

### Fiscal Estimate - 2001 Session

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> <b>01-4956/2</b>	<b>Introduction Number</b> <b>AB-876</b>
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**Subject**  
 Small business health insurance reform

**Fiscal Effect**

**State:**

No State Fiscal Effect  
 Indeterminate

<input type="checkbox"/> Increase Existing Appropriations <input checked="" type="checkbox"/> Decrease Existing Appropriations <input checked="" type="checkbox"/> Create New Appropriations	<input type="checkbox"/> Increase Existing Revenues <input type="checkbox"/> Decrease Existing Revenues	<input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Decrease Costs
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**Local:**

No Local Government Costs  
 Indeterminate

1. <input type="checkbox"/> Increase Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 4. <input type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory	<b>5. Types of Local Government Units Affected</b> <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts
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<b>Fund Sources Affected</b>	<b>Affected Ch. 20 Appropriations</b>
<input type="checkbox"/> GPR <input type="checkbox"/> FED <input checked="" type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS 20.145	

<b>Agency/Prepared By</b> OCI/ Jim Guidry (608) 264-6239	<b>Authorized Signature</b> Connie O'Connell (608) 267-1233	<b>Date</b> 3/4/02
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## Fiscal Estimate Narratives

OCI 3/4/02

LRB Number	01-4956/2	Introduction Number	AB-876	Estimate Type	Original
<b>Subject</b>					
Small business health insurance reform					

### Assumptions Used in Arriving at Fiscal Estimate

LRB 4956/2 removes \$850,000 from appropriation 20.145(1)(g) to the general fund for use by the Private Employer Health Care Coverage Program. The amount transferred to the general fund is in the form of a loan to be repaid at a time unspecified in LRB 4950/2.

LRB 4956/2 creates a small employer catastrophic care pilot program in an area designated by the Commissioner. That area must include Winnebago County. The pilot will operate for five years beginning on January 1, 2003. The pilot program will reimburse small employer insurers for claims paid for covered benefits. The pilot will be funded through five annual transfers from OCI of \$500,000; assessments on small employer insurers and providers; and premiums paid by small employers. There is also created a small employer catastrophic care board, under the Office of the Commissioner of Insurance. The board oversees the operation of the program and shall meet regularly for the purpose of establishing a budget, setting premium and provider rates, developing rules and contracting with an administrator. Estimated administrative costs are approximately \$4 million annually.

LRB 4956/2 creates a small employer catastrophic reinsurance pool. Bi-annually, small employer insurers will be required to submit to OCI a report that specifies the small employer insurer's threshold level of covered benefits; \$50,000, \$100,000, \$150,000 or \$250,000. The threshold level will apply to each insurer under every health benefit plan issued by the small employer insurer. These thresholds will apply for two years. For each calendar year any covered benefits that exceed the threshold set by the small employer insurer will be reimbursed by the reinsurance pool for 80% of the amount paid over the threshold level. The reinsurance pool is funded by additional premium assessments on small employers as determined by the reinsurance board established in this bill.

Experience in other states have shown that reinsurance pools that did not do well were result of a lack of activity. These pools were also voluntary. However, the reinsurance pool under LRB 4956/2 is mandatory. Ongoing claim payments for reinsurance pools have generally cost between .5% to 2.5% of total small employer health premiums charged. In 2000, \$1,037,000,000 in premiums were written by small employer health insurers in Wisconsin. Estimated losses for a reinsurance pool would range from \$5,185,000 to \$25,925,000, annually. In addition, it is estimated that a reinsurance pool for small employers would experience start up costs of between \$3,000,000 and \$5,000,000. Administrative costs would include program administration, legal counsel, examination and audit functions to verify compliance by providers and insurers. OCI was not able to collect data on provider discounts, however there does not appear to be a state fiscal effect to the provider discounts in the reinsurance pool apart from rule making and audit functions.

LRB 4956/2 requires the reinsurance board to set rates for small employer health reinsurance premiums and provider discount rates; develop rules and provide oversight to the pool.

In preparing this estimate OCI made the following assumptions.

1. Reinsurance Pool. Start up costs would involve ensuring capacity to process claims, resource and infrastructure, and technology to for automated claims processing that would facilitate an expected large volume of claims to be processed by the pool; establishment of a 15% surplus reserve balance to accommodate early claims activity or unanticipated high volume claims activity.

OCI would provide staff support to the reinsurance board in carrying their responsibilities, organizing and participating in board meetings, monitoring the third party consultants/experts needed by the board to carry out their technical statutory responsibilities. Additionally, pool operations would be administered by the OCI. Although the bill does not provide for it, the pool operations would need to be segregated from OCI's normal regulatory functions.

2. The structure of the Catastrophic Care pilot program is similar to the Health Insurance Risk Sharing Program (HIRSP), administered by the Department of Health and Family Services. LRB 4956/2 directs the board to contract with an administrator for program operations as is the case for HIRSP. For 2000, the administrative costs for HIRSP approximated \$4 million.

The OCI would provide staff support to the reinsurance board in carrying their responsibilities, organizing and participating in board meetings, monitoring the third party consultants/experts needed by the board to carry out their technical statutory responsibilities. It is anticipated that there will be a significant actuarial expense since the actuary will have to establish premium for coverage for dollar one by health status.

3. Both the reinsurance pool and the pilot project require independent audits to ensure they are in compliance with the statutes and fiscally sound. This could either be carried out by the Legislative Audit Bureau, outside independent auditors or the Financial Examination and Analysis Bureau of the OCI.

4. These estimates were assembled over an extremely tight time frame and they should be considered in that context. Much of the information was relied on from information gathered from other state activities. It should be noted that those state's reinsurance pools are structured differently from the pool in LRB 4956/2. OCI cannot guarantee their reliability and would recommend that they be viewed as benchmark data for discussion purposes. However, a proper actuarial study would yield more reliable information.

### **Long-Range Fiscal Implications**

**FISCAL ESTIMATE  
LRB-4956/2**

**SMALL EMPLOYER CATASTROPHIC REINSURANCE:**

**Staffing:**

	FTE	Hourly Wage	Annual Salary	Fringe @ \$0
Insurance Administrator	0.11	\$28,376	\$6,492	\$2,230
Insurance Program Officer	1	\$29,839	\$62,065	\$21,319
IS Systems Development Services Specialist	1	\$27,670	\$57,554	\$19,770
Insurance Program Specialist - Objective	1	\$23,372	\$48,614	\$16,699
Regulatory Specialist 2	1	\$20,602	\$42,852	\$14,720
Accountant - Journey	1	\$21,592	\$44,911	\$15,427
Financial Specialist 4	1	\$16,055	\$33,394	\$11,471
Program Assistant 2	0.5	\$14,064	\$14,627	\$5,024
	<u>6.61</u>		<u>\$310,509</u>	<u>\$106,660</u>

**Equipment Costs:**

	Number	Cost per item	Total Cost
Work station with systems furniture	7	\$ 4,000	\$ 28,000
Computer with software	7	\$ 2,500	\$ 17,500
			<u>\$ 45,500</u>

**Ongoing Supplies & Services:**

	Number	Cost	Total Cost
Phone, voice mail, training, and office supplies	7	\$ 1,200	\$ 8,400

**Rent:**

Rental of office space	<u>Sq. ft.</u> 1,450	<u>Cost per Sq. Ft.</u> \$19.10	<u>Total Cost</u> \$27,695
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**Actuarial Services:**

Annual cost of Actuarial Services \$89,300

**Expenses for 9 Board Members:**

Travel, lodging, and meals	<u>Members</u> 9	<u>Cost per Member per Meeting</u> \$161	<u>Number of Meetings</u> 12	<u>Total Cost</u> \$17,388
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Total cost of the administrative portion of the Small Employer Reinsurance Program = **\$605,452**

**Reinsurance Pool Estimated losses**

\$25,925,000

**Reinsurance Pool Start up**

Personnel, computing and software, materials,  
printing, actuarial and legal counsel  
15% reserve pool

\$1,200,000

\$3,800,000

**Total Reinsurance pool startup costs**

\$5,000,000

**Total Small Employer Reinsurance Program Estimated costs**

\$31,530,452

**SMALL EMPLOYER CATASTROPHIC CARE:**

**Staffing:**

Hourly Annual Fringe @

	FTE	Wage	Salary	\$0
Insurance Administrator	0.11	\$28.38	\$6,492	\$2,230
Insurance Program Officer	1	\$29.84	\$62,065	\$21,319
IS Systems Development Services Specialist	1	\$27.67	\$57,554	\$19,770
Insurance Program Specialist - Objective	1	\$23.37	\$48,614	\$16,699
Regulatory Specialist 2	1	\$20.60	\$42,852	\$14,720
Accountant - Journey	1	\$21.59	\$44,911	\$15,427
Financial Specialist 4	1	\$16.06	\$33,394	\$11,471
Program Assistant 2	0.5	\$14.06	\$14,627	\$5,024
	6.61		\$310,509	\$106,660

**Equipment Costs:**

	Number	Cost per Item	Total Cost
Work station with systems furniture	7	\$4,000	\$28,000
Computer with software	7	\$2,500	\$17,500
			<b>\$45,500</b>

**Ongoing Supplies & Services:**

	Number	Cost	Total Cost
Phone, voice mail, training, and office supplies	7	\$1,200	<b>\$8,400</b>

**Rent:**

	Sq. ft.	Cost per Sq. Ft.	Total Cost
Rental of office space	1,450	\$19.10	<b>\$27,695</b>

**Actuarial Services:**

Annual cost of Actuarial Services	\$89,300
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**Expenses for 11 Board Members:**

Members	Cost per Member Meeting	Number of Meetings	Total Cost

Travel, lodging, and meals 11 \$161 12 \$21,252

**Total cost of the administrative portion of the Small Employer Catastrophic Care Program = \$609,316**

**Other Administrative Costs**

Actuarial and consultant contracts, legal counsel auditing \$4,000,000

**Total administrative costs \$4,609,316**

Total Salary & Fringe	
\$	8,723
\$	83,384
\$	77,323
\$	65,313
\$	57,572
\$	60,338
\$	44,865
\$	19,651
<b>\$</b>	<b>417,169</b>

## Fiscal Estimate Worksheet - 2001 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

<b>LRB Number</b> 01-4956/2		<b>Introduction Number</b> AB-876	
<b>Subject</b>			
Small business health insurance reform			
<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>			
\$850,000 loan from OCI to General Fund			
<b>II. Annualized Costs:</b>		<b>Annualized Fiscal Impact on funds from:</b>	
		Increased Costs	Decreased Costs
<b>A. State Costs by Category</b>			
	State Operations - Salaries and Fringes	\$1,214,768	
	(FTE Position Changes)	(13.2 FTE)	
	State Operations - Other Costs	34,210,232	
	Local Assistance		
	Aids to Individuals or Organizations		
	<b>TOTAL State Costs by Category</b>	<b>\$35,425,000</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>			
	GPR		
	FED		
	PRO/PRS	500,000	
	SEG/SEG-S	34,925,000	
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)</b>			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S	26,425,000	
	<b>TOTAL State Revenues</b>	<b>\$26,425,000</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>			
		State	Local
	NET CHANGE IN COSTS	\$35,425,000	\$
	NET CHANGE IN REVENUE	\$26,425,000	\$
<b>Agency/Prepared By</b>		<b>Authorized Signature</b>	<b>Date</b>
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