State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel*, Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

Joint Committee on Finance
February 12, 2018
Assembly Bill 885 / Senate Bill 770
Office of the Commissioner of Insurance
Testimony

Thank you for the opportunity to testify on Assembly Bill 885, related to creating a state based reinsurance plan; the Health Care Stability Plan. A state reinsurance plan is needed to offset some of the high cost claims driving up health insurance rates. It is a means to improving access to affordable health insurance coverage across the state; using the tools and working within the parameters imposed from the federal government.

Wisconsin has worked to shield consumers from the negative impact of the Affordable Care Act (ACA) as best we could, however, operationalizing the ACA has resulted in: high premiums and unaffordable rate increases; limited plan choices; and reduced competition from insurers consistently leaving the market or reducing service areas.

We used to be able to brag that in Wisconsin consumers had choices. Consumers could choose non-profit or for-profit plans, local or national plans, HMO's or PPO's. In the individual market, that is no longer true.

Due to market volatility – insurer losses have totaled approximately $400 million over the past three years – consumers are left with unaffordable and dwindling plan options. For example, during the 2018 open enrollment period, approximately 75,000 enrollees were forced to choose a new insurer and thousands of consumers overall had only one or two insurer options in counties previously having three or more. Rate increases averaged 38% across the state and in some areas were as high as 105%[1].

Most individuals receive health insurance either from their employer or through government programs such as Medicaid (elderly, blind disabled), BadgerCare (low-income families with children and childless adults with income up to 100% FPL) and Medicare. However, a small segment of the population, roughly 5% of Wisconsin residents, purchase individual health insurance coverage in the private market. These individuals, in some cases, are sole proprietors or contract employees who cannot participate in an employer plan. Some work for employers who do not offer health insurance coverage. Still, others may only be able to work part-time jobs.

Consumers in the individual market, at their most vulnerable, purchase a very personal product in a market that is taking on the most volatile risks. This population

[1] Rate increases over 10% are reviewed using ACA rate review criteria.

is facing decreasing coverage options and increasing rates with each plan year, to the point where young and healthy individuals are choosing to forgo coverage.

As fewer healthy people purchase coverage, the pool of people becomes sicker, older and higher risk, and thus more costly to insure. Healthy lives are needed to balance risk so that consumers can regain access to affordable coverage. Instead, we have seen an increase in the number of fairly savvy consumers who may enter the pool for a limited time and then drop out. For example, an individual may need an elective medical procedure, such as a knee surgery. The consumer may sign up during the open enrollment period for coverage, schedule their knee surgery, and then drop their insurance plan after surgery to avoid paying premiums through the end of the year. Others have used the federal rules to game the system by not paying for coverage in the last 3 months of the year unless they have claims. This adds to the unpredictable nature and unhealthy state of the pool. Meanwhile, federal laws and regulations governing the individual market offer states and insurers few levers to lower costs.

As a result, insurer medical loss ratios are too high, rates are increasingly unaffordable, insurers are reducing service areas, and some have left the market altogether due to plan losses.

Medical Loss Ratios
In simplified terms, the Medical Loss Ratio (MLR) reflects the amount of money an insurer spends on direct patient care versus their administrative expenditures (i.e. claims processing, customer service needs, staffing, etc.). The report you received from OCI, prepared by Horizon Government Affairs, highlights the fact that Wisconsin's individual market insurers have been operating with loss ratios that are unsustainable.

To allow insurers sufficient funds to pay claims and cover administrative expenses, MLRs should be between 80% and 92%. This range is indicative of a stable market. MLRs greater than 100% mean that claims costs alone exceeded premiums and plans have no margin to cover other expenses. This is a red flag for regulators related to the financial solvency of a company.

The initial MLR's over the past three years, on average, exceeded 100%. But during that time, the federal government's reinsurance program provided funding and as a result helped to improve the MLR. The last year of the federal reinsurance program was 2016.

Year	Initial MLR	Post-reinsurance MLR
2014	116%	91%
2015	117%	101%
2016	102%	94%

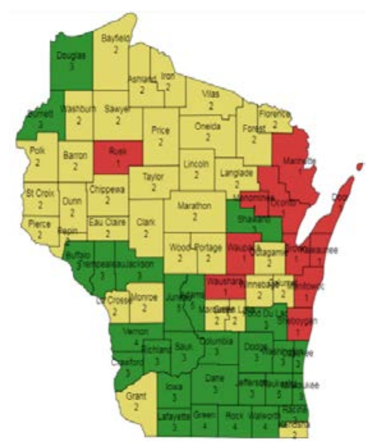
Rates are Increasing
Rates below reflect 2nd lowest cost silver rate increases over the past three years for a twenty-one year old.

	2016	% Change	2017	% Change	2018	% Change
Dane	$199.03	.30%	$219.75	10.41%	$352.78	60.54%
Brown	$238.46	11.06%	$304.77	27.81%	$625.03	105.08%
Milwaukee	$254.75	-2.12%	$296.52	16.40%	$444.20	49.80%
Eau Claire	$288.57	11.97%	$349.02	20.95%	$462.59	32.54%

Insurers are Reducing Service Areas/Leaving the Market
Consumer choice is decreasing as insurers leave counties. Below are maps representing plan years 2016, 2017, and 2018 *(green = 3+ insurers, yellow = 2 insurers, and red = 1 insurer).*


2016


2017


2018

As you can see, consumers are losing options as insurers leave Wisconsin and cut back service areas.

Other State Experience
It is important to note that Wisconsin is not alone in facing many of these issues. Nationally, we have seen very high rate increases in 2018 with CMS reporting an average increase of 37% for silver plans nationwide and 105% since 2013[2]-[3]. Every

[2] https://aspe.hhs.gov/system/files/pdf/258456/Landscape_Master2018_1.pdf
[3] https://aspe.hhs.gov/interactive/individual-market-premiums-2013-vs-2017-state#tab-631-2

state in the Midwest has counties without a consumer choice of insurer including the entire Upper Peninsula. In Nebraska and Iowa, there is only one insurer in the entire state.

For our consumers, the situation is not sustainable. Worse, at some point we will face the very real possibility of an uncovered county. As a regulator tasked with protecting Wisconsin consumers, the situation is untenable. There are no good policy solutions to force an insurer to provide insurance outside of their service area.

The Health Care Stability Plan is intended to provide much needed stability to this market in an effort to protect Wisconsin consumers.

Senate Bill 770 /Assembly Bill 885: A Significant Step Toward Market Stability
Senate Bill 770 /Assembly Bill 885 permits the Office of the Commissioner of Insurance (OCI) to seek a federal 1332 State Innovation Waiver allowing for the operation of a state based reinsurance plan. A 1332 Waiver permits states to pursue innovative strategies to ensure residents have access to affordable health insurance options. In doing so, it requires states to:

- Provide coverage that is as comprehensive and affordable as it was without a waiver;
- Provide coverage to at least a comparable number of state residents as would be provided absent the waiver; and
- Ensure no increase to the federal deficit.

States pursuing a 1332 Waiver are able to leverage federal "pass through" funds. In other words, if a state demonstrates that its proposal will reduce the amount of federal funds needed to support federal subsidies, the federal government will "pass through" the difference to the state. Other states with approved waivers have received millions of federal dollars to help implement their programs. Alaska, Minnesota, and Oregon all applied for and received 1332 Waivers for reinsurance last year.

Reinsurance is essentially insurance for insurance companies. It helps insurers manage high cost claims. Similar to the former state high risk pool, HIRSP, the reinsurance program alleviates some of the risk insurers take on. It also offers a greater level of market predictability for insurers when setting rates.

The Health Care Stability Plan would cover between 50% and 80% (likely 55%) of an individual's annual claims costs between $50,000 and $250,000 (paid directly to the insurer). With the $250,000 cap in place, insurers are incented to invest in medical management to keep costs lower.

The Health Care Stability Plan (Plan) will be a $200 million program. It is anticipated the state will receive approximately $150 million federal pass-through dollars and the state will use $50 million general purpose revenue (GPR) to support the Plan. It is possible the state receives a higher or lower pass through amount (70-80% range). If that is the case, the state GPR amount may be slightly higher or lower.

With the Health Care Stability Plan in place, it is estimated that 2019 rates will be 13% lower than without the Plan. In 2020, rates should be approximately 12% lower than without the plan in place.

Implementation of a reinsurance plan covering a portion of claims falling within a defined dollar range is a significant step toward infusing stability back into the individual market.

The Health Care Stability Plan will:

- Lower rates to keep consumers in the market and attract new entrants
    - A step toward financial relief for those not eligible for subsidies and a step toward a healthier risk pool
- Assist insurers in managing high risk enrollees and creating a broader pool of people to absorb all other risk
    - A step toward preventing more insurer exits and improving consumer access
- Retain federal subsidies for individuals with incomes between 100% and 400% of the federal poverty level (FPL)
    - A step toward ensuring those with access to affordable coverage due to federal subsidies can keep it

We support SB 770 /AB 885 and its passage as a first step in stabilizing the market, bringing insurers and choices back to Wisconsin consumers so that we have more affordable coverage.

Sincerely,

JP Wieske
Deputy Commissioner