



Wisconsin Family Impact Seminars

UW
Extension

Rising Health Care Costs: Employer Purchasing Pools and Other Policy Options

Briefing Report

EXECUTIVE SUMMARY

Health care spending grew 10% per person in 2001 with anticipated growth rates of 7% to 9% in the years ahead. In Wisconsin, health benefit costs for employers rose 14.8% in 2002, while general inflation rose by only 2%. Wisconsin citizens' employee health care costs are \$6,940 per employee: 20% higher than the national average for workers in businesses with 500 or more employees. Across the country, states are struggling to understand what is behind escalating health care costs and how best to contain them, while continuing to maintain quality and choice.

The good news about the increasing amount spent on health care is that it reflects great advances in health technologies that allow people to live longer, healthier lives. On the other hand, rising costs mean our society is sacrificing a greater share of other goods and services to pay for health care. What's more, many small employers and their employees are deciding they must opt out of coverage because of cost. This report addresses the driving forces behind rising health care costs, why Wisconsin's employer purchasing pool law has not been implemented, and how the nation's largest employer purchasing pool in California has worked.

Hospitals are by far the largest segment of U.S. health care spending.

In the first chapter, Len Nichols discusses the reasons for the dramatic increases in health care cost growth. Hospital services are by far the largest segment of U.S. health care spending, but expenditures on other services (i.e. physicians' services and prescription drugs) have increased at a faster rate. Three major factors affecting cost growth are: medical price inflation; the growth in volume of services; and the growth

in intensity of services. Most expenditures are not driven by inflating medical prices, but rather by the increasing volume and intensity of services. For example, while the number of bed days in hospitals has fallen by more than half since 1980, the total hospital costs per person has risen by 60% because patients are receiving more intensive services each day they are in the hospital. Managed care (i.e., HMO's) seemed to offer some promise in containing costs, but appear to have had only a short-term effect. In the next decade, the rate of cost growth is expected to accelerate.

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"Rising Health Care Costs: Employer Purchasing Pools and Other Policy Options" is the 18th Family Impact Seminar and briefing report in a series designed to provide state policymakers with objective, solution-oriented research on timely policy issues. Family Impact Seminars analyze the consequences an issue, policy, or program may have for families. Wisconsin Family Impact Seminars are a joint effort of University of Wisconsin-Extension and the Center for Excellence in Family Studies in the School of Human Ecology at the University of Wisconsin-Madison.

This seminar was co-sponsored by the Wisconsin Health Policy Forums. The Wisconsin Health Policy Forums are part of a national network of nonpartisan health policy organizations and is housed at the Wisconsin Public Health and Health Policy Institute, part of the Department of Population Health in the UW Medical School. Each forum gives policymakers and other stakeholders accurate, unbiased information and a politically neutral place to have an off-the-record discussion of relevant state issues.



Making premium assistance available to low-income, small-firm workers through the pool could also encourage more uninsured small employers to offer coverage.

Wisconsin has one of the highest rates of employer-sponsored coverage in the country. The next chapter, prepared by Rick Curtis and his colleagues at the Institute for Health Policy Solutions for the Wisconsin Department of Employee Trust Funds, focuses on why the private employer purchasing pool program passed in Wisconsin in 1999 has not yet been implemented. In order to alleviate the burden of escalating health care premiums on small employers, purchasing pools are often seen as a possible solution. Employer purchasing pools are a potential means to decrease administrative cost and increase purchasing clout. What's more, purchasing pools can offer employees

something not normally available in the small employer market—specifically, choice of competing health plans. But to date, voluntary, unsubsidized consumer-choice pools have not gained enough market share to lower health care costs for small employers. Small-employer purchasing pools have demonstrated problems, such as administrative inefficiencies, wide variation in premium cost, wildly fluctuating premium increases, and adverse selection (i.e., disproportionate enrollment of high-cost individuals).

Several options developed specifically for Wisconsin policymakers are explored in this paper: (a) reducing adverse selection by adopting rate rules that do not vary based on health status or claims experience; (b) making subsidies available to uninsured, low-income employees of small firms and providing premium assistance for populations otherwise eligible for public programs like BadgerCare; and (c) designing the small employer pool as the exclusive small employer coverage venue in Wisconsin to achieve large scale purchasing, more stable coverage, and reduced administrative costs. The authors recommend that for any of these options to work, state policy changes are required.

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Before joining PacAdvantage more than 30% of small-business employees were uninsured.

In the third chapter, John Grgurina describes California's PacAdvantage, the country's largest non-profit, small-employer health insurance purchasing pool. PacAdvantage now includes over 11,000 small California businesses, covering about 130,000 employees and dependents. PacAdvantage combines the purchasing power of thousands of small businesses (two to 50 employees) by sharing risks and negotiating competitive prices that offer a wide choice of quality

plans, full-service products, and affordable co-pays.

Purchasing pools try to balance the competing demands of quality, cost, and availability. Additionally, purchasing pools can encourage smaller employers to offer health insurance coverage to their uninsured employees. For example, studies show that before joining PacAdvantage, 30% of small-business employees in California were uninsured.

One lesson learned from the PacAdvantage experience is that employee choice of health plan, product, and co-pay are highly valued by employers and employees. PacAdvantage also learned that the purchasing pool must be similar in operation to the market place to avoid adverse selection. For example, if general health plans are not required to cover self-employed individuals, but the small group pool is, the adverse selection of the enrollment from higher-risk, self-employed individuals could cause all of the pool's rates to rise. Finally, a voluntary purchasing pool by itself will not dramatically reduce prices and solve the problem of the uninsured.

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The Private Employer Health Care Coverage Program (PEHCCP) was created in 1999, but has not been implemented.

This chapter of this report, written by Laura Rose from the Wisconsin Legislative Council, describes the Private Employer Health Care Coverage Program (PEHCCP). PEHCCP, created in 1999 in the Department of Employee Trust Funds (ETF) and amended in 2001, seeks to provide a voluntary health insurance purchasing pool for small businesses (i.e., two or more eligible employees). Employers who participate must offer health care coverage under one or more plans to all eligible employees and

pay at least 50% of the lowest premium rate for each eligible employee. The program would be funded through \$205,100 in general revenues and \$850,000 in the form of loans by the Office of the Commissioner of Insurance (OCI) to the general fund. The general fund must repay the loan with interest at the end of the 2001-2003 biennium.

Although it was designed with an initial implementation date of January 1, 2001, the program has not yet begun; vendors say no bids were submitted to administer the program due to flaws in the program design. Legislative changes were enacted in the program model in 2001. Insurance rate banding—which limits the amount any one purchaser can be charged for insurance—was passed by the Legislature, but vetoed by the Governor.

There is little opportunity for purchasers to acquire the information needed to judge providers' quality or outcomes.

The chapter by the Wisconsin Health Policy Forums describes some commonly-used cost containment policies. Cost containment approaches such as insurance regulation, purchasing pools, and prescription drug purchasing have shown little evidence of limiting cost increases for any length of time. Direct price regulation and managed care did hold down costs in the 1990s, but some analysts argue that these were one-time savings. The same is true for purchasing pools, which can hold down the price per individual by spreading risk and cost across more people, but do not directly address the problem of rising health care costs.

Even the apparently successful single payer public purchasing pool (Medicare) may actually attain its savings by shifting some costs onto the private sector and the administrative burden onto the provider. Approaches tried in other countries, such as single-payer universal health care systems, have contained costs but resulted in unpopular practices such as waiting lists and inadequate access to the latest technology.

To contain costs, policymakers must ultimately focus on purchasing value by measuring quality and outcomes. Until systems for collecting outcome and quality data are in place, the cost containment focus should be on setting policy cost goals and working on short-term containment of the biggest factors affecting prices.

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This briefing report was edited by Bettina Friese, Elizabeth Gross, Karen Bogenschneider, and Carol Johnson. This summary was designed by Meg Wall-Wild.

A complimentary copy of the full report is available to state legislators by calling Mari Hansen at (608) 262-0369. For further information contact the Director of the Family Impact Seminars, Karen Bogenschneider, at 1430 Linden Drive, Madison, WI 53706, kp bogens@wisc.edu, or (608) 262-4070. Karen is a Professor and Extension Specialist at the University of Wisconsin-Madison/Extension. You can also contact Associate Director Bettina Friese and State Coordinator Elizabeth Gross at the Policy Institute for Family Impact Seminars at (608) 262-9161 or (608) 262-5779.



Wisconsin Family Impact Seminars

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What Other Resources Are Available to State Policymakers?

A Researcher Hotline

Identify University of Wisconsin researchers who are studying child and family issues by calling (608) 262-5779.

Briefing Reports

Download 18 briefing reports written specifically for Wisconsin policymakers on topics such as education; helping poor kids succeed; juvenile crime; long term care; parenting; prescription drugs; welfare reform; and preventing youth crime, smoking, and substance use (<http://www.uwex.edu/ces/familyimpact/wifis.htm>); download 52 briefing reports written specifically for state policymakers on topics such as children with incarcerated parents, early childhood education and care, the effect of changes in the tax codes, family preservation, and prostituted teens.

Audio Tapes or Web Audio

Listen to audiotapes and web audio of most seminar speakers.






Family Impact Assessment Tools

Use family impact assessment tools for examining how responsive policies and programs are to families. Tools are available for conducting family impact analysis of schools, communities, adolescent treatment centers, and state child and family service plans (<http://www.uwex.edu/ces/familyimpact/impact.htm>).

Web resources

This website is designed specifically for busy policymakers and professionals, and includes 70 briefing reports and 5 newsletters written specifically for state policymakers, 21 reports specifically written for federal policymakers, 17 policy newsletters, and over 100 links to leading policy sites. Browse these resources and more at <http://www.uwex.edu/ces/familyimpact/wisconsin>

The Family Impact Seminars produce seminars, briefing reports, newsletters, and discussion sessions which provide state policymakers with:

-  **Easy Access** to state-of-the-art, solution-oriented research on current policy issues such as education, juvenile crime, long term care, parenting, prescription drugs, and welfare reform
-  **Relevant Research** that responds to the issues legislators are debating
-  **Objective Information** on a range of policy options rather than a specific legislative agenda
-  **A Family Impact Perspective** that examines the impact of policies on families
-  **Neutral, Nonpartisan Settings** outside the political environment for discussing issues and seeking common ground

Friese, B., Gross, E., Bogenschneider, K., & Johnson, C. (Eds.) (2003). *Rising health care costs: Employer purchasing pools and other policy options*. (Wisconsin Family Briefing Report No. 18, 50 pgs.). Madison, WI: University of Wisconsin Center for Excellence in Family Studies.

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