

Healthy Wisconsin

Proposal #2: Reinsurance for Small Group Market

November 9, 2006

Proposal Elements

Primary Coverage

- Coverage would be offered through existing insurance market
- Existing insurance standards and regulations would be used
- In 2005 the top 10 small group insurers wrote 75% of the premiums paid.
- In 2005 the top 20 small group insurers wrote 91.5% of the premiums paid

Proposal Elements

Reinsurance Coverage

- ❑ Create a statewide reinsurance program targeted at the entire small group (2-50 employees) market (roughly 796,000 lives.)
- ❑ The reinsurance program would pay a large portion of catastrophic claims above a specific attachment point or within a specific corridor.
- ❑ Insurers (insurance companies, HMO's, etc.) would be required to pay premiums to the reinsurance program for each life they cover in their small group "book of business."
- ❑ The state would subsidize the program (amount of subsidy and funding source TBD).



Proposal Elements (cont.)

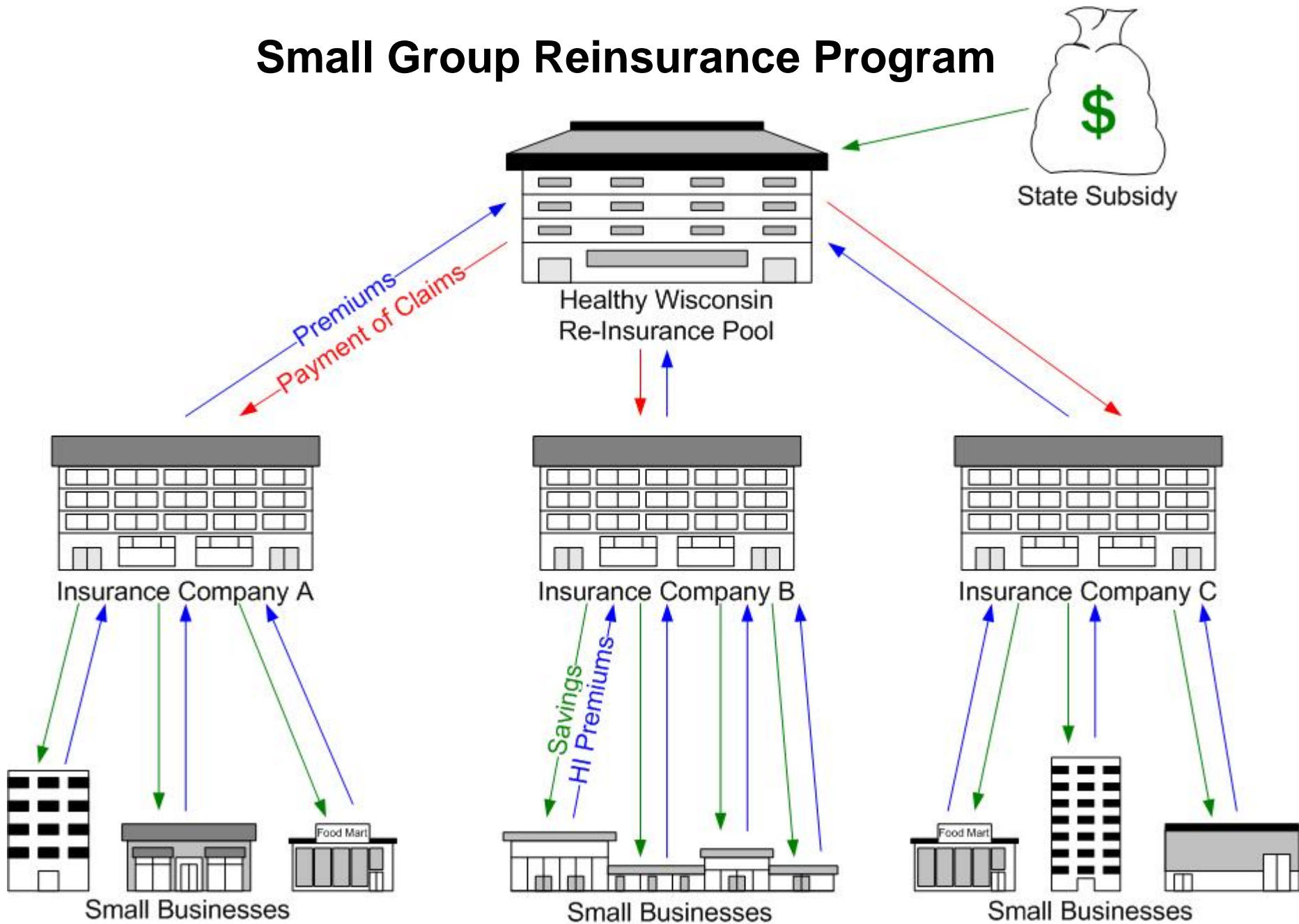
- ❑ OCI would ensure that all savings generated by the reinsurance program would be passed down to small businesses.
- ❑ OCI has existing authority to adjust rate bands within the small group market. This might be the vehicle to ensure the passing of savings. Other mechanisms should be explored as well.
- ❑ Insurance companies would be largely unaffected as a result of the program.
- ❑ Small businesses would continue to purchase insurance as they do now.

Proposal Elements

Administration

- Over time, funds in program may grow and be invested. As the fund grows, efforts can be explored to either reduce program premiums or to lower the attachment point to increase the effectiveness of the program.
- Program would be administered by a quasi-government entity (similar to HIRSP Authority)
- The organization will be governed by a balanced board. Major decisions would require a super-majority.

Small Group Reinsurance Program



Strengths

Reinsurance program:

- ❑ Directly lowers premiums due to creation of a statewide, mandatory reinsurance pool that is subsidized.
- ❑ Addresses one of the most problematic sectors of the health insurance market – small groups.
- ❑ Provides an opportunity to pilot the reinsurance idea without instituting geographic restrictions. If successful, program could be expanded.
- ❑ Does not encourage crowd-out. May help stabilize the small group market.

Strengths (cont.)

- Program is relatively easy to administer. A small number of insurers write the majority of small group policies.
- Small businesses would not be required to modify their behavior. They would continue to purchase health insurance as they do now.
- A balanced board would ensure that decisions are made based on mutual best interest of the board members.

Weaknesses

- The source of the subsidy would need to be identified. Funding within the state budget may be hard to identify so other sources may be explored. For example, other states have used tobacco money or assessments on providers or insurers.
- Not all businesses would benefit under this pilot approach.
- Program doesn't directly address the uninsured problem.



Weaknesses (cont.)

- The size of the benefit to small businesses will vary based on the reinsurance pool's impact on premiums and the amount of the subsidy.