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*The* LEWIN GROUP

# **The Wisconsin Health Plan (WHP): Estimated Cost and Coverage Impacts**

**Final Report**

*Prepared for:*

**The Wisconsin Health Project**

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## About The Lewin Group

The Lewin Group is a management consulting firm with a specialty in Health Care. The firm has 20 years of experience in estimating the impact of major health reform proposals. The Lewin Group is committed to providing independent, objective and non-partisan analyses of policy proposals. In keeping with our tradition of objectivity, the Lewin Group is not an advocate for this or any other health reform proposal.

## EXECUTIVE SUMMARY

In this study, we provide a detailed analysis of the economic impact of a proposal to provide health insurance coverage to residents of Wisconsin called the "Wisconsin Health Plan (WHP)." We estimated the cost of the program and its impact on health spending for major stakeholder groups in the state including governments, employers, families and providers.

All Wisconsin residents who are not already covered under Medicare, Medicaid, BadgerCare or TRICARE (military dependents and retirees) would be covered under a program offering a choice of private health plans competing on the basis of price and quality. Each plan would cover the same services now covered under the state employee's health benefits plan. The plan would include a \$1,200 deductible for adults together with a \$500 contribution to a health savings account (HSA). The program would be administered regionally by a newly created Health Insurance Purchasing Corporation (HIPCo).

To promote price competition, people would be able to enroll in the lowest cost health plans in their area, without paying an additional premium. If they chose to enroll in a higher cost plan, they must pay the full increment of the cost of enrolling in that plan. Also, the high deductible would encourage people to reduce their out-of-pocket health spending by seeking-out lower cost health providers.

For illustrative purposes, the Wisconsin Health Project asked to assume that the program would be funded with assessments on employers and workers of:

- An employer assessment of 11.55 percent of Social Security covered wages (\$97,600 in 2007);
- Workers under age 65 would pay an assessment of 3.95 percent of Social Security wages; and
- The self-employed would pay an assessment of 9.8 percent of Social Security covered net-income.

The WHP financing proposal would also eliminate business personal property taxes and reduce residential and business property taxes.

The major findings of our study are summarized below.

### Health Spending in Wisconsin

- Health expenditures for Wisconsin residents in 2007 will be \$42.3 billion, of which \$19.5 billion is attributed to those who would become covered under the WHP.
- Total health spending for Wisconsin residents would increase by only \$72 million state-wide under the WHP, which is an increase in state-wide health spending of less than 0.17 percent.
- Spending for currently uninsured and under-insured residents would increase by about \$947 million as they become covered under the program.

- Provider reimbursement would also increase by about \$110 million due to reduced uncompensated care and a decline in Medicaid payment shortfalls.
- These increases in spending would be nearly offset by \$589 million in savings due to price competition, and administrative savings of \$406 million due to standardization of coverage.

### **WHP Program Costs and Revenues**

- About 4.0 million people would be enrolled in the program, which includes all Wisconsin residents not covered by Medicare, Medicaid or TRICARE (i.e., military dependents and retirees);
- The program would include about 3.2 million people currently with employer coverage, 152,000 people now purchasing non-group coverage, and 407,000 currently uninsured people;
- WHP spending would be \$15.5 billion in 2007, including \$12.9 billion in benefits payments, \$1.5 billion in HSA contributions and about \$1.1 billion in administrative costs.
- The \$1.1 billion in WHP administration includes WHP HIPCo administration of \$334 million, agent and brokers fees of \$129 million, and insurer administration and profit of \$658 million.
- The assessments discussed above would raise \$15.5 billion in revenues, which would be sufficient to fully fund the program in 2007.
- The assessments would raise \$11.0 billion from employers (11.55 percent of wages), \$3.8 billion from workers under age 65 (3.95 percent of wages) and \$372 million from sole proprietors (9.8 percent of net income).
- There would be a special assessment for non-workers with high incomes from other sources that would raise \$98 million in 2007.

### **State and Local Government Impacts**

- There would be a net savings to the state and local governments of \$267 million.
- State and local government employee health benefits costs for the WHP population would decline from \$2.5 billion under current law to \$1.4 billion with the assessment, resulting in savings of \$1.1 billion.<sup>1</sup>
- These savings are partly offset by reduced business and property tax revenues of \$996 million.
- There would be a net increase in Medicaid enrollment of 33,000 people resulting in an additional \$104 million in state Medicaid spending (i.e., state share).

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<sup>1</sup> Total spending for state and local worker health benefits under current law will be \$3.2 billion of which \$678 million would remain under WHP for Medicare retirees, Medicare covered workers and wrap-around benefits.

- Spending for the uninsured under various safety-net programs would decline by \$495 million.

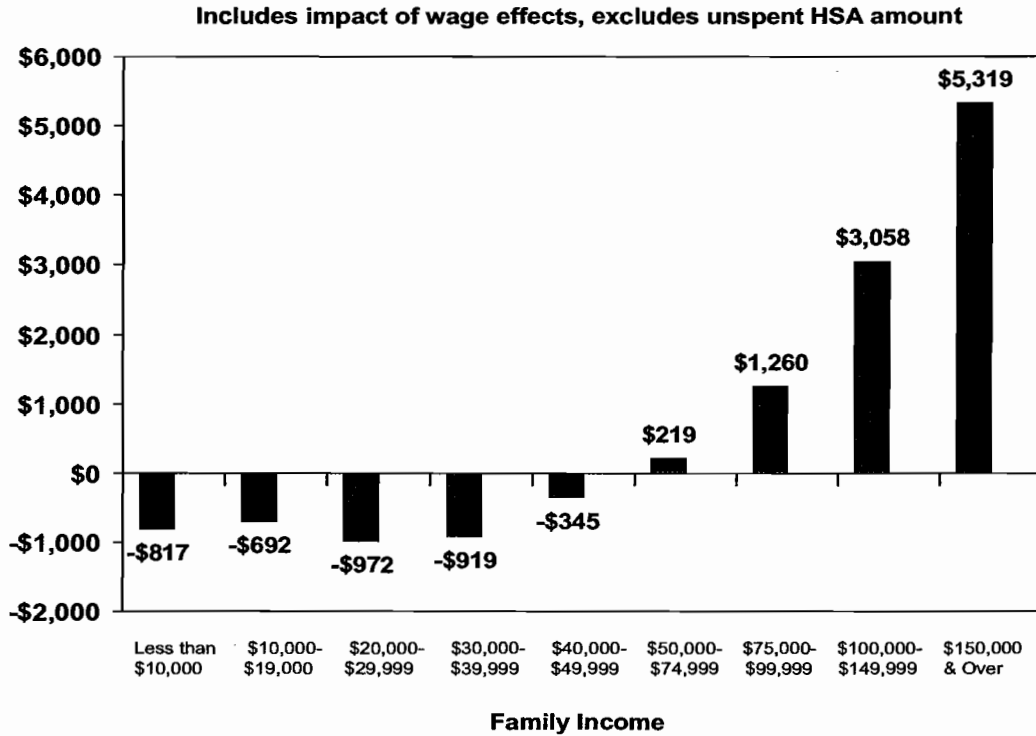
### **Private Employer Impacts**

- Private employers who currently provide health insurance in Wisconsin will spend \$9.2 billion on health benefits in 2007 under current law (excluding employee contributions), including \$8.7 billion for workers and dependents and \$481 million for retirees.
- Spending for workers and dependents in these plans under current law will average about \$4,968 per worker in 2007.
- Under the WHP, private employer costs for currently insuring employers would decline by about \$44 million, which is an average savings of \$24 per worker.
- Private employers who do not now provide coverage would see an increase in spending of about \$1.1 billion as they begin to pay the assessment, which is an average cost of \$2,765 per worker in these firms.
- Research shows that changes in employer health spending are eventually passed-back to workers as corresponding changes in wages, although employers do retain savings for retirees and the business tax cuts. After accounting for wage effects, currently insuring employers would save \$575 million (\$320 per worker) while non-insuring employers would save \$52 million (\$126 per worker).
- Increased employer costs would result in a loss of between 3,200 and 8,100 minimum wage jobs.

### **Impact on Families**

- Wisconsin families currently spend an average of about \$4,327 per family on health care.
- This includes insurance co-payments and spending for uncovered services averaging \$1,497 per family, and average premiums of \$2,830 (includes contributions for employer coverage).
- Spending would increase by \$171 per family, which reflects changes in: premiums; out-of-pocket costs; assessments; taxes and wages due to changes in employer spending.
- Average family spending would decline by \$1,448 for premiums and \$191 for out-of-pocket spending despite the high deductible, due to payments from HSAs and employer supplemental benefits.
- Assessment payments (less other tax effects) would increase by \$1,587 per family.
- After-tax wages would decline by \$222 per family, which we count as an increase in family health spending. This is based on research showing that changes in employer health spending result in corresponding changes in wages over time.
- Families with incomes below \$50,000 would see net reductions in family health spending averaging up to \$1,000 per family (*Figure ES-1*).

**Figure ES-1**  
**Change in Average Family Health Spending by Income under the WHP in 2007**



Source: The Lewin Group estimates using the Health Benefits Simulation Model (HBSM).

- Spending for those with incomes of \$150,000 or more would increase by about \$5,319 per family reflecting that the 3.95 percent assessment on the first \$97,600 in wages can be up to \$7,710 for two-worker families with high wages.
- Families headed by people between the ages of 25 and 54 would generally see an increase in health spending, while spending would decline for those headed by someone age 55 to 64.
- Forty percent of families would see an increase in spending of \$1,000 or more, while 24 percent would see spending decline by \$1,000 or more. Only about 12 percent would see spending change by less than \$100.

**Long-Term Impact on Health Spending**

- We estimate that the rate of growth in health spending for the WHP population would decline from an average of about 6.5 percent per year to about 6.0 percent per year.<sup>2</sup>

<sup>2</sup> This estimate is based upon research showing increased enrollment in organized systems of care under competitive models with incentives to select lower cost coverage. Increased enrollment in such plans has also been shown to slow the rate of growth in health spending.

- Total savings over the 2007 through 2017 period would be about \$8.9 billion, which is a savings of about 2.9 percent over that period.
- Despite the slowed spending growth, health costs would continue to grow faster than wages. Cost growth would be 6.0 percent compared with wage growth of 4.5 percent.
- Assessment rates would need to increase each year to accommodate health care cost growth. For example, the employer assessment rate would increase from 11.55 percent in 2007 to 13.51 percent by 2017.
- While these assessment rates would increase over time, they would grow more slowly than average employer costs would grow under current trends.

