



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #401

Health Insurance Risk Sharing Plan: Plan 2 Deductible (DHFS -- HIRSP and Public Health)

[LFB 2005-07 Budget Summary: Page 264, #3]

CURRENT LAW

The state's health insurance risk-sharing plan (HIRSP) offers health insurance coverage to individuals with adverse medical histories and others who cannot obtain affordable health care coverage from the private sector. Wisconsin residents are eligible to enroll in HIRSP as a result of having health insurance coverage rejected or limited by an insurer, as a result of having certain diseases or disabilities, or as a result of the loss of employer-sponsored health care coverage.

HIRSP offers two types of plans, both of which provide coverage for major medical expenses. Plan 1 is for individuals who meet the HIRSP eligibility criteria but are not eligible for Medicare. Plan 2 is for individuals who meet the HIRSP eligibility criteria and are eligible for Medicare, either because of a disability or because they turned 65 while enrolled in HIRSP. Coverage for Plan 2 is limited to those benefits not paid by Medicare Part A or B, regardless of whether the individual is enrolled in Part B. Medicare Part A pays benefits for hospital and skilled nursing home care and Part B helps pay for doctor bills and outpatient services.

Current law requires that the deductible for HIRSP Plan 2 policyholders be equal to the Medicare Part A deductible, which is adjusted annually based on increases in hospitalization costs. However, current law contains a conflicting provision that requires that HIRSP pay all covered costs for Plan 2 enrollees/Medicare recipients that exceed \$500. DHFS interprets this inconsistency to limit the out-of-pocket maximum for Plan 2 enrollees to \$500 per year.

GOVERNOR

Reduce funding by \$222,900 SEG in 2005-06 and by \$482,800 SEG in 2006-07 to reflect the estimated savings in benefits costs that would result by making the following statutory change.

Provide that, if the covered costs incurred in a calendar year by a HIRSP enrollee who is eligible for Medicare exceed the deductible for major medical expense coverage (the Medicare Part A deductible) or \$2,000, whichever is less, the plan would pay 100% of any additional covered costs incurred by the person during the calendar year. Delete a current provision that states that, if the aggregate of the covered costs not paid by the plan and the deductible exceeds \$500 for an enrollee receiving Medicare, the plan must pay 100% of all covered costs incurred by the person during the calendar year. Provide that these changes would take effect on January 1, 2006.

DISCUSSION POINTS

1. In accordance with statute, for enrollees who are eligible for Medicare, HIRSP offers a deductible for major medical expense coverage equal to the deductible charged under Medicare Part A. The provision allows the deductible to fluctuate annually, as determined by the federal government. For calendar year 2005, that deductible is \$912. Table 1 lists the Medicare Part A deductible in 1979 and in five-year increments from 1980 through 2005, along with the percentage change in the deductible from 1979. The 1979 Medicare Part A deductible was the effective Plan 2 deductible in the year the Legislature created HIRSP.

TABLE 1

<u>Calendar Year</u>	<u>Medicare Part A Deductible</u>	<u>Percent Increase from 1979</u>
1979	\$160	
1980	180	13%
1985	400	150
1990	592	270
1995	716	348
2000	776	385
2005	912	470

2. Current law also provides, however, that if the aggregate of the covered costs not paid by HIRSP in a calendar year for HIRSP Plan 2 enrollees exceeds \$500, HIRSP must pay 100 percent of the covered costs exceeding \$500 incurred in the calendar year by the enrollee. Thus, the out-of-pocket maximum for Plan 2 policyholders (\$500) is less than the Plan 2 deductible for 2004-05 (\$876). If the statute were clarified to have the effective Plan 2 out-of-pocket maximum be the lesser of the Medicare Part A deductible (\$912 in 2005) or \$2,000, it would represent an 82 percent

increase in the out-of-pocket maximum for Plan 2 enrollees. In calendar year 2004, 62 percent of the Plan 2 enrollees met the \$500 out-of-pocket maximum.

3. The loss ratio, measured as the amount by which HIRSP plan expenditures exceed premium revenue from enrollees, has traditionally been considerably higher for Plan 2 than for Plan 1. Beginning in 2000-01, the HIRSP Board approved increasing Plan 2 premiums with the goal of having similar loss ratios for Plans 1 and 2 in 10 years. In 2003-04 the combined loss ratio for Plans 1A and 1B was 162 percent, while the loss ratio for Plan 2 was 213.5 percent.

4. HIRSP Plan 1A and Plan 2 enrollees with annual household income levels under \$25,000 are eligible for a subsidy to cover part of their premium. The level of premium subsidy depends on the enrollee's age, gender, and the geographical zone in which they live. In 2004, 44 percent of Plan 2 enrollees received a premium subsidy. For fiscal year 2004-05, HIRSP Plan 2 annual premiums varied from \$1,596 to \$9,744, depending on the enrollee's age, gender, and applicable rate zone. For example, a 24 year-old male Plan 2 enrollee living in Wausau would pay \$1,596, while a 65 year-old male living in Milwaukee would pay \$9,744. Further, in April, 2005, the HIRSP Board approved average Plan 2 rate increases of 20.2 percent. HIRSP Plan 2 enrollment rose from 1,296 in 1999-00 to a projected 1,715 in 2004-05 -- an increase of approximately 32 percent. Average HIRSP premiums for Plan 2 enrollees increased by more than 90 percent during that same time period. For 2004-05, Plan 2 rates are approximately 81 percent of Plan 1A rates. Since 1998, Plan 2 premium increases have exceeded the increases for Plans 1A and 1B in all years but 2001-02. Partly in response to concerns about Plan 2 premium increases, the Legislature amended the statutes to allow DHFS to consider enrollment levels and other economic factors, in addition to claims costs, when establishing premiums.

5. Increasing the out-of-pocket maximum payment for Plan 2 policyholders to equal the lower of the Medicare Part A deductible or \$2,000 would raise the threshold at which the HIRSP plan would incur costs, and help to lower the Plan 2 loss ratio. The actuary for the HIRSP program has estimated that raising the out-of-pocket maximum for Plan 2 enrollees from \$500 to \$912 would lower Plan 2 costs by approximately 4 percent. Given that the HIRSP Board is attempting to equalize the loss ratios between Plans 1 and 2, however, the effect of such a change on premium rates for Plan 2 enrollees in 2006-07 is difficult to predict. Presumably, even if the change would not result in the lowering of Plan 2 premiums, it would result in less of an increase in Plan 2 premiums than would be the case without the change. The fiscal effect on individual Plan 2 policyholders, however, would depend on whether an increase in their out-of-pocket costs in any given year exceeded: (a) any decrease in Plan 2 premiums resulting from the change; or (b) the amount by which a premium increase was reduced.

6. When the Legislature created HIRSP in 1979, it chose to index the Plan 2 deductible to the Medicare Part A deductible. In 1979, the Medicare Part A deductible was \$160, and the Plan 2 out-of-pocket maximum was \$500. From 1979 to 2005, the Medicare Part A deductible increased by 470 percent, to \$912, while the Plan 2 out-of-pocket maximum remained \$500 over that 26-year period. The Plan 2 deductible has exceeded the \$500 out-of-pocket maximum since 1987. The administration's proposal would, in effect, increase the out-of-pocket maximum by 82 percent in

2005-06 and would allow the out-of-pocket maximum to eventually increase to \$2,000 -- a level four times that originally set in 1979.

7. In 1979, the deductible for Plan 1 enrollees was \$1,000, and the out-of-pocket maximum was \$1,500 for an individual, or \$3,000 for all individuals in a family. In 1983 Wisconsin Act 27, the Legislature increased the out-of-pocket maximums for Plan 1 enrollees to their current levels of \$2,000 for an individual, or \$4,000 for all individuals in a family. In 1983, the Medicare Part A deductible was \$304, and the Legislature chose not to increase the \$500 out-of-pocket maximum for Plan 2 enrollees. The Plan 1A deductible remains \$1,000. Thus in the 26 years between 1979 and 2005, the Plan 1A deductible has remained the same, and the out-of-pocket maximums for individuals and families have risen by 33 percent. Plan 1 enrollees' deductibles and coinsurance payments contribute to their out-of-pocket maximums. Coinsurance is the fixed percentage or amount of covered medical expenses that an enrollee must personally pay during a coverage period after satisfying the deductible requirements. Plan 2 enrollees have no coinsurance requirement, consequently the Plan 2 deductible served as the out-of-pocket maximum when it was below \$500. Since 1987, however, when the deductible for Plan 2 enrollees rose to \$520, the out-of-pocket maximum has been the \$500 statutory limit first set in 1979. The Committee may choose to increase the Plan 2 out-of-pocket maximum by 33 percent to \$625, to match the increase in the Plan 1A out-of-pocket maximum since 1979.

8. Since 1987, the first year in which the Medicare Part A deductible exceeded \$500, the HIRSP plan has to some extent been subsidizing the Medicare Part A deductible for Plan 2 policyholders incurring hospitalization expenses of more than \$500 in a benefit period. Given that the Legislature indexed the Plan 2 deductible to the Medicare Part A deductible, arguably the Legislature did not intend that HIRSP supplement the Medicare Part A deductible. On the other hand, from the time of its creation in 1979, the HIRSP statute has provided for an out-of-pocket maximum for Plan 2 policyholders, possibly indicating that the Legislature did contemplate some level of supplement for Plan 2 enrollees if the Medicare Part A deductible were to someday rise above \$500.

9. Approximately 80 percent of HIRSP Plan 2 costs are attributable to drug costs, possibly indicating that the majority of Plan 2 enrollees are enrolled in HIRSP primarily for its drug benefits. There are separate drug coinsurance and out-of-pocket maximums established for HIRSP. Currently, Plan 2 enrollees pay HIRSP prescription coinsurance of 20 percent up to a maximum of \$25 per prescription, with an out-of-pocket yearly maximum of \$125. Because eighty percent of HIRSP Plan 2 costs are drug related and HIRSP establishes separate drug coinsurance and out-of-pocket maximums for drugs, the deductible for covered medical services affects just 20 percent of HIRSP costs. Additionally, the Governor has proposed to restructure HIRSP's drug coverage to a 3-tiered model similar to that currently in place for Wisconsin State Employees. This would include changing the drug co-payment for Plan 2 enrollees to \$5, \$15, or \$35 depending on the classification of the drug within the formulary, and changing the out-of-pocket maximum for drug payments for Plan 2 enrollees to \$300 annually. Actuaries for the HIRSP program have estimated that the proposed changes to HIRSP drug coverage changes will result in an average increase in out-of-pocket payments for drugs of \$446 for Plan 2 enrollees, but that the entire pharmacy reform

proposal will reduce HIRSP benefits costs across all plans by more than \$4.3 million in the 2005-07 biennium. Additionally, the Medicare Part D prescription drug benefit takes effect on January 1, 2006. The effect of Medicare Part D on HIRSP Plan 2 enrollment and benefits costs is unknown at this time.

10. In summary, three alternatives are presented for the Committee to consider. Alternative 1 adopts the administration's proposal that the out-of-pocket maximum for Plan 2 enrollees be the lesser of the Medicare Part A deductible or \$2,000. The second alternative would increase the out-of-pocket maximum for Plan 2 policyholders to \$665, representing a 33 percent increase -- the equivalent increase seen in the out-of-pocket maximum for Plan 1A policyholders since the program's inception. Finally, Alternative 3 would delete the provision, thereby leaving the annual out-of-pocket maximum for Plan 2 enrollees at \$500, and delete the statutory reference to the Medicare Part A deductible.

ALTERNATIVES

1. Approve the Governor's recommendation, modified to reflect more recent actuarial projections for HIRSP Plan 2 enrollment, and revised projections of the percentage of Plan 2 enrollees expected to expend \$500 or more in deductible payments. Increase funding in the bill by \$6,200 SEG in 2005-06 and \$5,500 SEG in 2006-07.

<u>Alternative 1</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	\$11,700

2. Modify the Governor's provision by providing: (a) that, if the covered costs incurred in a calendar year by a HIRSP enrollee who is eligible for Medicare exceed \$665, the plan would pay 100 percent of any additional covered costs incurred by the person during the calendar year; (b) repealing the statutory requirement that the HIRSP Plan 2 deductible equal the Medicare Part A deductible; and (c) increasing funding in the bill by increasing funding for HIRSP benefits by \$86,800 SEG in 2005-06 and \$182,300 SEG in 2006-07.

<u>Alternative 2</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	\$269,100

3. Delete provision and delete statutory reference to the Medicare Part A deductible.

<u>Alternative 3</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	\$705,700

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