

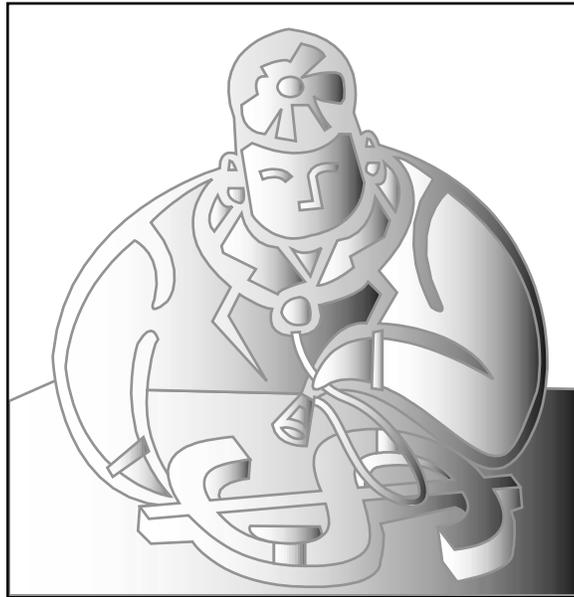
# SAVING WISCONSIN'S SMALL BUSINESSES

## MEETING HEALTH INSURANCE COSTS

JULIE SNEIDER

In early 2002, Roger Caron, president of the Racine Area Manufacturers and Commerce (RAMAC), and Vince Ruffolo, president of Superior Industrial Coatings, Inc., Racine, went to Madison on a mission. Their goal was to convince Wisconsin Insurance Commissioner Connie O'Connell to soften her department's opposition to small companies combining into larger groups for the purpose of buying health care.

Frustrated over skyrocketing health care costs, and fed up with the state's failure to launch the Private Employer Health Care Coverage Plan, the Racine businessmen were determined to find their own creative solution. They were hopeful that the commissioner would reconsider her department's earlier rulings against multiple employer welfare arrangements, also known as MEWAs, at least on a limited basis, so that RAMAC could launch a pilot project. The Chamber wanted to pool Racine's small- to medium-sized firms' medical risk and financial resources into a single entity of "self-insurance," which would cover all the companies' employee medical claims.



Their proposal was unlike plans offered in the past by RAMAC and other chambers of commerce. For decades, Wisconsin chambers have offered their members access to health insurance products. But many chambers started giving up their insurance programs in the late 1990s when it became increasingly difficult to get insurers to bid on contracts at a reasonable price. In

2000, RAMAC couldn't get a single insurer to bid on its multi-year program, so it dropped it, leaving dozens of Racine businesses on their own to find coverage. Caron said he now struggles to find affordable insurance even for RAMAC's own 20 employees.

In making the case for its pilot project, the RAMAC officials said their plan would give smaller businesses clout to negotiate discounts from health providers and insurers. It also would level the playing field between small businesses and large corporations that have the financial means to self-insure for health care. Through self-insurance, large companies tailor their health care plans to serve the partic-

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ular needs of their employee population. Doing so also allows them to avoid costly, government-mandated benefits that add to the cost of an insurance product. As RAMAC saw it, small businesses should have that same advantage.

But the Wisconsin Office of the Commissioner of Insurance (OCI) remained unbending in its opposition to MEWAs. Regulators told RAMAC that if it wanted to pursue the pilot project, it would have to open what amounted to a new insurance company. A department deputy assistant later sent the men home to Racine with copies of OCI rules on how to start an insurance company — hardly the reception the two men had hoped for.

“The insurance commissioner's office said they were worried about the liability, that this sort of thing would let in businesses that didn't have the financial resources or knowledge base to pull it off,” Caron subsequently explained. “But my reaction to that was that our plan would be directed at chambers of commerce or employer associations that have the resource base to assemble something like what we were proposing.”

In defense of OCI, it should be noted that regulators have had reason to be suspicious of MEWAs. A number of them went bankrupt in the 1980s, leaving thousands of patients stuck with overdue medical bills. In response, OCI changed its administrative rules to require self-funded MEWAs to secure third-party insurance or to incorporate as insurance companies so that OCI could monitor their finances. In addition, OCI began to require licensed insurance agents to inform the office of any MEWAs they planned to market. Those rule changes, for the most part, ended the future of MEWAs in Wisconsin.

Even with that in mind, RAMAC officials said they wouldn't give up on their plan. Employers have learned from those past mistakes, and RAMAC officials are now working with a local legislator to introduce a bill in 2003 that will allow Racine to proceed with its pilot project. “We feel we have no other choice but to move forward with our plan,” Caron said.

“Small businesses in Racine (and elsewhere) are at a breaking point over the cost of health insurance.” Not only that, he added: small businesses have grown exasperated at what they see as the state's “unwillingness to try anything new” to address their predicament.

And Caron is right. His story is one of many that reveal the frustration Wisconsin small business owners have experienced — not only because of inflated health insurance costs but also because of the government's lack of action. “Everyone knows we have a crisis situation on our hands, and there has been no leadership (in Madison) on this issue as far as small business is concerned,” said Wayne Corey, executive director of Wisconsin Independent Business, Inc. (WIB), a lobbying organization for hundreds of small businesses and farms.

That's not to say government leaders have been silent on the matter. Indeed, there was no shortage of political rhetoric from Democrats or Republicans during summer 2002, when legislators held a series of public hearings and Republican Governor Scott McCallum held public “listening sessions” to find out what everyone already knew, which was that health care costs too much.

Expressions of concern go back at least to October 2000, when then-Governor Tommy Thompson created a “Task Force on Small Employer Health Insurance,” chaired by insurance commissioner O'Connell. At the time, Thompson was responding to what would be merely an early batch of complaints from small employers upset over double-digit premium increases. When the 11-member group of politicians, insurance, and health care executives and one small business owner issued the final report in July 2001, it offered ten suggestions, none of which involved anything creative or new. Three recommendations called for more study of the impact of mandates on the cost of insurance; three said Wisconsin should get a better Medicare reimbursement rate from the federal government; three suggested streamlining the group insurance application for small businesses; and the last said

OCI should do more “outreach” to the small business community. Except for streamlining the insurance application process, little else came out of the task force to help small employers.

For a while, groups such as the Wisconsin chapter of the National Federation of Independent Business (NFIB) and WIB looked forward to another possible solution to small employer insurance dilemma: The creation of the Private Employer Health Care Coverage Plan (PEHCCP). Approved by state law in 1999, the embattled program has yet to get off the ground.

Designed as a state health insurance buying pool for small businesses, the PEHCCP was supposed to be set up by the state Department of Employee Trust Funds (ETF), then turned over to a private administrator. Although the plan had bipartisan support in the Legislature, the insurance industry and Governor Scott McCallum never embraced it. McCallum vetoed from the state's 2001-2003 budget an \$850,000 loan that would have been used to start the purchasing pool. Although the governor kept \$211,100 in the budget to pay for an office staff, that funding expired and the staff of three quit before lawmakers who supported the pool could get the vetoed loan back into the budget repair bill in 2002.

A week after the November 2002 election, some small business representatives thought that the PEHCCP might be revived under Governor Jim Doyle, who endorsed the purchasing pool concept during the fall campaign. As of late December 2002, however, the PEHCCP's future was still in doubt. Without additional insurance market reforms, the plan as designed would have little chance for success. Tom Korpady, a state employee benefits

administrator at ETF, said as much in a memo to the PEHCCP board in October 2002:

“Without market reform, we believe that this program will not work, and that insurers and administrators will continue to be unwilling to participate.” With the fiscal situation of the state, he continued, “it does not seem judicious to be spending money with very little real chance for success. Additionally, health insurance rates continue to increase at double-digit levels, making coverage even more expensive.”

While it's true that the soaring cost of health care is a national problem affecting all employers, it's the little businesses that are

being clobbered, especially in Wisconsin. The state now has the unfortunate distinction of being one of the most expensive states for health care in the country. “Things look terrible, as far as small business is concerned,” said Corey, executive director of WIB.

This is the absolute worst situation facing not just small business owners, but also their employees because there has been no relief

from these rising health care costs for the last three years. I'm now hearing of small Wisconsin employers that are dropping their health insurance programs and, in essence, giving their employees a small amount of money to go buy health insurance on their own — if they can get it.

In October 2002, Hewitt Associates, the global outsourcing and consulting firm in Lincolnshire, Illinois, reported that American employers should expect double-digit rate hikes in every major metropolitan area in the country in 2003. But among those markets, nowhere would costs be higher than in Milwaukee, where the average cost per employee is projected to reach a whopping \$7,369. In other Midwestern markets, by com-

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parison, health care costs are slightly lower: \$6,083 per employee in Chicago, \$7,022 in Detroit, \$6,750 in Indianapolis, \$6,984 in Madison, and \$6,492 in Minneapolis/St. Paul. The national average, according to Hewitt, will likely reach \$6,295 in 2003.

Milwaukee-area insurance agents and brokers have told their small business clients to expect premium increases of at least 20 percent in 2003, forecasting a fourth consecutive year of double-digit rate increases.

Despite that trend, it appears that a majority of Wisconsin small businesses are still planning to offer some form of health care coverage in 2003, according to surveys by business associations. "At this point, it seems most small employers are looking for coping strategies," said Vickie Vought, vice president of employee relations services at MRA, a Waukesha-based employer association.

But if the cost trends continue as they have over the last four years, one has to wonder how much longer small employers can hold out. In a 2002 survey of Wisconsin employers, MRA data showed that 40 percent of companies had combined health, dental, vision and prescription drug costs in excess of 13 percent of payroll in 2001, compared to only 27 percent of companies the year before.

Meanwhile, the number of uninsured people in Wisconsin is rising, according to the latest reports from the U.S. Census Bureau and state Department of Health and Family Services. While the recent recession and job losses are given as the official reasons for the growing uninsured rate, some in the business community are asking whether small firms' insurance troubles might also be a factor. They also wonder whether enrollment growth in government programs such as BadgerCare, the state's health plan for the working poor, and the Health Insurance Risk Sharing Plan known as HIRSP, might be signs that small employers can no longer afford to cover their workers' health needs. (HIRSP is the state government program for people with medical problems so serious they can't buy insurance in the private market. A few years ago, as required by a new

federal law, HIRSP also became the state's health plan for people who lose their employer-sponsored group health insurance. HIRSP is funded primarily by assessments on the health insurance industry and health care providers, and by premiums paid by enrollees. Some general purpose revenue also helps to pay for the program.)

In fall 2002, the HIRSP board was alarmed to learn that the program's enrollment was projected to grow by 27 percent in 2003, 25 percent in 2004 and another 22 percent in 2005, according to information from the Department of Health and Family Services (DHFS), Office of Strategic Finance. "There may be several factors contributing to this trend," said a DHFS memo.

In 1998, HIRSP became the state's HIPAA (federal Health Insurance Portability and Accountability) compliance plan, which allows individuals to enroll when they lose their employer-sponsored health insurance. Also, enrollment is affected by changes in the private market. As fewer companies issue high-risk policies and as companies reduce benefits, more people qualify for HIRSP.

Bill Smith, executive director of the Wisconsin chapter of the NFIB, wonders how much of the HIRSP enrollment increase is connected to small employers' health insurance problems. Smith serves on the HIRSP board of directors. "Small employers are running out of options when it comes to health insurance," Smith said. Smith added that, without intervention, the health insurance crisis will further exacerbate the state's fiscal problems. As health insurance in the private market becomes less and less affordable, small employers will be tempted to cancel their policies with the hope that employees will get coverage through state programs, such as HIRSP or BadgerCare.

One also has to ask how long it will be before the cost of health care starts to erode Wisconsin's overall economy. Some in the business community believe it already has. "One of the main reasons I'm so motivated on the health care issue is because the cost here, I

believe, is driving business out,” said James Mueller, a health care consultant and president of Frank F. Haack & Associates, an insurance brokerage based in Milwaukee. “When you combine this state's high taxes with its high health care costs, it is a reason to move your business out of state,” Mueller continued. “But my greater concern is the effect all this has on new businesses moving into this community.”

Anyone concerned about the so-called “brain drain” in Wisconsin should also worry about rising health care costs squelching Wisconsin's entrepreneurial spirit. “Wisconsin is already losing the brain talent pool to Chicago and Minneapolis, other places with cold and snow,” Mueller said. “So if you're someone who wants to start his own business, and you can find a bigger talent pool, lower taxes, and lower health care costs in Chicago or Minneapolis, why would you locate your new company in Milwaukee?”

Mueller does not support a heavy-handed government approach. But he believes there is a role for government to play by disclosing adequate information about doctors and hospitals so that consumers and employers can make price and quality comparisons. Until that happens, the power of consumerism can't adequately be used as a force to contain health care spending.

Other business leaders and organizations are endorsing the consumerism model in health care as well. In late 2002, Competitive Wisconsin — an organization of business, labor, education and farm leaders — began developing a comprehensive health care reform plan that will include the “six sigma” elements of quality improvement. The comprehensive plan will be in addition to an earlier-announced effort by Competitive Wisconsin to

persuade Wisconsin legislators and congressmen to change the federal reimbursement policies for Medicare. Health care and insurance executives have long complained that the state's reimbursement for Medicare is too low compared with other states, producing a \$1 billion shortfall for Wisconsin health care providers. That shortfall results in cost shifting, further driving up health costs for patients covered by private insurance plans.

Competitive Wisconsin's proposal was in an early stage of development when this article went to press. It would be unveiled in early 2003, according to John Torinus, a member of Competitive Wisconsin's executive committee

and CEO of Serigraph, a printing company in West Bend. The Competitive Wisconsin' proposal, again according to Torinus, will take a multifaceted approach to fundamental change in the management of health care systems, addressing cost, quality of care, safety, wellness and prevention of serious disease. “Health care is now 14 percent of the U.S. economy. It's an extremely complicated issue, and there are no silver bullets

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to solve the problem of rising costs,” said Torinus, who has long been active on the health reform issue and helped to organize the decade-old Kettle Moraine Business Group on Health.

Torinus agrees with those who want to inject consumer dynamics into the health care marketplace. But privately and quietly, a few business owners and executives are starting to look at more radical solutions, such as the Wisconsin AFL-CIO's proposal for a government-run, single-payer health care system. Under that plan, all employed people and their dependents would enroll in a statewide health program administered by the government and funded by a tax on businesses. Although a

major business organization has yet to endorse the union plan, business association representatives acknowledged that some of their members are intrigued by it. "Business leaders we talked to aren't necessarily ready to sign on, but they do recognize that we're all in a crisis situation," said David Newby, Wisconsin AFL-CIO president. "We're at a point now where neither employers nor workers can afford health insurance. Something has to be done."

The fact that some small employers would even look at a single-payer approach to health care is an indication of how far the health care crisis has evolved. Ten years ago, when Hillary Clinton proposed something similar, the business community rejected it without giving it a second glance.

Torinus, the Serigraph CEO, said he that while he is opposed to single-payer health care solutions, he understands why some business owners might find the idea worth exploring. Small employers in particular are exhausted at trying to figure out how to cover their employees, and they are frustrated at what they perceive to be politicians' lack of concern. "Politicians aren't really addressing this issue

because they don't understand it," Torinus said. "Health care is very complex, very difficult. To understand it, you have to really dig in and study it." "If something isn't done to make health care affordable for more Americans," he continued, "support for this country's private health care system will erode, and fast."

Despite the alarm, it's unclear whether health insurance for small business will be high on the new Legislature's agenda in 2003. There certainly will be solutions proposed by outside groups. In addition to the AFL-CIO plan, RAMAC's proposal and Competitive Wisconsin's strategy, the Wisconsin Medical Society will consider introducing a revamped version of "Wisconsin Cares," a universal health care reform package proposed by the physicians' organization a decade ago.

Some political and business leaders said that with the state's \$3 billion budget deficit looming, state politicians won't be inclined to take on the complexities of meaningful reform of the health care system. But what the state's political and business leadership must realize is that Wisconsin can no longer afford to ignore its healthcare problems.