



## Legislative Fiscal Bureau

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TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: ASA 1 to AB 447: Health Benefit Purchasing Cooperative Pilot Project

Assembly Substitute Amendment (ASA) 1 to Assembly Bill 447 would authorize the creation of five health benefit purchasing cooperatives to provide health care benefits to certain eligible individuals through a contract with an insurer. On October 15, 2003, the Assembly Committee on Insurance recommended passage of ASA 1 to AB 447 by a vote of 15 to 0.

Senate Substitute Amendment (SSA) 1 to SB 204 is identical to ASA 1 to AB 447. On October 7, 2003, the Senate Committee on Health, Children, Families, Aging and Long-Term Care recommended passage of SSA 1 to SB 204 by a vote of nine to 0.

### **CURRENT LAW**

Chapter 185 of the statutes provides for the establishment and operation of cooperatives. Cooperatives may be organized under Chapter 185 for any lawful purpose except banking and insurance. Any cooperative organized under Chapter 185 is subject to statutes relating to the organization of specified kinds of corporations. Although Chapter 185 prohibits the creation of a cooperative to provide insurance or banking services to its members, it does not prohibit the creation of a cooperative to assist with purchasing these services, if the cooperative complies with the requirements of Chapter 185.

## SUMMARY OF ASA 1 TO AB 447

ASA 1 to AB 447 ("the bill") would authorize the creation of one health benefit purchasing cooperative (HBPC) under Chapter 185 in each of five geographic areas designated, by order, by the Office of the Commissioner of Insurance (OCI). OCI would be required to consult with the Wisconsin Federation of Cooperatives before designating these geographic areas. Any geographic area could overlap with one or more other geographic areas. Each HBPC could be formed by one or more persons, and would be organized before the first day of the 49<sup>th</sup> month beginning after the bill's general effective date. For this purpose, a "person" would be defined as any corporation, limited liability company, partnership, cooperative, association, trade or labor organization, city, village, town, county, or self-employed individual.

*Organization and Purpose.* HBPCs would be established as a means to provide health care benefits for eligible individuals through a contract with an insurer that is authorized to do business in the state in one or more lines of insurance that includes health insurance. Under the bill, each HBPC would be designed so that all of the following are accomplished: (a) the members are better informed about health care trends and cost increases; (b) the members purchase their health care benefits from the same insurer; (c) the members are actively engaged in designating health care benefit options that are offered by the insurer and that meet the needs of the community; (d) the health insurance risk of all of the members is pooled; and (d) the members actively participate in health improvement decisions for their community.

Under the bill, the articles of a HBPC would set forth the name and address of at least one incorporator, who would act as the temporary board of directors for the HBPC.

*Membership.* Each HBPC would be organized on a membership basis with no capital stock. Any person that does business in, is located in, has a principal office in, or resides in the geographic area in which a HBPC is organized, that meets the membership criteria established by the HBPC in its bylaws, and that pays the membership fee could be a member of the HBPC. A HBPC could limit membership of self-employed individuals through its membership criteria, but such criteria would have to apply in the same manner to all self-employed individuals. Each HBPC would be required to file its membership criteria, as well as any amendment to the criteria with OCI.

*Health Care Benefits and Coverage.* The health care benefits offered by a HBPC would be negotiated between the HBPC and the insurer. The insurer would be required to offer coverage to all of the following: (a) an individual who is a member, officer, or eligible employee of a member of the HBPC; (b) a self-employed individual who is a member of the HBPC; and (c) a dependent of an individual described under (a) or (b) who receives coverage.

The definition of "eligible employee" is the same definition that is currently used with respect to coverage requirements for group and individual health benefit plans under Chapter 632 of the statutes. Under this definition, an eligible employee is an employee who works on a permanent basis and has a normal work week of 30 or more hours. The term includes a sole proprietor, a

business owner, including the owner of a farm business, a partner of a partnership, and a member of a limited liability company if the sole proprietor, business owner, partner, or member is included as an employee under a health benefit plan of an employer. The term does not include an employee who works on a temporary or substitute basis.

Any contract between the members of the HBPC and an insurer would be for a term of three years. Upon enrollment in the insurer's health benefit plan, each member would be required to pay to the HBPC an amount determined by the HBPC that is not less than the member's applicable premium for the 36<sup>th</sup> month of coverage under the contract. If a member withdraws from the HBPC before the end of the contract term, the HBPC could retain, as a penalty, an amount specified by the HBPC that is not less than the premium that the member paid for the 36<sup>th</sup> month of coverage.

*Reporting Requirements.* Each HBPC would be required to submit to the Legislature and OCI, within one year after the end of the term of the contract between the members of the HBPC and the insurer, a final report that details significant findings from the project and that includes, at a minimum, to the extent available, information on all of the following: (a) the extent to which the health benefit purchasing arrangement had an impact on the number of uninsured in the geographic area in which it operated; (b) the effect on health care coverage premiums for groups in the geographic area in which the health benefits purchasing arrangement operated, including groups other than the HBPC; and (c) the degree to which health care consumers were involved in the development and implementation of the health benefit purchasing arrangement.

In addition, each HBPC would be required to submit to the Legislature and OCI annually, no later than September 30, a report on the progress of the health benefit purchasing arrangement and, to the extent possible, any significant findings described under (a), (b), and (c) above.

*Federal and Private Funds.* The bill would authorize any state agency to seek federal or private funding that could be used to support the activities of the HBPCs.

## **FISCAL EFFECT**

Both OCI and the Department of Financial Institutions (DFI) submitted fiscal notes to the original bills. OCI identified the expense of staff time that would be required to develop and promulgate administrative rules to designate the five geographic areas for the purpose of organizing the HBPCs. However, under the substitute amendments to the bills, OCI would designate these areas by order, rather than by rule. In addition, OCI indicated that it could not determine the effect of the bill on local governments, since it is not known whether the establishment of HBPCs would provide enough of an incentive for local governments to alter their health care purchasing decisions.

DFI estimated that the one-time cost of updating the agency's database structure to accommodate the HBPCs would be approximately \$2,000, and that PR revenues would increase by

\$125 in the first year of the project (5 HBPCs x \$25 filing fee per HBPCs), and that, in each subsequent year, PR revenues would increase by \$60 (5 HBPCs x \$15 annual report fee per HBPC).

Both agencies indicated that the additional staff costs the agencies would incur with the enactment of the bill could be absorbed within each agency's budget.

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