Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2005 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **05-2922/3**	Introduction Number **AB-1140**

Description
Creating the Private Health Insurance Purchasing Corporation of Wisconsin, establishing a health insurance purchasing arrangement through the use of private accounts for all state residents, adopting federal law as it relates to health savings accounts for state income and franchise tax purposes, making appropriations, and providing a penalty

Fiscal Effect

State:

- ☐ No State Fiscal Effect
- ☒ Indeterminate
  - ☐ Increase Existing Appropriations
  - ☐ Decrease Existing Appropriations
  - ☐ Create New Appropriations
  - ☐ Increase Existing Revenues
  - ☐ Decrease Existing Revenues
  - ☐ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☐ No
  - ☐ Decrease Costs

Local:

- ☐ No Local Government Costs
- ☐ Indeterminate
  1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
  2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
  3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
  4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory
  5. Types of Local Government Units Affected
     ☐ Towns ☐ Village ☐ Cities
     ☐ Counties ☐ Others
     ☐ School Districts ☐ WTCS Districts

Fund Sources Affected
☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
DHFS/ Kirstin Nelson (608) 266-5362	Andy Forsaith (608) 266-7684	7/28/2006

Fiscal Estimate Narratives
DHFS 8/2/2006

LRB Number **05-2922/3**	Introduction Number **AB-1140**	Estimate Type **Original**
Description Creating the Private Health Insurance Purchasing Corporation of Wisconsin, establishing a health insurance purchasing arrangement through the use of private accounts for all state residents, adopting federal law as it relates to health savings accounts for state income and franchise tax purposes, making appropriations, and providing a penalty		

Assumptions Used in Arriving at Fiscal Estimate

This bill creates a private health insurance purchasing arrangement (PHIPA) to provide health insurance coverage to state residents. It also creates the Private Health Insurance Purchasing Corporation of Wisconsin to administer the PHIPA. Every state resident is eligible for PHIPA, if he or she meets the following criteria. Eligible residents are those under 65 years of age who have lived in the state for at least six months. Those under six months old must have a parent or guardian who has been domiciled in the state for at least six months. Furthermore, eligible residents must maintain a substantial presence in the state, cannot be inmates of a penal facility, cannot be residents of an institution for the mentally ill or developmentally disabled, cannot be eligible for health care coverage from the federal government (i.e. federal workers) and cannot be eligible for Medicaid or BadgerCare unless a waiver from the U.S. HHS Secretary is granted. Under the bill, DHFS along with the corporation must develop a method of providing coverage under PHIPA to those who would be eligible if they were not also eligible for Medicaid or BadgerCare. This plan must be submitted to the Legislature and should include recommendations on the feasibility of requesting waivers of federal law.

Beginning in 2008, the corporation must establish a private health insurance account for every eligible resident. Eligible residents over 18 will also get a health savings account (HSA). The HSAs provided to all eligibles over 18 would receive $500 from the state annually beginning in 2009 with adjustments for inflation. The bill adopts federal Public Law 108-173 for state income tax purposes as it relates to HSAs. The Department of Revenue estimated the reduction in state tax revenues associated with the deduction for HSAs allowed under this bill. This estimate only takes into account the costs to the state of providing each eligible individual with $500 for their HSA.

Under the plan, eligible residents who enroll in a Tier 1 plan will pay no premiums. Only those who select Tier 2 or Tier 3 plans must pay premiums. Each eligible resident over 18 must pay a $1,200 deductible. Those under 18 pay a $100 deductible. After the deductible has been satisfied, an eligible resident must pay coinsurance of between 10% and 20%, as determined by the corporation, for prescription drugs and covered services. However, an eligible resident over 18 cannot be required to pay more than $2,000 annually in cost-sharing. For those under 18, the maximum cost-sharing amount is $500 annually. For families, the maximum cost-sharing amount is $3,000 annually.

The bill does not provide a funding source and if passed, it is unclear what funding source would be used to pay for the proposed health plan. Also, since benefit coverage is subject to future decisions by the PHIPA Board, there is a range of possible costs depending on the range of benefits provided by the plan. This fiscal note derives a range for the costs based on three different sources: (a) the state employee health plan; (b) data from the HHS Medical Expenditure Panel Survey (MEPS); and (c) survey data collected by the state Health Insurance Risk Sharing Plan (HIRSP) on the cost of standard plans for individual coverage based on the deductibles and coinsurance under the HIRSP program. Administrative costs are assumed to be included in the rates for each of the three estimates, with the exception of administrative costs associated with HSAs. The estimates below are for calendar year 2006 and are likely to increase as healthcare costs continue to increase.

All three estimates utilized the same number of participants, which is estimated at 3,936,000 state residents, excluding those over 65, those on Medicaid and BadgerCare, and roughly 29,000 federal workers in the state. Since the bill would exclude residents who are part of a collective bargaining agreement until the agreements expire, there would be a phase-in period before the total projected enrollment of 3,936,000 residents would be achieved. The range of estimated costs is based on full implementation when all potential enrollees have entered the plan.

The high end of the range of potential costs is calculated by using the costs of the state employee health plan, which provides a plan with generous coverage of benefits that is subject to higher utilization due to minimal cost sharing by participants. Based on the average cost of the state health plan, it is projected that annual benefit costs would total $21,064,821,000 after cost-sharing. Administrative costs are included in the rate, except for those associated with the HSAs. The HSAs would cost a projected $1,457,351,000 annually with $4,280,084 in administrative costs based on Employee Trust Fund data for the administration of Employee Reimbursement Accounts used for medical expenses. The net annual cost would be $22,526,452,000.

The PHIPA benefit package is not specified in the bill. If the PHIPA benefit package offers fewer services than those offered to state employees, the costs associated with this bill would be lower. The low end of the range of potential costs is calculated using data from the HIRSP program and from the national HHS Medical Expenditure Panel Survey (MEPS) on financing and utilization of healthcare. HIRSP uses a survey of different insurance carriers in the state to determine a standard rate for persons with no health problems. The standard rate collected is based on the cost sharing requirements of the HIRSP plan. By statute, HIRSP premiums must be set between 140% and 200% of these standard rates. It should be noted that HIRSP cost-sharing somewhat exceeds the cost-sharing in the proposed health plan and is based on a healthy individual, so the estimate based on HIRSP data might be somewhat understated. On the other hand, the HIRSP data is based on an individual rate. Under the proposed plan, the PHIPA could probably purchase coverage at a better rate for a group with a certain level of health risk than an individual could in the private market, which would reduce costs somewhat. Using standard rates collected by the HIRSP survey, the cost of the health plan before HSAs would be $12,162,004,000. MEPS data indicates that the average total single premium per enrolled employee at private sector establishments that offered health insurance in Wisconsin in calendar year 2003 was $3,749. If this premium is inflated to calendar year 2006 by an annual inflation rate of 6%, the projected health plan costs for an estimated 3,936,000 enrollees in Wisconsin would be $17,575,238,000 before HSAs. Administrative costs are assumed to be included in the rates except those for HSAs. The HSAs would cost a projected $1,457,351,000 annually with $4,280,084 in administrative costs. Therefore, net annual costs could range from $13,623,635,000 to $19,036,869,000 according to HIRSP and MEPS data.

Since the new health plan would include both state and local government employees, state and local health insurance costs would decrease. This would not be a net reduction for state government, however, since the private corporation would need funding to support the costs of the new health plan. The bill does not specify the funding mechanism, but it might be speculated that the health care savings at state agencies would be used to fund part of the PHIPA costs. The costs of the PHIPA would, however, greatly exceed the current costs of health care coverage for state employees, which would only represent about 7% of the projected costs of the new health plan.

Long-Range Fiscal Implications