



To: Mayor Paul Soglin, Alders
Fr: Mike Bare, Research and Program Coordinator, Community Advocates Public Policy Institute
Re: Testimony on Resolution #43374: Conducting a review of the equity of health care costs charged to local government and public employees
Date: July 5, 2016

Thank you, Mr. Mayor and members of this body for the opportunity to speak on resolution #43374, conducting a review of the equity of health care costs charged to local government and public employees.

Experts have spent decades trying to understand the complicated and dynamic mystery of health costs. Upon review of this resolution, I recognize a frustration by its authors and supporters that health costs continue to grow. At all levels, government budgets have a health cost problem. The same is generally true for private employers and individuals.

At issue in this debate appears to be the inequity between private insurance and Medicare. It is worth noting that the study published by Cooper et al., "The Price Ain't Right? Hospital Prices and Health Spending on the Privately Insured,"¹ does not take into account costs from the main private insurers in Dane County. Further, this inequity has persisted for decades. Unfortunately, the private market is simply unable to negotiate the same prices that Medicare does because private payers are simply too small of an influence in the market. A more apt question may be about how the City of Madison's health costs compares to other government employers across the state and country.

In Dane County, we are incredibly lucky to have high-quality, low-cost health care plans. In 2014, several colleagues and I published a report that examined unique decades-long success of the Wisconsin State Employee Health Plan (WSEHP) in controlling the rapid rise of health insurance costs in Dane County. The report found: "The WSEHP consistently obtains substantially lower health insurance premiums in Dane County than in Wisconsin's 71 other counties. In 2013, an individual plan in the WSEHP was about \$1,400 cheaper annually in Dane County, or 16 percent less than the average in the rest of the state; and a family plan was about \$3,500 cheaper, also a 16 percent difference. This Dane difference has existed for at least a decade, with the gap slowly widening over that time."²

Our evidence suggested the difference in health costs between Dane County and Wisconsin's 71 other counties was due to four primary variables:

- 1) The WSEHP "provides pooled members with a standard benefit package, and that it offers them a clear economic incentive to choose a low-premium health care plan by requiring them to pay a portion, if not the full extra cost, of a plan that offers a higher premium;"
- 2) The pool of WSEHP participants constitutes 26.5 percent of the county's total private insurance market, far higher than in any other county's exchange;
- 3) There are four (Dean, Unity, Physicians Plus and Group Health Cooperative of South Central Wisconsin) high-quality plans competing for the business; and

¹ http://www.healthcarepricingproject.org/sites/default/files/pricing_variation_manuscript_0.pdf

² <http://healthaffairs.org/blog/2014/12/18/the-dane-difference-why-are-dane-countys-exchange-premiums-lower/>

4) Those plans are integrated delivery systems where the provider and insurer share a bottom line.³

We also discovered the same difference in health costs between Dane County and Wisconsin's 71 other counties in the Affordable Care Act Marketplace.⁴

The City Council could potentially reduce taxes and health costs for its employees. There are four options the City could consider:

- 1) Continued participation in the Wisconsin local government insurance pool while advocating for changes to that plan, including merging its pool with the state employee pool to form a larger and more effective negotiating unit;
- 2) Pooling its employees with other local governments to form a private health insurance exchange;
- 3) Providing employees a stipend to use the Affordable Care Act Marketplace to purchase a platinum level plan (this would require two significant changes to state law: opening the Marketplace to employers of any size and allowing government employers to use the Marketplace); and
- 4) Self-insuring City employees.

The City should also carefully monitor recent proposed changes to the health insurance plans run by the Wisconsin Department of Employee Trust Funds (ETF) for state and local government employees that would significantly alter its model and potentially its costs.

I would be happy to discuss these issues further with any members of this body, the Mayor and his staff, and any City staff.

Thank you again for this opportunity.

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³ Id.

⁴ http://ppi.communityadvocates.net/policy_projects/effective_aca_implementation_project/the_dane_difference.php