers and members are necessary. Seed money to facilitate marketing and start-up/expansion costs for a purchasing pool appears to be a positive step. Grants could be made available to organizations that are pre-qualified by OCI. Qualification by OCI would allow the state to utilize the agency's expertise and analysis to ensure that credible groups are forming the pools and that proper planning has been undertaken in their creation.

Money would likely be provided under a provision from the Wisconsin Development Fund or some other funding source. Initially, this program could be done as a pilot, with up to one million dollars made available (we'd have to walk through some of the expenses in more detail to establish a number). If done as a pilot project, probably only one or two pools would be created. In this scenario, funding requirements would likely be \$500,000.

**Regulatory Relief** – Relief from some state regulation has been sought by various groups. If significant differences are created between the pools and the overall group health insurance market, all business will migrate to the pools. This change would very likely create greater instability in the group health insurance market and be detrimental to consumers in the near and medium term concessions.

There are, however, statutory changes that could be made to facilitate pool creation, for example:

**Rate Bands** – Currently insurers are required to apply rate band calculations to their entire block of business. A common concession for purchasing pools is to allow insurers to apply a different rate band calculation to pool business, making it more flexible. This exemption would probably help to attract insurers to offer coverage under the pool.



State of Wisconsin  
1999 - 2000 LEGISLATURE

LRB-1815/A  
PJK... King

DOA:.....Jablonsky - OCI <sup>to</sup> provide grant to private entity for establishing a small employer health insurance purchasing pool

FOR 1999-01 BUDGET — NOT READY FOR INTRODUCTION

SOON  
(1-18)  
D-note

do not  
give cost

- 1 AN ACT <sup>to</sup>; relating to: a grant to establish small employer health insurance
- 2 purchasing pools and making an appropriation.

*Analysis by the Legislative Reference Bureau*

**INSURANCE**

The bill authorizes the office of the commissioner of insurance (OCI) to make a grant of not more than \$200,000 to a private organization for the establishment of private health insurance purchasing pools for small employers. (Generally, small employers are those with 50 or fewer employees.) The private organization must submit a business plan to OCI and the commissioner of insurance must approve the plan before the grant may be made. OCI and the private organization must enter into a written agreement concerning the use of the grant proceeds, and the private organization must submit a report to OCI on the use of the grant proceeds within 6 months after spending the proceeds.

For further information see the *state* fiscal estimate, which will be printed as an appendix to this bill.

***The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:***

*health insurance*

1

SECTION 1. 20.145 (1) (c) of the statutes is created to read:

2

20.145 (1) (c) *Grant for small employer purchasing pool* The amounts in the

3

schedule for the grant under 1999 Wisconsin Act .... (this act), section 9126 (4).

*note: bud*

4

SECTION 2. 20.145 (1) (c) of the statutes, as created by (this act), is repealed.

*auto ref A*

5

SECTION 9126. **Nonstatutory provisions; insurance.**

*auto ref. "A"*

6

(1) GRANT FOR ESTABLISHING SMALL EMPLOYER HEALTH INSURANCE PURCHASING

7

POOLS.

*1999 Wisconsin Act ....*

8

(a) In this subsection:

9

1. "Commissioner" means the commissioner of insurance.

10

2. "Office" means the office of the commissioner of insurance.

11

3. "Small employer" has the meaning given in section 635.02 (7) of the statutes.

12

(b) The office may make a grant of not more than \$200,000 from the

13

appropriation under section 20.145 (1) (c) of the statutes, as created by this act, to

14

a private organization for the purpose of establishing health insurance purchasing

15

pools for private small employers if all of the following apply:

16

1. The private organization submits a plan to the office detailing the proposed

17

use of the grant and the commissioner approves the plan.

18

2. The private organization enters into a written agreement with the office that

19

specifies the conditions for use of the grant proceeds, including reporting and

20

auditing requirements.

21

3. The private organization agrees in writing to submit to the office the report

22

required under paragraph ( ) by the time required under paragraph ( ).

23

(c) If a private organization receives a grant under this subsection, it shall

24

submit to the office, within 6 months after spending the full amount of the grant, a

25

report detailing how the grant proceeds were used.

*auto ref B*

1 (d) The office may not pay grant proceeds under this subsection after June 30,  
2 2000.

3 **SECTION 9426. Effective dates; insurance.**

4 (1) GRANT TO ESTABLISH SMALL EMPLOYER PURCHASING POOLS. The repeal of section  
5 20.145 (1) (c) of the statutes takes effect on July 1, 2000.

6 (END)

*health insurance*  
*Auto*

*D-note*



**DRAFTER'S NOTE**  
**FROM THE**  
**LEGISLATIVE REFERENCE BUREAU**

LRB-1815/rdn

PJK.....  
*King*

Sue:

1. This language is patterned after the many grants that I draft for the department of commerce. Do you want any more detail added?
2. Because the memo from OCI referred to "facilitating the proliferation of private purchasing pools", I made the purpose of the grant to establish "pools". Let me know if you really want only one pool to be established.

Pamela J. Kahler  
Senior Legislative Attorney  
266-2682

**DRAFTER'S NOTE  
FROM THE  
LEGISLATIVE REFERENCE BUREAU**

LRB-1815/1dn  
PJK:kmg:jf

January 19, 1999

Sue:

1. This language is patterned after the many grants that I draft for the department of commerce. Do you want any more detail added?

2. Because the memo from OCI referred to "facilitating the proliferation of private purchasing pools", I made the purpose of the grant to establish "pools". Let me know if you really want only one pool to be established.

Pamela J. Kahler  
Senior Legislative Attorney  
266-2682



State of Wisconsin  
1999 - 2000 LEGISLATURE

LRB-1815/1

PJK:kmg:jf

DOA:.....Jablonsky - OCI to provide grant to private entity for establishing  
a small employer health insurance purchasing pool

FOR 1999-01 BUDGET -- NOT READY FOR INTRODUCTION

- 1 AN ACT ...; relating to: a grant to establish small employer health insurance  
2 purchasing pools and making an appropriation.

---

*Analysis by the Legislative Reference Bureau*

**INSURANCE**

The bill authorizes the office of the commissioner of insurance (OCI) to make a grant of not more than \$200,000 to a private organization for the establishment of private health insurance purchasing pools for small employers. (Generally, small employers are those with 50 or fewer employees.) The private organization must submit a business plan to OCI and the commissioner of insurance must approve the plan before the grant may be made. OCI and the private organization must enter into a written agreement concerning the use of the grant proceeds, and the private organization must submit a report to OCI on the use of the grant proceeds within 6 months after spending the proceeds.

For further information see the *state* fiscal estimate, which will be printed as an appendix to this bill.

---

*The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:*

1           **SECTION 1.** 20.145 (1) (c) of the statutes is created to read:

2           20.145 (1) (c) *Grant for small employer health insurance purchasing pools.* The  
3 amounts in the schedule for the grant under 1999 Wisconsin Act .... (this act), section  
4 9126 (1).

      \*\*\*\*NOTE: This SECTION involves a change in an appropriation that must be reflected in the revised schedule in s. 20.005, stats.

5           **SECTION 2.** 20.145 (1) (c) of the statutes, as created by 1999 Wisconsin Act ....  
6 (this act), is repealed.

7           **SECTION 9126. Nonstatutory provisions; insurance.**

8           (1) GRANT FOR ESTABLISHING SMALL EMPLOYER HEALTH INSURANCE PURCHASING  
9 POOLS.

10          (a) In this subsection:

- 11           1. "Commissioner" means the commissioner of insurance.  
12           2. "Office" means the office of the commissioner of insurance.  
13           3. "Small employer" has the meaning given in section 635.02 (7) of the statutes.

14          (b) The office may make a grant of not more than \$200,000 from the  
15 appropriation under section 20.145 (1) (c) of the statutes, as created by this act, to  
16 a private organization for the purpose of establishing health insurance purchasing  
17 pools for private small employers if all of the following apply:

18           1. The private organization submits a plan to the office detailing the proposed  
19 use of the grant and the commissioner approves the plan.

20           2. The private organization enters into a written agreement with the office that  
21 specifies the conditions for use of the grant proceeds, including reporting and  
22 auditing requirements.

