

Sen. Robson's Questions

Senate Health Committee Hearing
201 SE, 1:30 p.m.
December 15, 1999
HIRSP Clearinghouse Rule 99-113

DHFS is proposing legislation to remove the 150% requirement for setting the Plan 2 rates. The rates would be figured the same way they have in the past. The Plan 2 rates would be the percentage difference between the covered expenses in the previous calendar year of Plan 1 and the covered expenses in the previous year of Plan 2.

The Plan 2 rates in this Clearinghouse Rule represent 67% of the Plan 1 rates.

PROBLEMS:

1. We are using the 150% rate for Plan 1 and will continue to do so. If the 150% requirement is O.K. for Plan 1, why doesn't it work for Plan 2?
2. On Page 3 of the Clearinghouse Rule 99-113 analysis, the department states that the "Plan 2 premium rates included in this rulemaking order are based on actual Plan 2 costs, after adjustments are made for insurer assessments and provider payment rates." Since insurer assessments and provider payment rates are required to equal 40% of the cost of the Plans, does this mean the premium rates equal 60% of the cost of Plan 2?
3. If the premium rates for Plan 2 equal 60% of the cost, then we are basing Plan 2 on cost, while we base Plan 1, first on market rates. This is contrary to the statutory directive to first establish the premium at 150% of the market rate, and then require the rate to cover 60% of the cost.

EXPLANATION

The department should be asked to go through the steps that are taken to determine the rates:

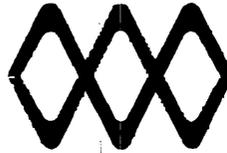
1. "First from the moneys transferred to the fund from the appropriation account under s. 20.435 (4) (af)" (\$9.9 million GPR in 1999-00).

2. From premiums set at 150% of the rate that a standard risk would be charged, including premium and deductible subsidies (\$780,800 GPR in 1999-00), and the premiums for the coverage with the \$2,500 deductible.
3. If the funds don't equal 60% of plan costs, then use money that is set aside from previous years when excess funds were collected. Excess funds result from the requirement that the policyholders pay 150% of the standard rate, but the total exceeds 60% of plan costs.
4. If the funds still don't equal 60%, increase the rates more than 150%, but it can't be more than 200%. Also, increase rates on high deductible coverage.
5. If the funds still don't equal 60%, increase insurer and provider assessments to equal the 60%.

QUESTIONS

1. How are the age/sex rates for Plan 2 determined? The Medicare Supplement Insurance Approved Policies booklet does not have any age/sex differentiation for Medicare policies issued for those under 65.
2. What has been the actual HIRSP Plan 2 cost for each age group? How does it correlate with the age group rates proposed in the Clearinghouse Rule?
3. The benefit relativity for prescription drug coverage is based on "experience for an Aged Medicare Supplement population." (actuarial report, page 3) Is this basis appropriate for an under 65 Medicare population? Why wouldn't Medicaid disabled recipients in corresponding age/sex groups be more appropriate?
4. Plan 2 has a \$500 deductible. Was this deductible considered when the cost for optional benefits in the Medicare Supplement policies, such as Part A and Part B deductible coverage, were included.

5. Sec. 149.12 (3)(b) extends eligibility to persons who may receive deductible or coinsurance amounts under other statutory provisions for vocational rehabilitation, renal disease, hemophilia, cystic fibrosis, maternal and child health services, HIV infection and AIDS. Were these offsets factored in to the HIRSP costs?
6. The monthly reports include a chart for the breakdown of receipts and expenditures between Plan 1 and Plan 2, but the only column with numbers, other than zeroes, is the column that gives the Total. What is the breakdown between the two plans? Is the cost of Plan 2 equal to 67% of the cost of Plan 1?
7. On Page 3 of the 99-113 analysis, the department states that the “Plan 2 premium rates included in this rulemaking order are based on actual Plan 2 costs, after adjustments are made for insurer assessments and provider payment rates.” Since insurer assessments and provider payment rates are required to equal 40% of the cost of the Plans, does this mean the premium rates equal 60% of the cost of Plan 2?
8. If the premium rates equal 60% of the cost of Plan 2, then does it also equal 67% of the cost of Plan 1?
9. Are these actual Plan 2 costs and insurer/provider adjustments that are made after deducting the funds from the GPR appropriation account under s. 20.435 (4)(af) to offset plan costs?
10. On Page 2 of the 99-113 analysis, the department states that the “Plan 2 costs for medical services account for about 67% of the medical service claims costs of HIRSP Plan 1.” How do you then explain that the insurance rates for Plan 2 will be higher than the Plan 1 rates in all age/sex groups with the exception of males ages 50-60+? This is insurance coverage that is a **supplement** to Medicare coverage.



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Chairman Emeritus

November 2, 1999

Mr. Dan Ryan
State of Wisconsin
Department of Health and Family Services
State of Wisconsin
One West Wilson
Madison, WI 53701-0309

Re: Proposed Medicare Rates for the HIRSP Program

Dear Dan:

We have completed the development of the Medicare Plan II rates for the HIRSP program. Rates were developed to be 150% of industry standard rates using the same approach as has been done for Plan I - a survey of prevailing rates. Exhibit 1a shows one set of rates based on the age/sex slope consistent with the current Plan II slope. We have also provided in Exhibit 1b a second set of rates based on an age/sex slope more consistent with a Medicare Supplement plan for those eligible for Medicare due to disability.

The rates shown in Exhibits 1a and 1b are set to be effective January 1, 2000. These rates are 166% of "current" Plan II rates as shown in Exhibits 2a and 2b. ("Current" meaning those rates approved by the HIRSP board in April, 1999 and shown in Appendix A, page 1 of our April 27, 1999 report. It is our understanding that the legislature did not approve these rates.) The large increase is presumably due to the substantial increase in prescription drug costs relative to other services and due to the HIRSP benefit having a fairly rich drug benefit while most other Medicare Supplement coverages have no such benefit.

The following process was used in developing the year 2000 rates for the HIRSP program:

- ◆ Gather earned premium volume for all carriers providing Medicare Supplement coverage in Wisconsin.

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- ◆ Composite the rates for the top carriers in Wisconsin to determine the HIRSP Medicare industry standard rates.
- ◆ Develop a benefit plan adjustment factor to adjust from the most common Medicare Supplement plan to that of the HIRSP benefit plan.
- ◆ Trend the composite rate to the contract period.
- ◆ Develop rates by age and sex using two distinct curves.

Gather Earned Premium Volume

Earned premium volume was provided by Dave Heineck from the Office of the Commissioner of Insurance (OCI). The earned premium provided was inception to date through calendar year 1997 and includes both open and closed blocks of business by carrier. The earned premium for the open blocks of business were used in our analysis since this represents the standardized type policies currently being sold. A closed block of business is for policy types that are no longer being sold to new policyholders. The nine companies used in the development of the industry standard rates are those that make up approximately 80% of the Medicare Supplement premium volume in the state. Exhibit 3 shows the cumulative earned premium volume by carrier (from largest to smallest) in Wisconsin.

Composite Medicare Industry Standard Rate

The rates for the nine companies were then summarized for the Milwaukee area and composited based on the earned premium volume from above. The rates for all companies except Prudential (AARP), were based on the "Medicare Supplement Insurance Approved Policies (July 1999) rate book published by OCI. The rates for AARP were not available in the published rate book but were provided by Dave Heineck from OCI. We used the Prudential volume for the AARP policy, which is currently being sold by United Healthcare Insurance Company, since Prudential was the carrier in 1997. Three of the companies have both a Medicare Supplement policy and a Medicare Select policy. Since the premium volume was not split by type of policy, we used a 90%/10% split of premium volume for Supplement and Select, respectively, based on some limited information of these carriers.

In Wisconsin, the Medigap policies are made up of Basic Benefits plus Optional Riders (including Prescription Drugs). The Select policies have a Basic Benefits package (approximately equivalent to Medigap basic plus non-prescription drug riders) plus an Optional

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Prescription Drug Rider. The select plan rates are not offered in the Milwaukee area and therefore were adjusted by the HIRSP area factors to estimate a Milwaukee area rate. The rates for the Medigap policies include all optional benefits except the Prescription Drug Rider, which none of the carriers offers. The composite Medicare Supplement Industry Rate is \$1,968 per year for 1999. The rates for those carriers used in the composite are shown in Exhibit 4.

Develop Benefit Plan Adjustment Factor

The benefit structure of the Medicare Supplement plans are set up to supplement the deductibles and coinsurance that Medicare does not cover. Medicare does not provide any prescription drug coverage and there are no companies in our analysis that offer a prescription drug benefit as an option in Wisconsin (except the \$6,250 deductible coverage included in the basic policy). The current benefit design of the HIRSP program includes a \$500 deductible with 100% coverage thereafter, including prescription drugs. A benefit factor is therefore necessary to adjust the Medicare Supplement benefits to a HIRSP benefit level. We have developed a benefit factor based on the 1998 Milliman & Robertson Inc. Health Cost Guidelines for Ages 65 and Over. We estimate the benefit relativity to be approximately 1.50 times the Medicare Supplement Industry benefits. This benefit relativity is based on experience for an Aged Medicare Supplement population. The only direct data we have for disabled prescription drug experience is for Medicaid disabled eligibles, which may not be appropriate.

Trend the Composite Rate to the Contract Period

Since the composite industry rate is based on a midpoint of July 1, 1999, these rates need to be increased for expected trends to the contract period of July 1, 1999 - June 30, 2000. This trend rate is meant to be consistent with the average expected rate increases taken by carriers in developing their 2000 rates. The trend rate we have assumed is 5% from 1999 to 2000 for non-prescription drug costs, 18% for prescription drugs, for a 13% composite trend rate.

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Develop Rates by Age and Sex

As you requested, we have developed rates by age and sex on two different bases. Exhibit 1a shows the rates based on the current age/sex relativities for Plan II. These relativities are based on the commercial under age 65 rates. Exhibit 1b shows the rates based on the USPCC Disabled age/sex factors for Parts A and B and an estimated Disabled age/sex slope for Prescription Drugs. Exhibit 1b rates provide age/sex relativities that are likely to be closer to actual costs since they are based on Medicare type benefits and costs as opposed to the relativities from a commercial population. The rates in Exhibits 1a and 1b show the "Full Premium Rates" and the "Standard Risk Rates". The standard risk rates are based on industry rates with the full premium rates being 1.50 times the standard risk rates. The Exhibit 1b slopes are generally "flatter" than the current male slopes - meaning higher at the younger ages and lower at the older ages, while the female slopes are fairly consistent. Exhibit 5 shows the July 31, 1999 Plan II population by age/sex.

The new rates based on the average industry standard represent an increase of 66% over the rates that were implemented in July 1999. However, if Exhibit 1b rates are used, the rate increase will vary substantially by age and sex - since the age/sex slope is so different than the slope currently being used. In either case, you may want to consider grading the new rates in over time on either basis as the increase under both methods is rather significant.



Dan, please call me at 262-796-3419 or Scott Bentley at 262-796-3451 if you have any questions or need further information.

Sincerely,

Dave Ogden per SB

David F. Ogden, F.S.A.
Consulting Actuary

DFO/jg

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Exhibit 1a
HIRSP Medicare Plan Premium Rate Development
Premium Rates Effective July 1, 1999 - June 30, 2000
Plan II Rates by Age and Sex Using Plan I Relativities

Full Premium Rates

Plan IIA - Disability Medical Plan

AGE	MALES		
	ZONE 1	ZONE 2	ZONE 3
0-18	\$1,674	\$1,507	\$1,339
19-24	1,674	1,507	1,339
25-29	1,704	1,534	1,363
30-34	1,943	1,749	1,554
35-39	2,211	1,990	1,769
40-44	2,660	2,394	2,128
45-49	3,377	3,039	2,702
50-54	4,454	4,009	3,563
55-59	5,828	5,245	4,662
60 +	7,143	6,429	5,714

AGE	FEMALES		
	ZONE 1	ZONE 2	ZONE 3
0-18	\$1,674	\$1,507	\$1,339
19-24	2,301	2,071	1,841
25-29	2,481	2,233	1,985
30-34	2,720	2,448	2,176
35-39	2,959	2,663	2,367
40-44	3,288	2,959	2,630
45-49	3,855	3,470	3,084
50-54	4,453	4,008	3,562
55-59	5,081	4,573	4,065
60 +	5,977	5,379	4,782

Under \$10,000 Household Income (Standard Risk Rate)

Plan IIA - Disability Medical Plan

AGE	MALES		
	ZONE 1	ZONE 2	ZONE 3
0-18	\$1,116	\$1,004	\$893
19-24	1,116	1,004	893
25-29	1,136	1,022	909
30-34	1,295	1,166	1,036
35-39	1,474	1,327	1,179
40-44	1,773	1,596	1,418
45-49	2,251	2,026	1,801
50-54	2,969	2,672	2,375
55-59	3,885	3,497	3,108
60 +	4,762	4,286	3,810

AGE	FEMALES		
	ZONE 1	ZONE 2	ZONE 3
0-18	\$1,116	\$1,004	\$893
19-24	1,534	1,381	1,227
25-29	1,654	1,488	1,323
30-34	1,813	1,632	1,451
35-39	1,973	1,775	1,578
40-44	2,192	1,973	1,753
45-49	2,570	2,313	2,056
50-54	2,969	2,672	2,375
55-59	3,387	3,048	2,710
60 +	3,985	3,586	3,188

Submitted

Exhibit 1b
HIRSP Medicare Plan Premium Rate Development
Premium Rates Effective July 1, 1999 - June 30, 2000
Plan II Rates by Age and Sex Using USPCC and Estimated Relativities

Full Premium Rates

Plan IIA -- Disability Medical Plan

AGE	MALES		
	ZONE 1	ZONE 2	ZONE 3
0-18	\$2,635	\$2,372	\$2,108
19-24	2,635	2,372	2,108
25-29	2,635	2,372	2,108
30-34	2,985	2,687	2,388
35-39	3,132	2,819	2,506
40-44	3,330	2,997	2,664
45-49	3,531	3,178	2,825
50-54	4,022	3,620	3,218
55-59	4,370	3,933	3,496
60 +	4,771	4,294	3,817

AGE	FEMALES		
	ZONE 1	ZONE 2	ZONE 3
0-18	\$2,849	\$2,564	\$2,279
19-24	2,849	2,564	2,279
25-29	2,849	2,564	2,279
30-34	3,432	3,089	2,746
35-39	3,679	3,311	2,943
40-44	4,398	3,958	3,518
45-49	4,699	4,229	3,759
50-54	5,370	4,833	4,296
55-59	5,772	5,195	4,618
60 +	6,154	5,539	4,923

Under \$10,000 Household Income (Standard Risk Rate)

Plan IIA -- Disability Medical Plan

AGE	MALES		
	ZONE 1	ZONE 2	ZONE 3
0-18	\$1,757	\$1,581	\$1,405
19-24	1,757	1,581	1,405
25-29	1,757	1,581	1,405
30-34	1,990	1,791	1,592
35-39	2,088	1,879	1,670
40-44	2,220	1,998	1,776
45-49	2,354	2,118	1,883
50-54	2,682	2,413	2,145
55-59	2,913	2,622	2,331
60 +	3,181	2,863	2,545

AGE	FEMALES		
	ZONE 1	ZONE 2	ZONE 3
0-18	\$1,900	\$1,710	\$1,520
19-24	1,900	1,710	1,520
25-29	1,900	1,710	1,520
30-34	2,288	2,059	1,830
35-39	2,453	2,207	1,962
40-44	2,932	2,639	2,346
45-49	3,133	2,820	2,506
50-54	3,580	3,222	2,864
55-59	3,848	3,463	3,078
60 +	4,103	3,692	3,282

Exhibit 2a
HIRSP Medicare Plan Premium Rate Development
Proposed Premium Rate Changes Effective January 1, 2000
Plan II Rates by Age and Sex Using Plan I Relativities
Zone 1

Full Premium Rates

Age	Male			Female		
	1/2000 Proposed Rates	Current Rates	Percent Increase	1/2000 Proposed Rates	Current Rates	Percent Increase
0-18	\$1,674	\$1,008	66.1%	\$1,674	\$1,008	66.1%
19-24	1,674	1,008	66.1%	2,301	1,386	66.0%
25-29	1,704	1,026	66.1%	2,481	1,494	66.1%
30-34	1,943	1,170	66.1%	2,720	1,638	66.1%
35-39	2,211	1,332	66.0%	2,959	1,782	66.0%
40-44	2,660	1,602	66.0%	3,288	1,980	66.1%
45-49	3,377	2,034	66.0%	3,855	2,322	66.0%
50-54	4,454	2,682	66.1%	4,453	2,682	66.0%
55-59	5,828	3,510	66.0%	5,081	3,060	66.0%
60-64	7,143	4,302	66.0%	5,977	3,600	66.0%
	\$4,241	\$2,554	66.0%	\$4,163	\$2,507	66.0%

Under \$10,000 Household Income (Standard Risk Rate)

Age	Male			Female		
	1/2000 Proposed Rates	Current Rates	Percent Increase	1/2000 Proposed Rates	Current Rates	Percent Increase
0-18	\$1,116	\$672	66.1%	\$1,116	\$672	66.0%
19-24	1,116	672	66.1%	1,534	924	66.0%
25-29	1,136	684	66.1%	1,654	996	66.0%
30-34	1,295	780	66.0%	1,813	1,092	66.0%
35-39	1,474	888	66.0%	1,973	1,188	66.0%
40-44	1,773	1,068	66.0%	2,192	1,320	66.0%
45-49	2,251	1,356	66.0%	2,570	1,548	66.0%
50-54	2,969	1,788	66.1%	2,969	1,788	66.0%
55-59	3,885	2,340	66.0%	3,387	2,040	66.0%
60-64	4,762	2,868	66.0%	3,985	2,400	66.0%
	\$2,827	\$1,703	66.0%	\$2,775	\$1,671	66.0%

Exhibit 2b
HIRSP Medicare Plan Premium Rate Development
Proposed Premium Rate Changes Effective January 1, 2000
Plan II Rates by Age and Sex Using USPCC and Estimated Relativities
Zone 1

Full Premium Rates

Age	Male			Female		
	1/2000 Proposed Rates	Current Rates	Percent Increase	1/2000 Proposed Rates	Current Rates	Percent Increase
0-18	\$2,635	\$1,008	161.4%	\$2,849	\$1,008	182.6%
19-24	2,635	1,008	161.4%	2,849	1,386	105.6%
25-29	2,635	1,026	156.8%	2,849	1,494	90.7%
30-34	2,985	1,170	155.1%	3,432	1,638	109.5%
35-39	3,132	1,332	135.1%	3,679	1,782	106.5%
40-44	3,330	1,602	107.9%	4,398	1,980	122.1%
45-49	3,531	2,034	73.6%	4,699	2,322	102.4%
50-54	4,022	2,682	50.0%	5,370	2,682	100.2%
55-59	4,370	3,510	24.5%	5,772	3,060	88.6%
60-64	4,771	4,302	10.9%	6,154	3,600	70.9%
	\$3,703	\$2,554	45.0%	\$4,756	\$2,507	89.7%

Under \$10,000 Household Income (Standard Risk Rate)

Age	Male			Female		
	1/2000 Proposed Rates	Current Rates	Percent Increase	1/2000 Proposed Rates	Current Rates	Percent Increase
0-18	\$1,757	\$672	161.4%	\$1,900	\$672	182.7%
19-24	1,757	672	161.4%	1,900	924	105.6%
25-29	1,757	684	156.8%	1,900	996	90.7%
30-34	1,990	780	155.2%	2,288	1,092	109.5%
35-39	2,088	888	135.1%	2,453	1,188	106.5%
40-44	2,220	1,068	107.9%	2,932	1,320	122.1%
45-49	2,354	1,356	73.6%	3,133	1,548	102.4%
50-54	2,682	1,788	50.0%	3,580	1,788	100.2%
55-59	2,913	2,340	24.5%	3,848	2,040	88.6%
60-64	3,181	2,868	10.9%	4,103	2,400	70.9%
	\$2,469	\$1,703	45.0%	\$3,171	\$1,671	89.7%

Exhibit 3
HIRSP Medicare Plan Rate Development
Earned Premium Volume by Carrier in Wisconsin

<u>Company</u>	<u>Open Block Earned Premium</u>
Prudential (AARP)	\$ 62,438,900
American Republic	38,079,165
BC/BS of WI	32,082,000
Bankers Life & Casualty	18,324,935
Security Health Plan	17,332,951
Physicians Mutual	13,509,139
Union Bankers	10,520,255
American Family	9,674,299
Wisconsin Physician Services	8,450,806
Family Health Plan	6,211,040
Cont General	4,143,726
Mutual Of Omaha	3,974,451
National States	2,840,533
North American	2,767,577
Atrium	2,609,691
Wellmark Comm	2,515,708
Fortis	2,085,884
Valley Health Plan	1,887,284
Greater LaCrosse	1,681,774
Med Ass HMO	1,671,322
United American	1,504,188
Dean Health Plan	1,500,478
AAL	1,450,328
Network Health	1,313,380
Mutual Protective Life	1,225,008
Physicians Plus	1,053,736
AFLAC	1,032,181
Combined Ins	974,235
Unity Health USAA Life	918,639
North Central	907,953
Pioneer Life	712,112
Guarantee Trust	679,195
Hartford Life	671,188
Provident L&A	565,503
United WI	430,770
Constitution Life	366,664
World	363,575
Life Investors	317,014
Harvest Life	281,682
GHC So Central	255,918
Pekin Life	208,205
Central States	173,422
New York Life	128,670
MHS	127,255
Medico Life	121,815
United Teachers	89,968
Colonial Penn LI	38,499
Monumental	28,970
Bankers Multiple	17,356
Colonial Penn FRA	4,627
	<u>\$ 260,263,974</u>

Exhibit 4
HIRSP Medicare Plan Rate Development
Average Industry Rate - Milwaukee Area

<u>Company</u>	<u>Premium Rates</u>	<u>Weight</u>
Prudential (AARP)	\$1,623.32	29.7%
American Republic	2,172.85	18.1%
BC/BS of WI	1,914.00	13.7%
BC/BS of WI - Select	1,429.33	1.5%
Bankers Life & Casualty	2,396.17	7.8%
Bankers Life & Casualty - Select	2,124.96	0.9%
Security Health Plan	1,413.33	8.2%
Physicians Mutual	2,131.01	6.4%
Union Bankers	2,696.93	5.0%
American Family	1,631.80	4.6%
Wisconsin Physician Services	1,705.80	3.6%
Wisconsin Physician Services - Select	1,717.05	0.4%
	<u>\$1,967.52</u>	<u>100.0%</u>