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Good Morning Chairpersons Erpenbach and Richards and Legislative Council Special Study Committee members. I am Bill Oemichen, President & CEO of Cooperative Network, a Wisconsin-based trade association of more than 600 cooperative businesses owned by 6.4 million residents of Wisconsin and Minnesota. I serve as the volunteer Vice Chair and Treasurer of the Monroe Clinic, our state's largest rural hospital and clinic system and as the volunteer Chair of the Board Nominations Committee for Group Health Cooperative of South Central Wisconsin. I previously served as our state's Consumer Protection Administrator from 1996-2001 and advancing the interests of consumers has been one of my primary life goals.

Cooperative businesses are different from many of the companies you might think about because we are owned by our members who purchase our products and services or by the workers who produce those products and services. Any net margin, or profit, made by the cooperative is owned by our members and is usually distributed back through lower prices or through a patronage distribution. Cooperatives, like all other businesses, must be profitable to remain in business.

Wisconsin Has a Rich Cooperative History. Wisconsin has a rich cooperative history. We are the second leading cooperative business state in the nation due to the 865 cooperatives headquartered here according to the Wisconsin Department of Financial Institutions. Only Minnesota has more cooperative businesses with 1,012 according to the Minnesota Secretary of State. Cooperatives operating in our state range in size from Fortune 500 companies like CHS, Inc., Land O' Lakes, and Ocean Spray to locally-based cooperatives like Union Cab, Willy Street Cooperative, Isthmus Engineering and the many credit unions located in Madison,.

Cooperative Businesses Follow Common Principles. Cooperatives share seven common principles that define our businesses:

1. Voluntary and open membership;
2. Democratic member control;
3. Members' economic participation;
4. Autonomy and independence;
5. Education, training and information;
6. Cooperation among cooperatives; and
7. Concern for community.

Our members principally believe that together we achieve more than we can independently of each other and we are very much focused on the idea of "self help" rather than on government financial support. Our member ownership structure and cooperative principles make our businesses uniquely focused on what our member-owners want us to provide and bettering the communities in which we operate.

Cooperatives' responsiveness to their member-owners is demonstrated by the fact that the Wisconsin Bureau of Consumer Protection receives from 150,000 to 200,000 complaints and inquiries each year about Wisconsin businesses of all types. Fewer than a handful of complaints or inquiries each year are about the business activities of cooperatives. These statistics illustrate the fact that cooperatives have different complaint response mechanisms due to its ownership structure. An unhappy cooperative member may either directly call the cooperative's management – typically the president & CEO, or run for the board of directors. The cooperative member may also question management and the board of directors at the annual meeting. I know from my nearly six years of state Consumer Protection experience that this type of direct complaint resolution system rarely exists in investor-owned or even privately-owned companies.

Wisconsin Has a Rich History of Health Care Cooperatives. Our state is home to about twenty member-owned health care cooperatives, each a little different but all with the common goal of aggregating purchasing power to bring greater value to their member-owners. Together, they impact hundreds of Wisconsin businesses and hundreds of thousands of consumers. A few examples are:

1. There are three cooperative health insurance companies owned by enrollees where the cooperative owns the hospitals, clinics and directly employs the physicians and other medical care workers;

2. There are a number of employer-owned health care purchasing alliances that each in their own way increase employers' negotiating power with insurance companies, health care providers and other vendors. Cooperatives in this category are owned by large employers, small employers, and the self–employed and are innovators in finding new ways to add value to the purchase of health care in our state;

3. There are a handful of cooperatives aimed at lowering the cost of pharmaceutical drugs, including at least one organized as a pharmacy, one as a cooperative of pharmacies, and one organized by employers for the purchase of pharmaceutical benefits; and

4. The Rural Wisconsin Health Cooperative is a cooperative of primarily rural hospitals who have banded together for the purchase or products and services such as physician accreditation and information technology.

Wisconsin Cooperative Law is Unique in our Nation. Our state law was first signed into law in 1947 by Governor Oscar Rennebohm and is unique among the American states. The law was modernized earlier this year by legislation sponsored by Senator Jon Erpenbach (D-Middleton) and Representative Jon Richards (D-Milwaukee). Overall, the law has authorized the creation of cooperatives such as the 64,000 member Group Health Cooperative of South Central Wisconsin, the 84,000 member Group Health Cooperative of Eau Claire, the 83,000 member The Alliance and the 240,000 member WisconsinRx cooperative. Several of these cooperatives operate as health maintenance organizations and employ the physicians and own the hospitals and clinics. The Alliance is an employer-owned, not-for-profit cooperative that uses the collective purchasing power of its 160 members to negotiate directly with health care providers in southern Wisconsin and neighboring counties in Iowa and Illinois. The Alliance also offers its members data management and claims reporting tools and resources to control costs, improve quality, and engage individual in their health care. WisconsinRX is a pharmacy purchasing cooperative owned by employers across the nation, but is especially strong in Wisconsin and neighboring states and the Pacific Northwest. Overall, Wisconsin, Minnesota and Washington State are the three states in which cooperatives overall play a significant role in the state's health care landscape

I will also note that HealthPartners HMO is a 1.3 million member nonprofit insurers headquartered in Minnesota that operates under cooperative principles. It does significant business in Western Wisconsin. HealthPartners owns its hospitals and employs its physicians and its former President & CEO, George Halvorson, was one of the original authors of the cooperative purchasing alliance concept. Mr. Halvorson is now the President & CEO of KaiserPermanente, one of the nation's health care providers with more than 10 million enrollees.

The Health Care Challenge to Cooperatives. The Wisconsin Legislature added to the original cooperative health care law beginning in 2003 to allow for creation of cooperative health care purchasing alliances. This legislative initiative resulted from Cooperative Network hearing from many of its members that access was a very important problem, particularly from the perspective of the state's vitally important $54 billion dairy industry. Surveys by the University of Wisconsin-Madison and the Wisconsin Farm Credit System made clear that most dairy producers were buying high deductible, high premium and low benefit plans because that is all they could purchase as individuals. You might call these "catastrophic health care plans." We then learned that the primary reason three dairy producers per day were leaving the Wisconsin dairy industry was because of health care and not because of low dairy prices, prices which in 2003-2003 were near record lows. In short, the foundation of the state's dairy industry – the producer – had no bargaining power as an individual producer.

This lack of bargaining power certainly impacted, access, affordability, and coverage negatively. To state just one important example, we learned back then that most dairy producers were not covered by "24-hour coverage." This means the moment the producer stepped off their back porch to "go to work" in the barn, they no longer had health care coverage. Even worse, the producer didn't know they were operating without

this important coverage. Moreover, many producers told us during focus groups that they were rejected by insurers because of their occupation. In fact, several prospective insurers told us they would not cover a farmer cooperative because "farmers are too risky." It was clear to our members that something needed to be done to help modernize and grow our state dairy industry and we just didn't want to talk about the problem any more. We wanted to do something that could directly help this struggling industry, an industry vitally important to the future of our entire state.

The Co-op Care Legislation. In response, we approached Senator Jon Erpenbach and asked him to write legislation called "Co-op Care", that would create a new Wisconsin Statutes Section 185.99 within the existing cooperative law that would allow for the creation of cooperative health care purchasing alliances. We are grateful he worked hard on the legislation with principle sponsors state Senator Sheila Harsdorf (R-River Falls) and now former state Representative Curt Gielow (R-Mequon). The resulting legislation unanimously passed the Legislature and was signed into law by Governor Jim Doyle in December of 2003. The law was subsequently amended in 2005 and 2006 to remove a cap of five cooperatives and to make clear that the members were becoming a large group under state insurance regulations.

The Structure of Health Benefit Purchasing Alliances. The Co-op Care law of Section 185.99, "Health Benefit Purchasing Cooperatives," allows for the creation of cooperative health care purchasing alliances so that individuals and small groups can band together as a larger group for purchasing power purposes. The law is relatively simple, but is meant to provide a skeletal framework so that insurers understand the law's thrust. The law allows for purchasing groups to band together to purchase a fully-insured contract of insurance. The law does not speak about self-insurance. The group may purchase their health insurance as a large group under a single group policy. The law provides that the insurance risk of all members is pooled and that members are actively engaged in designed their own health care benefits.

The cooperative and the insurer must contract for a term of three years. This is intended to ensure a more stable long-term relationship between the cooperative and the insurer. In return, the member must commit to remaining in the cooperative for the three year period by providing an upfront capital payment that is returned to the member if they remain in the cooperative for the full three year time period. This provision ensures the member understands they have "skin in the game" and remains committed to the cooperative in the long term. This distinguishes cooperatives from what are known as "association health plans" where entrance and exit is considerably easier. This upfront capital contribution is a fairly normal commitment one makes to join in a cooperative because cooperatives and their members are focused on long term success since they depend on the cooperative for a particular good or service. This contrasts favorably with other types of businesses where the purchaser has no stake in the long term success of the company.

From the passage of Co-op Care in 2003, ten cooperative have obtained approval from the Wisconsin Office of the Commissioner of Insurance to operate in specific territories. These cooperatives serve urban and rural small employers or governmental units in various parts, including school districts and even two physician networks, all without either state or federal financial assistance. These cooperatives are focused on innovation given the challenges their populations have historically faced in gaining access to affordable, quality insurance coverage. For example, the Healthy Lifestyles Cooperative in Brown County, which includes more than 140 area small employers, is focused on engaging members in preventative and wellness programs.

While I am not privy to the competitive details of a number of these cooperatives, I can talk about the Farmers' Health Cooperative of Wisconsin (FHCW) and its experience. Cooperative Network worked closely with partners to launch the FHCW in the spring of 2007. After more than three years of operation, it now operates independently from Cooperative Network. This cooperative includes about a quarter of the state's dairy industry, is in its fourth year of business, and continues to grow. As already mentioned, the dairy industry suffered from significant access issues. The cooperatives have addressed this issue by offering what we consider a higher quality plan at an affordable price to all eligible agricultural producers and related agri-businesses. Some of these additional benefits include:

1. A comprehensive benefit plan;
2. A choice of low or high deductible plans that are HAS eligible;
3. 24-hour coverage;
4. Pharmaceutical drug coverage;
5. Wellness and preventative coverage; and
6. Dental coverage.

These are all coverages that were not typically included in insurance plans offered to agricultural producers. The producer "wins" even if they don't become a member because the FHCW immediately noted other plans started offering the all–important 24-hour coverage coincidentally at the time of our 2007 launch as well as other helpful benefits, often at no additional cost.

What is the measure of the impact of these cooperatives? I can provide for you the results of a third party study done of the FHCW. That study found that 81.7% of the cooperatives' members either saw a reduced or unchanged premium while 65.4% said their benefits had increased. Moreover, over 90% of the cooperatives' members have participated in annual health risk assessments. In response, the cooperative has seen re-enrollment rates in the high 90's during its lifetimes and annual premium increases of less than 10%.

I will note here that development of the FHCW was greatly assisted by financial assistance provided by the United States Department of Agriculture's Rural Development Program (USDA) which provided $4.45 million in start-up administrative and stop loss

funds through federal appropriations in FY '05 and '06[1], the Wisconsin Department of Agriculture, Trade & Consumer Protection which provided $79,000 in development grants, the University of Wisconsin School of Medicine and Public Health's Wisconsin Partnership Fund which provided $450,000 in start-up administrative funds, and a $10,000 grant from the AgStar Foundation for Rural America. This funding was necessary to demonstrate to potential insurers that the cooperative had risk-bearing capacity upfront because of the general unwillingness of insurers to insure a farmer-owned health care cooperative. I am very pleased to report that after four years, given the FHCW's positive risk performance, very little of the stop loss funds provided by the USDA have actually been utilized by the cooperative and remain available for future FHCW stop loss fund use.

Another six or so health care purchasing alliance cooperatives are under development, including the Wisconsin Health Cooperative, the cooperative referred to by witness Bob Connelly of *Common Ground* during your initial committee meeting on August 19. More than several of these cooperatives are waiting to receive a commitment from an insurer. The cooperatives' success depends in large part on the willingness of an insurer to provide a contract of insurance. This is certainly not a given as was seen when the state of Wisconsin attempted to find an insurer for its small employer pool back in the earlier part of the last decade. Unfortunately, as many of you will recall, despite a significant state appropriation, not a single insurer stepped forward to provide insurance coverage.

These health care purchasing alliance cooperatives only address one part of the health care reform issue, that of providing consumers with greater control over their health care purchasing decisions. And, it is important to once again note, these purchasing alliances are successful only to the extent that insurers are willing to provide a contract of insurance and to maintain that commitment. We are fortunate to date that several insurers have stepped forward to be such partners. We hope this will continue.

Consumer Operated and Oriented Plans. In June**,** following nominations by the four U.S. senators from Wisconsin and Minnesota, I was honored to be appointed by the U.S. Comptroller General as one of fifteen members of the Advisory Board to the Secretary of the U.S. Department of Health and Human Services for the Consumer Operated and Oriented Plan (CO-OP) provisions of the Patient Accountability and Affordability Act. I will note at the outset of this section, that Tim Size, the Executive Director of the Rural Wisconsin Health Cooperative in Sauk City, a cooperative of a number of Wisconsin hospitals, has also been appointed to this advisory board.

I was pleased to also be invited to appear before U.S. Senate and House Committees on health care reform during the past several years. As you might recall, there was significant interest in Congress for the creation of health care cooperatives at the federal level as a middle ground between those who sought more government involvement and

[1] These funds were appropriated through the leadership of U.S. Senator Herb Kohl and U.S. Representative David Obey and other members of the Wisconsin and Minnesota Congressional Delegation and are to be shared by farmer-owned health care purchasing alliance cooperatives operating in Wisconsin and Minnesota.

those who advocated for little or no government role. While many of those earlier provisions were not included in the Patient Accountability and Affordability Act, some portions survived in a more limited fashion in what is referred to as the CO-OP provision. This new federal provision provides $6 billion in federal grants and loans to start-up nonprofit, and not necessarily cooperative, health insurers. These nonprofit insurers must meet the following requirements:

(1) Become operational after July 16, 2009;
(2) Cannot be "sponsored" by a governmental agency;
(3) Governance of the nonprofit insurer must be "subject to a majority vote of its members;
(4) Governance documents must "incorporate ethics and conflict of interest standards protecting against insurance industry involvement and interference";
(5) The organization must "operate with a strong consumer focus, including timeliness, responsiveness, and accountability to members";
(6) The profits must be used to "lower premiums, improve benefits, or for other programs intended to improve the quality of health care delivered to its members"; and
(7) Must meet all state insurance law requirements.

The insurers may establish a "private purchasing council" to enter into "collective purchasing arrangements" that "increase administrative and other cost efficiencies, including claims administration, administrative services, health information technology and actuarial services." However, please note these insurers are covered by the nation's antitrust laws.

Our Advisory Board is expected to begin meeting regularly with the U.S. Department of Health and Human Services beginning next year. While it's far too early for me to predict the outcome of our work, I would certainly recommend you consider encouraging the necessary parties in our state to begin creating such a nonprofit insurer so that Wisconsin health care consumers may benefit from some of the $6 billion in grant and loans that are available by the federal law. Of course, by doing so, this too will increase competition.

Thank you for the opportunity to testify today on the important role cooperative insurers and health care purchasing alliances play in our state's insurance landscape.