



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

June 5, 2007

Joint Committee on Finance

Paper #282

Value-Based Health Care Purchasing Initiatives (ETF)

Bill Item

[LFB 2007-09 Budget Summary: Page 131, #4]

CURRENT LAW

Under 2005 Wisconsin Act 25, the Department of Employee Trust Funds (ETF) was provided one-time funding of \$150,000 SEG annually to conduct evaluations of the long-term value, effectiveness, and quality of existing and proposed health care cost-containment initiatives. Under 2005 Wisconsin Act 228, \$150,000 SEG in one-time funding was provided to ETF in 2006-07 for the costs of contracting (in conjunction with the Department of Health and Family Services [DHFS]) for data collection, analysis, and reporting of health care claims information by a data organization.

GOVERNOR

Provide \$425,000 SEG annually for three value-based health care purchasing initiatives as follows: (a) \$125,000 SEG annually for a contract with the University of Wisconsin Medical School to retain the services of a medical director to assist ETF and state's Group Insurance Board in establishing health care coverage and bidding requirements, negotiating with health plan providers, developing quality improvement initiatives, and enforcing standards for various types of programs operated by health plan providers; (b) \$150,000 SEG annually to implement various cost containment pilot projects, evaluations, and data collection efforts; and (c) \$150,000 SEG annually for ETF's contribution to a joint contract that ETF and DHFS plan to enter into with the Wisconsin Health Information Organization to collect, analyze, and publicly report certain health care claims information from insurers and administrators, to develop and maintain a centralized data repository, and to provide to DHFS, without charge, health care claims information and reports requested by DHFS.

DISCUSSION POINTS

1. ETF administers health care benefits for state employees and annuitants, and a group health insurance coverage option for other public employers in Wisconsin. ETF-administered plans cover approximately 230,000 state and local governmental employees, retirees, and their dependents.

2. In 2004, the Department implemented both a three-tier health care coverage system and a pharmacy benefits management (PBM) program for state employees. The Department indicates that both initiatives have been innovative and successful in limiting cost growth. In the four-year period 2001 to 2004, health insurance premiums for state employees increased by an average of 16% annually. In the three-year period 2005 to 2007, following the three-tier and PBM implementations, the increases averaged 7.0% annually. Total state expenditures for health care coverage premiums for state employees in 2007 are estimated at \$759.5 million.

3. These initiatives reflect the Department's strategy for value-based purchasing of health care services. ETF officials indicate that value-based purchasing links measures of health care and health outcomes with the money paid for health services. However, as these initiatives mature, ETF indicates that current strategies must be refined and additional initiatives must be implemented to maintain lower rates of cost increases.

4. To accomplish this, the Department believes that additional specialized expertise must be tapped and that future planning in the area of managing public employee benefits programs will require objective, in-depth analysis to properly review and assess past program performance and make the most appropriate policy recommendations for future program changes. The funding provided on a one-time basis in 2005 Acts 25 and 228 was provided to allow initial efforts in this area to be made. This one-time funding was removed as a standard budget adjustment. Senate Bill 40, however, would restore and expand this funding.

2005 Wisconsin Act 25

5. Under 2005 Wisconsin Act 25, ETF was provided one-time funding of \$150,000 annually to conduct ongoing evaluations of the long-term value, effectiveness, and quality of existing and proposed health care cost-containment initiatives. This type of analysis was to be conducted by various research specialists, depending on the characteristics of the matter being evaluated. For the 2005-07 budget deliberations, it was estimated that two or three major evaluation projects could be conducted each year at an average cost of between \$50,000 and \$100,000 for each study.

6. The funding provided under Act 25 for the 2005-07 biennium will not be fully utilized. In 2005-06, expenditures totaled approximately \$3,000 for payment to the Leapfrog Group, an organization that provides the state with information relating to hospital quality ratings. The balance of the 2005-06 funding lapsed to the public employee trust fund. In 2006-07, the Department estimates that approximately half of the funding provided will be expended, with the

remaining funds again lapsing to the trust fund. The 2006-07 expenses will reflect payments for consultant purposes, primarily to retain, for nine months in 2006-07, a medical director associated with the UW Medical School. This consultant assists the Department and the Group Insurance Board to: (a) establish health care coverage and bidding requirements; (b) negotiate health plan features; (c) develop new quality improvement initiatives; and (d) enforce minimum standards for various programs of the participating health plans, including wellness and disease management programs.

7. ETF officials indicate that the role of the UW Medical School consultant is viewed as important for the assessment and management of current health care practices and value-based initiatives. Therefore, in its 2007-09 biennial budget request, the Department requested separate funding for this function (\$125,000 SEG annually). This funding is provided under the bill.

8. The Department also requested, and the bill provides, \$150,000 SEG to continue to conduct ongoing evaluations and pilot studies of the long-term value, effectiveness, and quality of existing and proposed health care cost-containment initiatives. This provision would continue and make permanent the funding originally provided in Act 25.

9. The Act 25 funding was provided on a one-time basis so that ETF, the administration, and the Legislature could reassess the value of these projects during 2007-09 biennial budget deliberations in order to determine if ongoing resources should be provided. While the Department utilized the funding in 2005-06 to make a payment for the Leapfrog Group, and in 2006-07 to obtain the specialized expertise it needed for assisting with value-based health care initiatives (the UW Medical School consultant), ETF did not need to utilize the Act 25 funding to conduct other evaluations or pilot projects that were worked on in the 2005-07 biennium.

10. These include: (a) an evaluation of creating a self-insured Tier 1 plan in rural areas of the state; (b) a grant-funded project with the Wisconsin Hospital Association to identify consumer beliefs, decision-making strategies, and knowledge deficits regarding health care; (c) as a result of 2005 Wisconsin Act 228, direct involvement with DHFS and private sector stakeholders in the development of the Wisconsin Health Information Organization (described below); and (d) participation in a pilot program sponsored by the Pharmacy Society of Wisconsin to establish a uniform set of medication dispensing and disease management services provided by pharmacists and pharmacies in the state.

11. According to ETF, such projects were always intended to be funded from regular agency resources, to the extent possible, and the additional funding provided under Act 25 was to be used only if needed. For example, ETF may have the capacity to initiate a pilot project to "test the waters" in a given area without utilizing the funds provided under Act 25. However, if the pilot project shows potential and requires the quick infusion of additional funding in order to accomplish the desired outcome, the Act 25 funds could be utilized.

12. In a sense, the Act 25 funding provided strategic or contingency funds for the Department to initiate or conclude important projects on an ad hoc basis at a point in time when

other agency resources are not available. This is what occurred in 2006-07 when the contract with the UW Medical School was developed. ETF officials indicate that in some years little or no funding may be expended, while in other years the \$150,000 may not provide an adequate amount to meet needs.

13. The Department indicates that additional pilot projects are likely to develop in the 2007-09 biennium, in part due to the facilitation and coordination of these efforts provided by the UW Medical School consultant. ETF argues for approval of the provision under the bill on the grounds that these funds need to be available on a permanent basis so that the Department can respond in a timely manner as opportunities arise.

14. Arguably, the potential value of pilot projects, evaluations, and other efforts to identify possible employer and employee health care cost-savings is high and the \$150,000 SEG provided under the bill for this purpose should be provided again in the 2007-09 biennium. However, the Committee could continue to provide these funds on a one-time basis so that it can assess the value of these projects during 2009-11 biennial budget deliberations to determine if ongoing resources should be provided.

2005 Wisconsin Act 228

15. Under 2005 Wisconsin Act 228, \$150,000 in one-time funding was provided to ETF in 2006-07 for the costs of contracting (in conjunction with DHFS) for data collection, analysis, and reporting of health care claims information by a data organization. Senate Bill 40 provides \$150,000 SEG annually to ETF for this purpose and would make the funding permanent.

16. Under s. 153.05 of the statutes, DHFS is required to collect, analyze, and disseminate health care information from health care providers other than hospitals and ambulatory surgery centers. The information is collected in order to provide to health care providers, insurers, consumers, governmental agencies, and others, information concerning health care providers and uncompensated health care services, and in order to provide information to assist in peer review for the purpose of quality assurance.

17. Further, Act 228 authorized ETF to expend up to \$150,000 in 2006-07, and DHFS, in its capacity as a public health authority, to expend additional moneys, to contract jointly with a data organization to perform data collection services. The data organization was authorized to request health care claims information from insurers and employee benefit plan administrators and was required to analyze and publicly report the health care claims information with respect to the cost, quality, and effectiveness of health care, in language that is understandable by lay persons, and must develop and maintain a centralized data repository. The data organization must also provide to the DHFS, without charge, health care claims information collected by, and reports produced by, the data organization that DHFS requests.

18. At least during the period of the contract, the data organization must include as voting members of the board of directors of the data organization the Secretaries of DHFS and ETF

or their designees. The data organization is required to provide matching funds, which may include in-kind contributions, as specified in the contract. Any termination of funding or of the services of the data organization under the contract, or modification of the contract, is subject to a determination made under statutory provisions.

19. The data organization selected for this work is the Wisconsin Health Information Organization (WHIO), a nonprofit organization whose participating members include ETF, DHFS, and 11 other members, generally private sector organizations representing major insurance companies, health care providers, and employers. The WHIO's goal is to collect a large volume of comparable health care data, so that providers, employers and consumers can measure economic efficiency and make value-based purchasing decisions by looking at cost and quality of an entire episode of care.

20. The contract between the state and WHIO to perform the data collection services required by ETF and DHFS has not yet been entered into. ETF officials indicate that a contract will not be executed until final details have been worked out regarding the types of data collected and analyzed and how the data will be reported. ETF indicates that it will not support a contract unless the product is of direct benefit to the public employee trust fund. Therefore, no funds have been expended, or are expected to be expended, in 2006-07.

21. WHIO is designed and intended to be self-sustaining after several years of operation, after which it will support its work by charging for data and analysis. When this occurs, the initial contract funding provided by ETF and DHFS will no longer be required (although the state may incur future contract costs to utilize WHIO's services). Due to this factor, the Committee could make any funds provided for the WHIO contract in the 2007-09 biennium one-time funding. If additional funds are needed in the 2009-11 biennium, ETF can request these resources in its next biennial budget request.

22. In addition, ETF officials now indicate that the funding for the WHIO contract is not likely to exceed \$100,000 SEG in 2007-08 and \$50,000 SEG in 2008-09. If this is the case, any unexpended funding provided under the bill would lapse to the public employee trust fund. Alternatively, the Committee could modify the amounts provided under the bill to reflect the latest expenditure estimates.

23. Finally, because the funding provided under Act 228 was one-time funding, the authority provided to the Department to expend the funds from a specific ETF appropriation for this purpose and to join with DHFS to enter into a contract with a data organization to perform data collection services under s. 153.05 of the statutes will be repealed on June 30, 2007. Senate Bill 40 does not reestablish this authority for the 2007-09 biennium. This should be corrected if the Committee approves funding for the WHIO contract in the next biennium. The alternatives below address this issue.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide \$425,000 SEG annually for three value-based health care purchasing initiatives as follows: (a) \$125,000 SEG annually for a contract with the University of Wisconsin Medical School to retain the services of a medical director to assist ETF and state's Group Insurance Board in establishing health care coverage and bidding requirements, negotiating with health plan providers, developing quality improvement initiatives, and enforcing standards for various types of programs operated by health plan providers; (b) \$150,000 SEG annually to implement various cost containment pilot projects; and (c) \$150,000 SEG annually for ETF's contribution to a joint contract that ETF and the Department of Health and Family Services plan to enter into with the Wisconsin Health Information Organization to collect, analyze, and publicly report certain health care claims information from insurers and administrators, to develop and maintain a centralized data repository, and to provide to DHFS, without charge, health care claims information and reports requested by DHFS.

ALT 1	Change to Bill Funding	Change to Base Funding
SEG	\$0	\$850,000

2. In addition to Alternative 1, authorize the ETF appropriation account under s. 20.515(1)(ut) to pay costs associated with contracting for insurance data collection and analysis services under s. 153.05(2r). Further, under s. 153.05(2r), provide that ETF may expend up to \$150,000 annually, in conjunction with DHFS funding, to contract jointly with a data organization to perform data collection services. This modification reinstates provisions the are repealed under 2005 Wisconsin Act 228 on June 30, 2007.

ALT 2	Change to Bill Funding	Change to Base Funding
SEG	\$0	\$850,000

3. Modify the Governor's provision to instead provide one-time funding of \$100,000 SEG in 2007-08 and \$50,000 SEG in 2008-09 for ETF's contribution to a joint contract that ETF and the Department of Health and Family Services may enter into with the Wisconsin Health Information Organization to collect, analyze, and publicly report certain health care claims information from insurers and administrators, to develop and maintain a centralized data repository, and to provide to DHFS, without charge, health care claims information and reports requested by DHFS.

Under this alternative, the Governor's recommendation to provide \$125,000 SEG annually for a contract with the University of Wisconsin Medical School to retain the services of a medical director and \$150,000 SEG annually to implement various cost containment pilot projects on an

ongoing basis would be approved.

In addition, authorize the ETF appropriation account under s. 20.515(1)(ut) to pay costs associated with contracting for insurance data collection and analysis services under s. 153.05(2r). Further, under s. 153.05(2r), provide that ETF may expend up to \$100,000 in 2007-08 and \$50,000 in 2008-09, in conjunction with DHFS funding, to contract jointly with a data organization to perform data collection services. Repeal these provisions on June 30, 2009. This modification reinstates, for a two-year period, provisions the are repealed under 2005 Wisconsin Act 228 on June 30, 2007.

ALT 3	Change to Bill Funding	Change to Base Funding
SEG	- \$150,000	\$700,000

4. Modify the Governor's provision to instead provide one-time funding of \$150,000 SEG annually to implement various cost containment pilot projects and one-time funding of \$100,000 SEG in 2007-08 and \$50,000 SEG in 2008-09 for ETF's contribution to a joint contract that ETF and the Department of Health and Family Services may enter into with the Wisconsin Health Information Organization to collect, analyze, and publicly report certain health care claims information from insurers and administrators, to develop and maintain a centralized data repository, and to provide to DHFS, without charge, health care claims information and reports requested by DHFS.

Under this alternative, the Governor's recommendation to provide \$125,000 SEG annually for a contract with the University of Wisconsin Medical School to retain the services of a medical director on an ongoing basis would be approved.

In addition, authorize the ETF appropriation account under s. 20.515(1)(ut) to pay costs associated with contracting for insurance data collection and analysis services under s. 153.05(2r). Further, under s. 153.05(2r), provide that ETF may expend up to \$100,000 in 2007-08 and \$50,000 in 2008-09, in conjunction with DHFS funding, to contract jointly with a data organization to perform data collection services. Repeal these provisions on June 30, 2009. This modification reinstates, for a two-year period, provisions the are repealed under 2005 Wisconsin Act 228 on June 30, 2007.

ALT 4	Change to Bill Funding	Change to Base Funding
SEG	- \$150,000	\$700,000

5. Delete provision.

ALT 5	Change to Bill Funding	Change to Base Funding
SEG	-\$850,000	\$0

Prepared by: Art Zimmerman