

Healthy Wisconsin

Mapping the Structure – Part II

September 26, 2006



Agenda

- Overview of Health Care Purchasing Cooperatives
- Goals for Healthy Wisconsin Council
- How Does Reinsurance Reduce Premiums?
- Potential Models for Designing the Structure of Wisconsin's Reinsurance Program

Health Care Purchasing Cooperatives



Co-op Health Care Purchasing Pools

- ❑ 2003 Act 101 created 5 regional cooperatives
- ❑ Co-ops provide health care benefits to members and dependents
- ❑ Membership criteria filed with OCI
- ❑ Contract with health insurer for coverage
- ❑ Members help decide design benefits
- ❑ Members sign up for 3 years of coverage



Co-op Health Care Purchasing Pools

- Any business entity, especially small employers, municipalities, farmers and self-employed individuals, may participate



Co-op Health Care Purchasing Pools

- 2005 Act 30 eliminated the limit of only 5 health care purchase cooperatives, allowing them to be established statewide.



Co-op Health Care Purchasing Pools

- 2005 Act 231 requires that health care benefits be provided to coop members as a single group health policy and specifies that the contract is between the cooperative and the insurer, not between the individual members and the insurer.
- Exempts small employer members from certain provisions of Chapter 635, such as marketing standards, premium restrictions and guaranteed issue.

Goals for Healthy Wisconsin



Executive Order

- Reduce the number of uninsured
- Reduce premiums
- Strengthen the small group and individual markets including insurance regulations
- Review NY program and what other states are doing

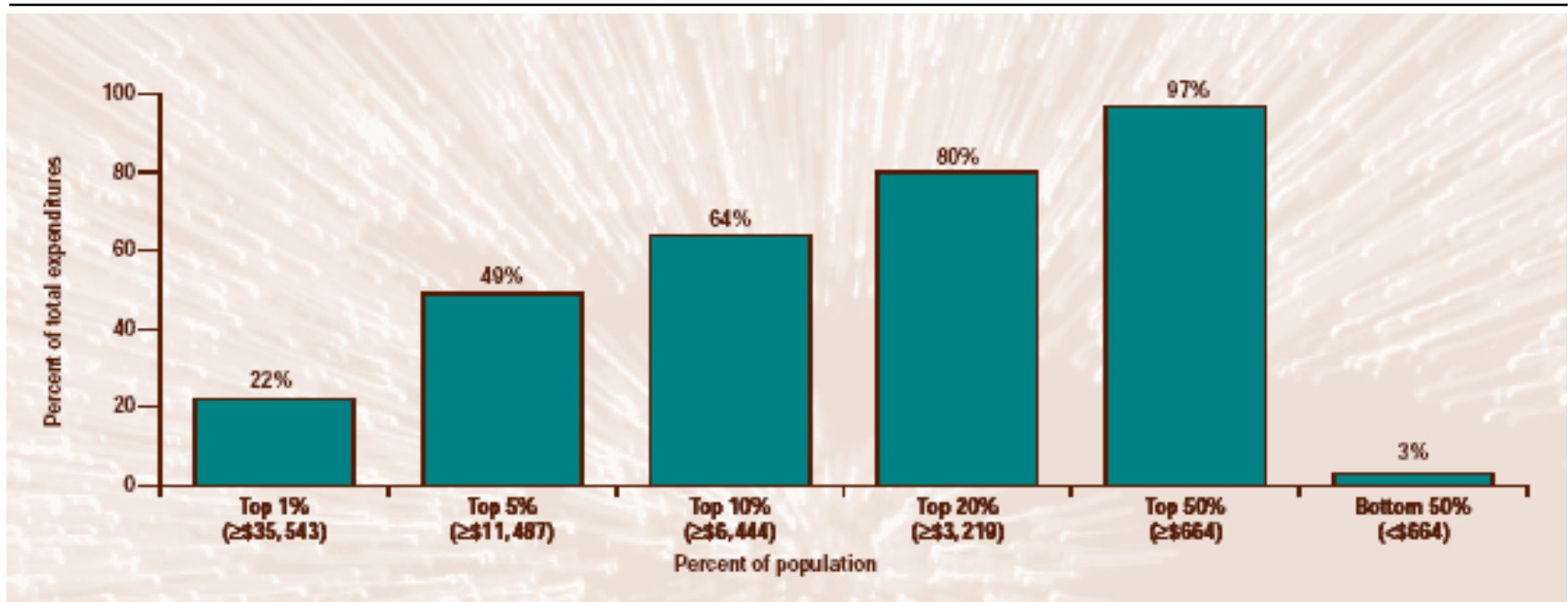
How Does Reinsurance Lower Premiums?



Percent of People with High Costs

- 62% have annual medical claims < \$1,000
- 75% under \$2,000
- 81% under \$3,000
- 90% under \$6,000
- 95% under \$10,000
- 99.5% under \$50,000
- 99.9% under \$100,000

Total Medical Costs Incurred by US Population 2002



Conwell LJ, Cohen JW. Characteristics of people with high medical expenses in the U.S. civilian noninstitutionalized population, 2002. *Statistical Brief* #73. March 2005. Agency for Healthcare Research and Quality, Rockville, MD.

Note: Figures in parentheses are expenses per person.

Health Reinsurance Can Lower Premiums

- According to the American Academy of Actuaries, a government-created reinsurance program can reduce health care premiums, decrease the number of uninsured and promote premium stability if properly designed.

Considerations for Designing and Implementing Government Reinsurance

- Implementing incentives for insurers to control costs
- Disease and care management programs
- Indexing the attachment point - underlying medical trends and/or geographic area
- Considering the impact of varying provider reimbursement schedules

Considerations for Designing and Implementing Government Reinsurance

- Having a clear definition of loss
- Participation of the reinsurer in insurer legal disputes
- Compulsory vs. voluntary participation

How does reinsurance save insurers money?

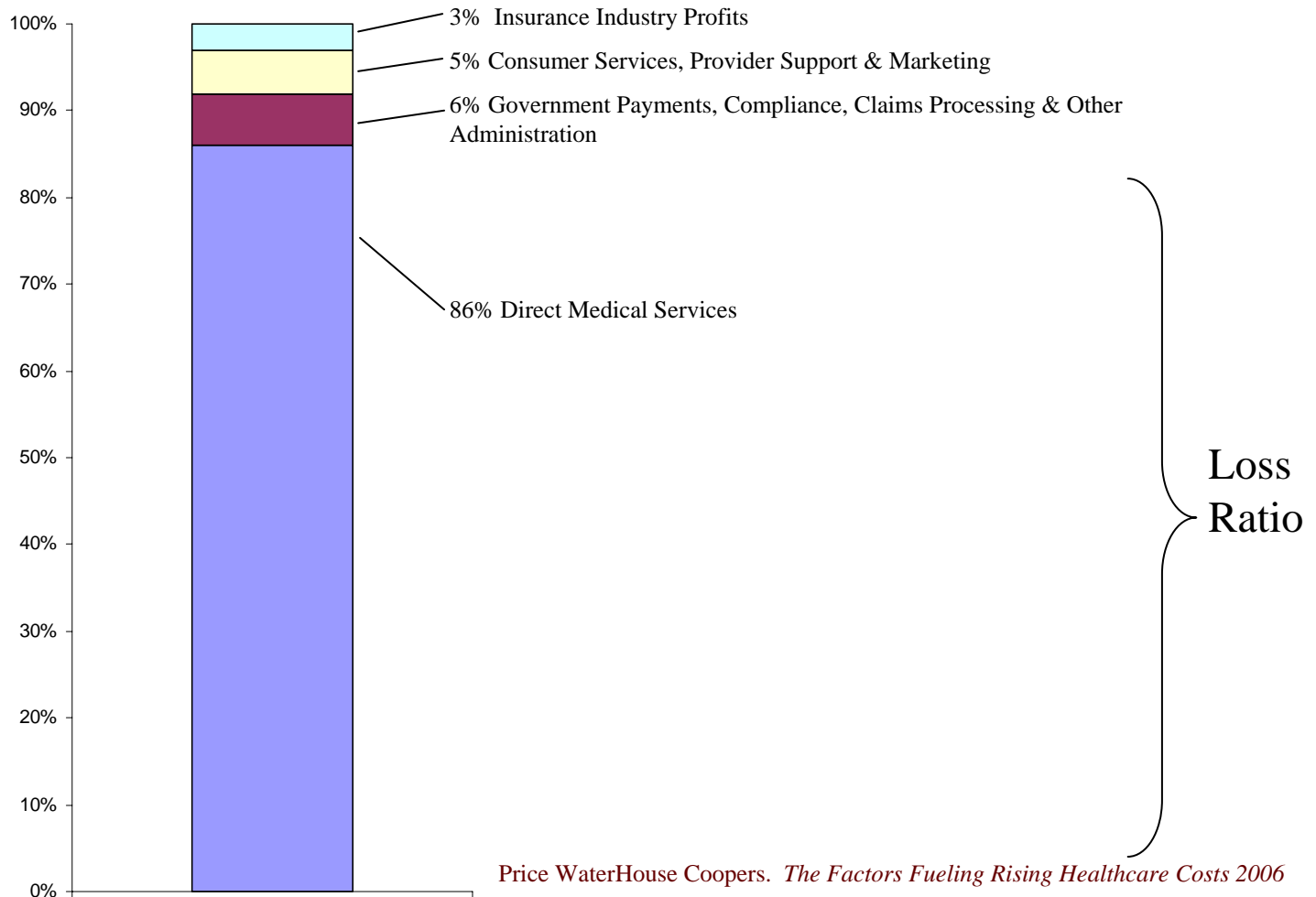
- Reinsurance covers the extreme high cost of catastrophic medical procedures.
- By removing some of the highest medical costs from the insurer:
 - risk is reduced,
 - expenses are moderated,
 - premiums can be lower.
- Reinsurance reduces the risk of bankruptcy due to high-cost medical episodes.



How does reinsurance save consumers money?

- ❑ Insurance companies can insure themselves against the costs of an extreme medical events.
- ❑ Less risk means insurers can offer less expensive health insurance plans.
- ❑ With less expensive policies, more businesses can afford to offer their employees quality coverage.
- ❑ More families and businesses can afford insurance because their costs are more predictable and the premiums are lower.

How Health Insurance Premium Dollars are Spent



Insurance Loss Ratio Varies By Type of Policy

Accident and Health Insurance Policy Type	Direct Premiums Earned	Direct Losses Incurred	Loss Ratio
Total	\$9,366,901,184	\$8,203,753,313	88%
Group	\$7,772,422,461	\$7,078,985,550	91%
Individual	\$1,543,476,188	\$1,100,345,194	71%
Credit	\$50,902,535	\$24,422,569	48%
HMOs	\$4,218,001,776	\$3,762,203,754	89%

Group insurance - An insurance plan under which a number of persons and their dependents are insured under a single policy, issued to their employer or an association with which they are affiliated, with individual certificates given to each insured person.

Credit accident insurance - Insurance sold with a credit transaction, such as a loan or credit card, that will pay all or a portion of the outstanding credit balance if a claim is filed

Discussion and Questions
