

THE WISCONSIN HEALTH PROJECT

www.wisconsinhealthplan.org

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Wisconsin Health Plan Contains Costs and Expands Access Analysis Reveals Proposal Would Greatly Reduce State's Uninsured, Contain Employer Health Care Costs, and Cut Property Taxes

Milwaukee – An in-depth analysis of the Wisconsin Health Plan (2005-06 Assembly Bill 1140) by the independent, non-partisan Lewin Group confirms that the proposal would dramatically reduce Wisconsin's uninsured population, rein in employers' health care costs, and provide homeowners and businesses with nearly \$1 billion in property tax relief.

"The Lewin report provides an unprecedented, independent analysis of health care expenditures in Wisconsin," said David Riemer, Director of the Wisconsin Health Project. "We are thrilled that this study confirms that the dual goals for the Wisconsin Health Plan are achievable – you can put the brakes on the rising cost of health care and expand coverage to all Wisconsinites."

The Wisconsin Health Plan is a market-oriented approach to expanding insurance coverage and lowering employers' health care costs. It is based upon the successful system the Wisconsin Department of Employee Trust Funds (ETF) has developed to buy health insurance for state employees and state legislators.

The proposal has three simple components:

1. Provide virtually all Wisconsin residents under age 65 with health insurance coverage, including medical, hospital, and prescription drug benefits;
2. Provide all participants an annual choice of health care plans and providers;
3. Control costs by rewarding enrollees who join lower-cost but high-quality plans, and providing strong incentives to health care plans and providers who are delivering the most quality, efficient services.

The Wisconsin Health Project worked in cooperation with nearly 20 business, labor, farm, and consumer groups over the past year to commission and guide the development of the Lewin report. *A complete list of the groups that commissioned the Lewin report appears at the end of this release.*

Highlights from the Lewin Report

The Number of Uninsured

The uninsured population would drop from nearly 476,000 to 17,000 individuals under the WHP, meaning that more than 99% of all Wisconsinites would have health care coverage under this proposal.

Reduced Health Care Costs

The report projects **\$8.9 billion in savings** under the WHP over a 10-year period (2007-2017) compared to current spending in our health care system. In the first year of the program, Lewin

(MORE)

estimates \$186 million in savings due to the central purchase of prescription drugs, \$406 million in savings due to reduced insurance administration, and \$403 million resulting from incentives for price competition in the health care marketplace.

Change in Health Expenditures for Wisconsin Families

Compared to current annual expenditures, average family spending would decline by \$1,448 for premiums and \$191 for out-of-pocket spending. Families with incomes below \$50,000 would see net reductions in family health spending averaging up to **\$1,000 per family**.

Reduced Costs for Insuring Employers

Small insuring employers, such as farmers and self-employed individuals, would see a significant reduction in health insurance costs – estimated at nearly **\$1000 per insured employee**. Public/government employers would see health insurance costs reduced by **\$1.1 billion**, providing opportunities for significant property tax relief. Private insuring employers would see health insurance costs reduced by \$44 million, which is an average savings of \$24 per worker.

Reduced Costs for Taxpayers

Due to the reduced costs for health care for public employers, the WHP would provide opportunities to dramatically reduce property taxes for businesses and individuals by nearly **\$1 billion**. The current proposal suggests \$550 million in property tax relief for households and \$416 million in property tax relief to businesses. There would also be a projected \$495 million reduction in costs for government safety net programs such as local public health services, resulting from the fact that the uninsured population is virtually eliminated.

A revised version of the Wisconsin Health Plan will be re-introduced in the Wisconsin Legislature in the coming weeks. For additional details from the analysis, please see the following Summary and the full Lewin Report (attached).

Organizations that Commissioned the Lewin Report

Three Milwaukee-area foundations -- the David & Julia Uihlein Foundation, the Brico Fund, and the Argosy Foundation -- contributed significant resources to finance the Lewin analysis. In addition, funding was provided by AARP Wisconsin, Gielow & Associates, the Wisconsin Academy of Family Physicians, the Wisconsin Association of Realtors, the Wisconsin Farm Bureau, the Wisconsin Hospital Association, Wisconsin Manufacturers and Commerce, the Wisconsin State AFL-CIO, and the Wisconsin State Medical Society.

The Lewin Group

The Lewin Group is a management consulting firm with a specialty in health care. The firm has 20 years of experience in estimating the impact of major health reform proposals. The Lewin Group is committed to providing independent, objective and non-partisan analyses of policy proposals. More information is available at: www.lewin.com

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Summary of the Lewin Group Report

The Wisconsin Health Plan: Estimated Cost and Coverage Impacts -- June 2007

Background on the Wisconsin Health Plan

The Wisconsin Health Plan is a market-oriented approach to expanding insurance coverage and lowering employers' health care costs. It is based upon the successful system the Wisconsin Department of Employee Trust Funds (ETF) has developed to buy health insurance for state employees. ETF has piloted this model statewide since 2003, and has experienced great success in reducing health care premium increases as well as the cost of their prescription drug purchases.

The bi-partisan Wisconsin Health Plan was introduced by State Representative Jon Richards (D-Milwaukee) and former State Representative Curt Gielow (R-Mequon) in the 2005-06 session of the legislature as Assembly Bill 1140 (AB 1140). A revised version of the Wisconsin Health Plan will be re-introduced in the Wisconsin Legislature in the coming weeks.

Details of the Wisconsin Health Plan

The proposal has three simple components:

1. Provide virtually all Wisconsin residents under age 65 with health insurance coverage, including medical, hospital, and prescription drug benefits;
2. Provide all participants an annual choice of health care plans and providers;
3. Control costs by rewarding enrollees who join lower-cost but high-quality plans, and providing strong incentives to health care plans and providers who are delivering the most quality, efficient services.

All eligible Wisconsin residents would receive a "Premium Credit," which they would use to purchase health insurance from competing, qualifying health insurance plans. The Premium Credit would pay for a benefit package that covers medical care, hospital care, and prescription drugs.

Basic preventive care (including dental care for children) would be covered free-of-charge. The package would have a deductible of \$100 for children and \$1,200 for adults, and co-insurance up to an out-of-pocket maximum of \$500 for children, \$2,000 for adults, and \$3,000 for families.

Further, all adults (ages 18-64) would also receive a Health Savings Account (HSA), funded at \$500 each year. This model is designed with an HSA to encourage participants to seek competitively priced provider services and medical supplies as a means of reducing cost growth.

But the proposal attempts to ensure that individuals have affordable access to necessary medical care by funding the HSAs with \$500 each year, exempting preventive care from cost-sharing, and continuing to cover low-income families through the Medicaid and BadgerCare programs.

AB 1140 did not specify a funding mechanism, but the developers of the Wisconsin Health Plan have proposed financing the system primarily through payroll assessments paid by employees and employers. Most current health care spending by employees and employers would be eliminated and replaced by the proposed assessments.

The Lewin Report: Key Questions and Findings

The Lewin report was commissioned to investigate four key issues:

1. Current health care expenditures for Wisconsinites, including employers and governments.
2. Comparison of the Wisconsin Health Plan cost to current health insurance spending.
3. Examination of the proposed financing mechanism and alternatives to provide sufficient revenue.
4. The economic impact the Plan will have on the state's businesses and overall economy.

Current Health Care Spending and Coverage

The first goal in the Lewin study was to develop a detailed analysis of the Wisconsin health care system. This included an analysis of sources of coverage in the state, characteristics of the uninsured, and an estimate of health spending in the state by type of service and source of payment. Total health spending in the state of Wisconsin for 2007 is estimated at \$42.3 billion (Figure 1).

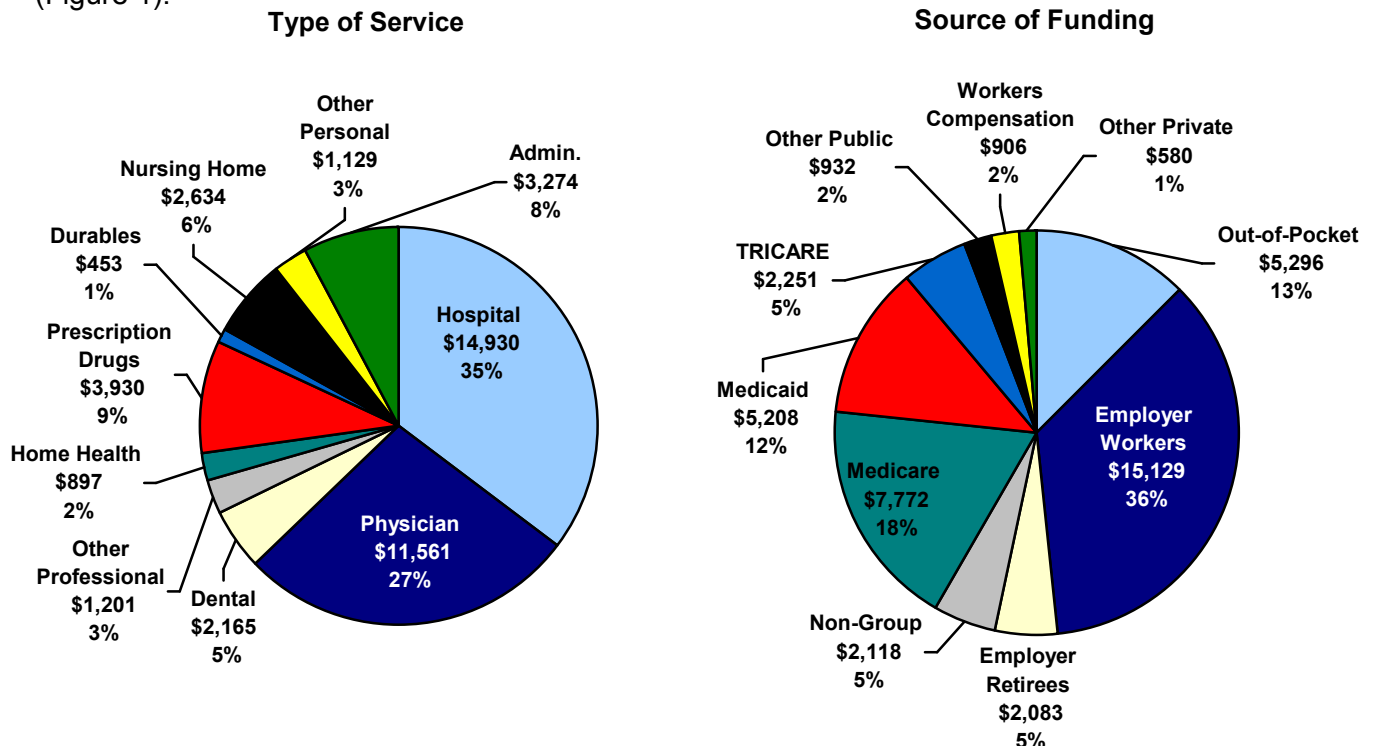


Figure 1: 2007 Lewin Group Estimated Health Care Spending in Wisconsin = \$42.273 Billion

Cost and Coverage Under the Wisconsin Health Plan

The cost of benefits and administration for those covered under the WHP program would be \$15.5 billion in 2007, or \$325 per month per enrolled individual. This includes the cost of benefits (\$12.9 billion) and the HSA contribution (\$1.5 billion). It also includes insurer administration (\$658 million), WHP corporation administration (\$334 million) and commissions to brokers and agents (\$129 million).

Figure 2: 2007 Wisconsin Health Plan Program Costs -- \$15.491 Billion (in millions)

Benefit Payments	\$13,066
Central Purchasing of Drugs	(\$186)
HSA Contribution (\$500 for all adults)	\$1,490
Insurer Administration	\$658
WHP Corp. Administration	\$334
Agents and Brokers	\$129

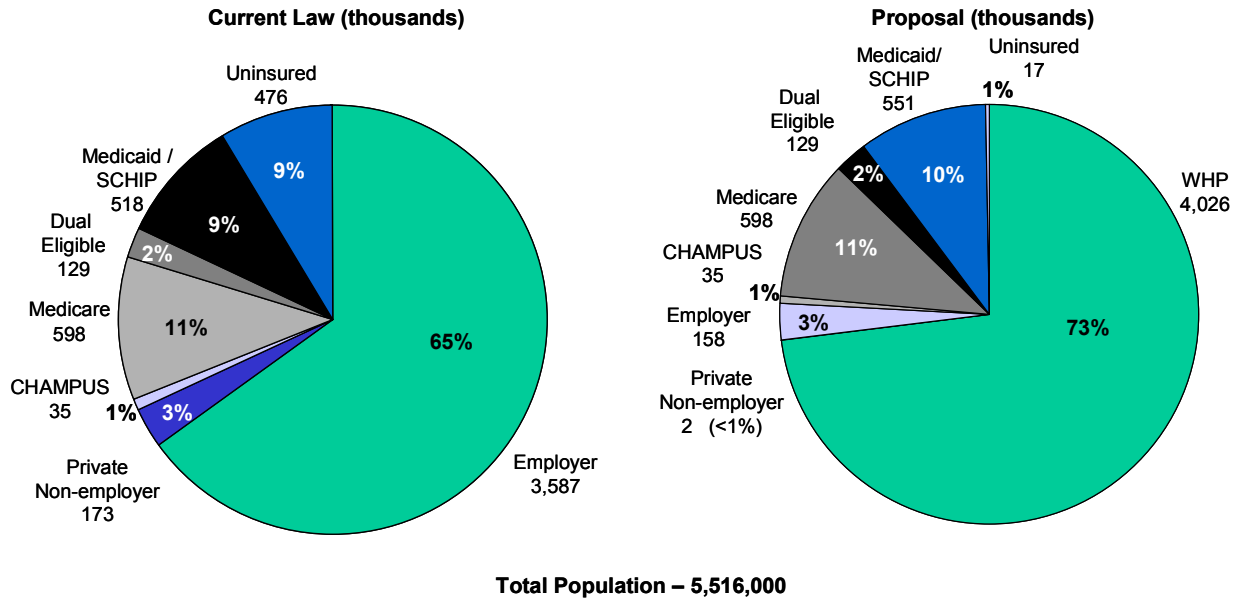


Figure 3: 2007 Lewin Group Distribution of People by Primary Source of Coverage Under Current Law and the Wisconsin Health Plan

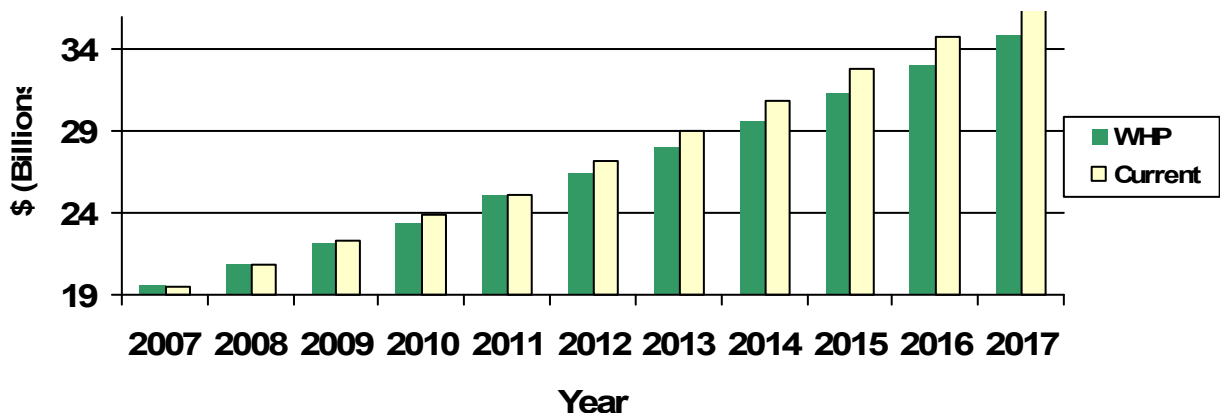
Approximately 4 million Wisconsinites would be covered by the WHP. The program would include nearly all Wisconsin residents under age 65, except those who would continue to be covered under Medicaid, BadgerCare, Medicare or TRICARE (i.e., military dependents and retirees). The Lewin report predicts that the WHP would reduce the number of uninsured in Wisconsin from 476,000 to 17,000, meaning 99% of all Wisconsinites would have health care coverage. Wisconsin would lead every other state in having the very lowest percent of uninsured -- less than 1% (Figure 3).

Reduced Costs Resulting from the Wisconsin Health Plan

The Lewin report estimates total savings of about **\$8.9 billion** over a ten-year period (2007 through 2017) for the WHP compared to current health care spending (Figure 4). This is a reduction in total spending of about 2.9% over that timeframe.

Lewin estimates that the incentives for price competition created under the program -- such as incentives for consumers to seek-out lower-cost health coverage -- would save about \$403 million. Likewise, the report estimates \$186 million in savings due to the central purchase of prescription drugs, and \$406 million in savings due to reduced insurance administration.

Figure 4: Total Projected Health Care Savings (2007-2017) -- \$8.9 Billion



Insurer administrative costs would be reduced because the program would effectively organize regional populations into large single groups for each insurer, making insurer administrative costs comparable to that of very large groups. Other reasons for reduced administrative costs include: the portability of the insurance coverage, the standardization of coverage and benefits, and the elimination of underwriting.

The WHP would result in several changes that would affect the amount of provider revenues as well. There is a net reduction in uncompensated care of about \$170 million in 2007 under the WHP, and a net increase in reimbursement for Medicaid and BadgerCare of about \$47 million.

Reduced Costs for Wisconsin Families

Compared to current annual expenditures, average family spending would decline by \$1,448 for premiums and \$191 for out-of-pocket spending. Families with incomes below \$50,000 would see net reductions in family health spending averaging up to \$1,000 per family. After taking into account “wage effects” (projected changes in family income), Lewin estimates that families will see a slight increase in total spending (\$12 million) that is offset by \$410 million in increased assets due to unspent Health Savings Account balances.

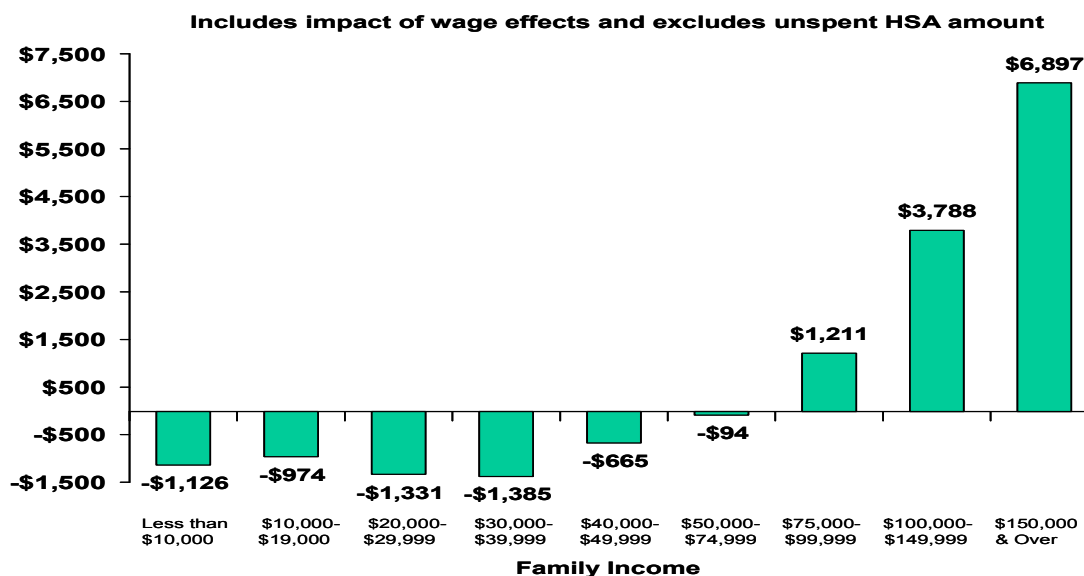
The impacts displayed in Figure 5 reflect the fact that the assessments would be calculated as a percentage of income. Thus, the dollar amount paid by employees in the assessment would increase in proportion to income, whereas the premiums now paid by workers typically vary little with income. This results in significant savings for lower income people and increases in spending for higher income families.

Reduced Costs for Wisconsin Employers

Lewin estimates that under the WHP proposal, spending for currently insuring employers (i.e., most employers) would decline. Highlights from the findings include:

- public/government employers would see health insurance costs reduced by **\$1.1 billion**
- private insuring employers would see health insurance costs reduced by **\$44 million**
- **small insuring employers** (less than 10 employees) such as farmers and self-employed individuals would see a significant reduction in health insurance costs – estimated at nearly **\$1000 per insured employee**

Figure 5: Change in Average Family Health Spending by Income Group under the Wisconsin Health Plan in 2007



When you compare current employer health spending with what the Wisconsin Health Plan would require employers and individuals to pay (excluding supplemental benefits employers could opt to provide), there is a huge reduction in cost. Private insuring employers' spending would decline \$781 million (from \$9.2 billion to \$8.4 billion) and government employers' spending would decline from \$3.2 billion to \$1.4 billion (from 25.8% of payroll to 11.55%). Employers as a whole -- even with the non-insuring employers factored in -- would see a reduction from \$12.4 billion to \$11.0 billion, a **\$1.4 billion reduction** in health care spending.

Reduced Costs for Wisconsin Taxpayers

State and local governments would see a net budgetary **surplus of \$526 million** under the WHP (Figure 6). There would be a net savings of about \$1 billion in spending for state and local government worker benefits. The cost of safety-net program for the uninsured would be reduced by about \$495 million as insurance plans begin to reimburse these providers for services that under current law would be provide free or at reduced cost.

There would be a total reduction in property tax revenues for individuals and businesses of about \$966 million. This includes the \$550 million reduction in property tax for households and a \$416 million reduction in property taxes for businesses, both funded with the savings for state and local governments described above.

Figure 6: Changes in State and Local Government Spending under the Wisconsin Health Plan in 2007 (in millions)

	Change in Spending (Before Wage Effects)	Change in Spending (After Wage Effects)
State & Local Government Employee Health Benefits Workers and Dependents (\$989) Retirees (\$112) Wage Effect \$23	(\$1,101)	(\$1,078)
Additional Medicaid Enrollment Due to WHP	\$104	\$104
Savings to Current Safety Net Programs	(\$495)	(\$495)
Eliminate Business Personal Property Tax	\$203	\$203
Reduced Property and Other Taxes to Business and Households Households \$550 Businesses \$213	\$763	\$763
Tax Revenue Loss Due to Wage Effects	--	\$236
Net Cost/(Savings) to State and Local Government	(\$526)	(\$267)