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Good Deal:

How *Healthy Wisconsin* Improves the Bottom Line for Wisconsin Families

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Introduction

The introduction and passage of *Healthy Wisconsin* in the State Senate during the 2007 state budget process re-activated the discussion of whether comprehensive health care reform can restrain skyrocketing health insurance costs.

There is little dispute concerning the problem. Nationally, health insurance costs have increased 78% since 2001. Family health insurance is becoming particularly unaffordable, with annual premiums now an astounding \$12,106 per year, 28% of which is paid for by workers.¹ A report by Families USA released in December found that 1.2 million Wisconsinites are in families that pay 10% or more of their pre-tax income on health care costs, and that 322,000 are in families that pay 25% or more of their income on health care costs.² It is well established that costs are higher than the national average in Wisconsin. In November the annual Mercer Health & Benefits employer survey found Wisconsin health insurance costs to be 23% above the national average.³ In addition, a report released by Citizen Action of Wisconsin in December found a large variation in health insurance costs between different regions of the state, with some areas paying over 25% more than lower cost areas.⁴

There is less of a consensus on solutions to health insurance hyperinflation. The way the debate over *Healthy Wisconsin* unfolded last summer did not give Wisconsin families a clear picture of how the comprehensive health care reform measure would affect their family pocketbooks. As kitchen table economics are the most vital concern for Wisconsin families struggling with surging health care costs, it is important that this issue be clarified so that the families can make informed judgments about how *Healthy Wisconsin* will affect their bottom line. With the introduction of a revised version of *Healthy Wisconsin* in March of 2008, this is an opportune time to revisit the question.

This report quantifies cost savings under *Healthy Wisconsin* for Wisconsin families who get their health insurance through employer-based coverage. According to U.S. Census Bureau data, 69% of health insurance coverage in Wisconsin is employer-based.⁵

Using an extremely conservative methodology that likely understates the family savings under *Healthy Wisconsin*, this report shows that the typical Wisconsin household will save 40%, and as much as 62%, for something much better than they have today, high quality coverage they can never lose as long as they live in Wisconsin. This is an annual savings of between \$1,320 and \$4,180 per year, depending on the kind of plan in which a family is currently enrolled and their health status. The report also shows that because families pay for *Healthy Wisconsin* on a sliding scale based on income, that lower wage working families who unfairly are forced to pay more in the current system save the most. A family making \$35,000 per year saves from 57% to 70%, or from \$1,872 to \$4,740 per year depending on their current plan and their family health status. Other big winners include employees who work for small businesses, who save an average of 52%, or \$2,160 per year.

The report shows that savings are substantial across most income levels, except for the highest income families. Because of *Healthy Wisconsin's* progressive payroll assessment, these higher income households pay slightly more, but in return receive a great deal more health security than they have today. In addition, the report documents

that savings are substantial both for families that are very healthy, and thus have very low medical utilization, and for families that have a significant illness, and therefore have higher utilization of the medical system.

For the first time, this report also compares the cost of *Healthy Wisconsin* to different types of health insurance plans, Preferred Provider Organizations (PPOs), Health Maintenance Organizations (HMOs), and High Deductible Health Plans (HDHPs).

Methodology

Healthy Wisconsin replaces health insurance premiums currently paid by Wisconsin employees with a 4% assessment on Social Security wages (up to \$102,000 in 2008). *Healthy Wisconsin* also includes a relatively low deductible of \$600 per family.

This analysis makes a very conservative assumption that workers will pay the entire 4% payroll assessment, although many employers will likely cover some or all of it on behalf of their employees. It also makes the conservative assumption that deductibles are roughly comparable between current plans and *Healthy Wisconsin*, although *Healthy Wisconsin* has much broader exclusions than most currently available plans including no deductibles for children, preventative care, and chronic disease management.

Due to the variety of health insurance plan types, PPOs, HMOs, High Deductible Health Plans (HDHPs), and diversity of cost sharing schemes, it can be difficult to compare the costs of current health insurance with what the cost would be under *Healthy Wisconsin*. However, the two largest shares of family cost, premiums and deductibles, can be compared. Limiting the analysis to these two data points actually understates likely family savings under *Healthy Wisconsin* by not taking into account increasingly common costs associated with private insurance such as separate deductibles for hospitalization and major outpatient procedures, or high co-payment or co-insurance rates for prescription drugs, doctor visits, or specialists.

Most health policy researchers consider the Kaiser Family Foundation/Health Research and Educational Trust “Employer Health Benefits: 2007 Annual Survey” to be the benchmark analysis of current health insurance costs for employers and employees. The Kaiser/HRET data set allows a comparison between premiums and deductibles paid for health insurance for different types of plans. It also allows a comparison between different types of employers and employees. As Kaiser/HRET is a national data set, and Wisconsin health insurance costs are nearly a quarter higher than the national average, this baseline for comparison likely underreports the cost of current health insurance for Wisconsin families, and thus understates family savings from *Healthy Wisconsin*.

The analysis compares cost under *Healthy Wisconsin* to current employer-based health insurance in several ways. First, the report compares the premiums paid by employees now to the payroll assessment under *Healthy Wisconsin*. This is the best measure for families that have low medical utilization, and therefore will not trigger the payment of deductibles and other cost sharing mechanisms. This section also examines savings for lower wage workers, employees of small business, and employees who select High Deductible plans. Second, the report compares premiums and deductibles under the common types of insurance available today through employers to the payroll assessment and deductibles under *Healthy Wisconsin*. This is the best measure of costs

for families who have an injury or illness in a given year, and therefore trigger the payment of deductibles. Finally, the report reviews the major cost savings to the health care system as a whole achieved by *Healthy Wisconsin*.

Savings for Healthy Families

This section compares the *Healthy Wisconsin* payroll assessment to current health insurance premiums. This is the best way to compare costs for families that are very healthy and do not have significant medical utilization in a given year. (The next section will factor in deductibles, which are paid by families who use substantial medical services in a given year).

Under the *Healthy Wisconsin* legislation introduced in March of 2008, workers are charged the payroll assessment on a sliding scale, based on 4% of what they make, up to a household cap of \$102,000. This replaces the workers' share of current employment-based health insurance premiums, which in 2007 was an average of \$273 per month.⁶ Figure 1 compares the *Healthy Wisconsin* payroll assessment to the average worker share of premiums for health insurance based on household income.

The median family income in Wisconsin is currently \$48,903 per year.⁷ Under *Healthy Wisconsin*, this typical Wisconsin working family saves 40% (\$113 per month) over what they are paying now as their share of health insurance premiums. Families that make less than average income save even more. A family with a household income of \$35,000 per year saves 57% (\$157 per month). All families save up to the household income level of \$82,000 per year. Families above that amount pay more, although in fairness they are paying for a much better than average benefits package that they can never lose as long as they live in Wisconsin, regardless of whether they leave their current job, or become seriously ill and are unable to work. It also should be noted that three-quarters of Wisconsin households make 75,000 or less per year.⁸

Figure 1: Average Savings on Health Insurance Premiums

Household Income	HW Assessment	Average Premium	Monthly Savings/Cost	Difference
\$30,000	\$100	\$273	\$173	-63%
\$35,000	\$117	\$273	\$156	-57%
\$40,000	\$133	\$273	\$140	-51%
\$45,000	\$150	\$273	\$123	-45%
\$48,903 (Median)	\$163	\$273	\$110	-40%
\$55,000	\$183	\$273	\$90	-33%
\$65,000	\$217	\$273	\$56	-21%
\$75,000	\$250	\$273	\$23	-8%
\$80,000	\$267	\$273	\$6	-2%
\$82,000	\$273	\$273	\$0	0%
\$85,000	\$283	\$273	costs \$10	4%
\$102,000 (Maximum)	\$340	\$273	costs \$67	25%

Figure 1 represents average savings for families with low medical utilization. However, there are many groups of workers who stand to save even more. In the current fragmented health insurance system many workers pay much more simply because of where they work. For example, the workers' share on health insurance premiums in small business is an average of \$353 per month, \$80 more than the average worker.⁹ As Figure 2 shows, these workers stand to gain even more from *Healthy Wisconsin*, with lower income workers saving an astounding 72% and the median household saving 54%.

Figure 2: Workers in Small Firms

Household Income	HW Assessment	Average Premium	Monthly Savings	Difference
\$30,000	\$100	\$353	\$253	-72%
\$35,000	\$117	\$353	\$236	-67%
\$40,000	\$133	\$353	\$220	-62%
\$45,000	\$150	\$353	\$203	-57%
\$48,903 (Median)	\$163	\$353	\$190	-54%
\$55,000	\$183	\$353	\$170	-48%
\$65,000	\$217	\$353	\$136	-39%
\$75,000	\$250	\$353	\$103	-29%
\$80,000	\$267	\$353	\$86	-24%
\$82,000	\$273	\$353	\$80	-23%
\$85,000	\$283	\$353	\$70	-20%
\$102,000 (Maximum)	\$340	\$353	\$13	-4%

In Figure 1 and Figure 2, it is clear that lower wage working families benefit the most from *Healthy Wisconsin's* shift from flat premiums to a sliding scale assessment based on income. The savings to such families are actually understated because of the extremely regressive nature of the current health insurance system. Workers in firms where at least 1/3 of the workforce is low wage actually pay higher than average health insurance premiums. According to the Kaiser/HRET survey, such workers pay an average of \$70 more per month.¹⁰ Figure 3 represents the savings such workers will gain under *Healthy Wisconsin*, ranging from a 76% for lower wage workers and a 53% reduction for households making the median Wisconsin household income.

Figure 3: Savings for Workers in Low Wage Firms

Household Income	HW Assessment	Average Premium	Monthly Savings	Difference
\$25,000	\$83	\$343	\$260	-76%
\$30,000	\$100	\$343	\$243	-71%
\$35,000	\$117	\$343	\$226	-66%
\$40,000	\$133	\$343	\$210	-61%
\$45,000	\$150	\$343	\$193	-56%
\$48,903 (Median)	\$163	\$343	\$180	-52%
\$55,000	\$183	\$343	\$160	-47%
\$65,000	\$217	\$343	\$126	-37%

\$75,000	\$250	\$343	\$93	-27%
\$85,000	\$283	\$343	\$60	-17%
\$102,000 (Maximum)	\$340	\$343	\$3	-1%

Conservative critics of comprehensive health care reform advocate High Deductible Health Plans (HDHPs) as a way to reduce health insurance costs. Under HDHPs, enrollees pay lower premiums in return for accepting much higher deductibles.¹¹ These plans are often associated with Health Savings Accounts (HSAs) where families can save pre-tax money to pay for deductibles and other cost sharing. Currently, the average deductible for HSA qualified HDHPs is \$3,883 per year for family policies.¹² As their premiums are lower and deductible are higher these plans are most advantageous for those who are healthy, and thus have lower medical utilization. Figure 4, however, shows that for most income levels, *Healthy Wisconsin's* payroll assessment is lower than the premiums for HDHPs. HDHPs do save money for higher income earners, but only if they remain healthy and do not have to pay the high deductibles. Figure 8 in the next section shows that *Healthy Wisconsin* is dramatically cheaper than HDHPs for families with high medical utilization.

Figure 4 High Deductible Health Plan Premiums and *Healthy Wisconsin* Assessment

Household Income	HW Assessment	HDHP Premium	Monthly Savings/Cost	Difference
\$30,000	\$100	\$238	\$138	-58%
\$35,000	\$117	\$238	\$121	-51%
\$40,000	\$133	\$238	\$105	-44%
\$45,000	\$150	\$238	\$88	-37%
\$48,903 (Median)	\$163	\$238	\$75	-31%
\$55,000	\$183	\$238	\$55	-23%
\$60,000	\$200	\$238	\$38	-16%
\$65,000	\$217	\$238	\$21	-9%
\$70,000	\$233	\$238	\$5	-2%
\$71,500	\$238	\$238	\$0	0%
\$75,000	\$250	\$238	costs \$12	5%
\$85,000	\$283	\$238	costs \$45	19%
\$102,000 (Maximum)	\$340	\$238	costs \$102	43%

Savings for Families with Higher Medical Utilization

This section compares premiums and deductibles under current health insurance plans to *Healthy Wisconsin's* payroll assessment and deductibles. As deductibles will be paid when people access the medical system, a combination of premiums and deductibles is the best measure of family cost when there is a injury or illness in the family in a given year. The deductible for *Healthy Wisconsin* is \$600 per family. This analysis does not take into account the fact that *Healthy Wisconsin* has no deductibles for preventative care, chronic disease management, or care for children. Although most current

employer based plans do not have all of these significant exclusions from deductibles, their terms are too various to compare, so this analysis likely understates the savings on deductibles under *Healthy Wisconsin*.

Figure 5: Premiums and Deductibles Higher Medical Utilization

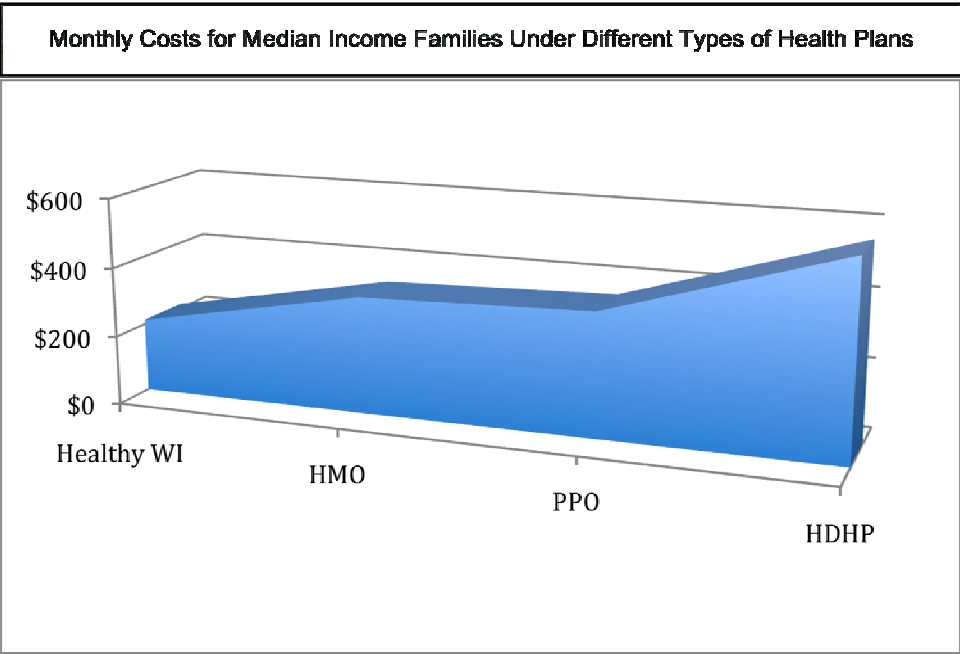


Figure 6 compares the combined premiums and deductibles for a Preferred Provider Organization (PPO) plan to the payroll assessment and deductibles under *Healthy Wisconsin*. PPOs are by far the most common type of employer-based health insurance plan, holding 66% of the market in the Midwest. HMOs, the second most common plan, only constitute 15% of the market.¹³ For the average PPO plan the average annual deductible for a family plan is \$1040. *Healthy Wisconsin's* deductible is over 40% less, at \$600 per year.¹⁴ In this calculation, the average Wisconsin family would save \$147 a month, and all families under \$92,000 in household income save money.

Figure 6: PPO Premiums and Deductibles and Healthy Wisconsin Payroll Assessment and Deductibles.

Household Income	HW Assessment and Deductible	PPO Premium and Deductible	Savings/Cost	Difference
\$30,000	\$150	\$357	\$207	-58%
\$35,000	\$167	\$357	\$190	-53%
\$40,000	\$183	\$357	\$174	-49%
\$45,000	\$200	\$357	\$157	-44%
\$48,903 (Median)	\$213	\$357	\$144	-40%

\$55,000	\$233	\$357	\$124	-35%
\$65,000	\$267	\$357	\$90	-25%
\$75,000	\$300	\$357	\$57	-16%
\$85,000	\$333	\$357	\$24	-7%
\$90,000	\$350	\$357	\$7	-2%
\$92,000	\$357	\$357	\$0	0%
\$102,000 (Maximum)	\$390	\$357	costs \$33	9%

Figure 7 makes the same calculation for HMOs. The annual deductible for these types of plan is \$759, substantially less than for PPOs. HMO deductibles are \$159 (or 20%) higher on average than *Healthy Wisconsin*.¹⁵ In this comparison, *Healthy Wisconsin* saves the average Wisconsin family 37% on premiums and deductibles, or \$1,500 a year.

Figure 7: HMO Premiums and Deductibles and *Healthy Wisconsin* Payroll Assessment and Deductibles.

Household Income	HW Assessment and Deductible	HMO Premium and Deductible	Savings/Cost	Difference
\$30,000	\$150	\$339	\$189	-56%
\$35,000	\$167	\$339	\$172	-51%
\$40,000	\$183	\$339	\$156	-46%
\$45,000	\$200	\$339	\$139	-41%
\$48,903 (Median)	\$213	\$339	\$126	-37%
\$55,000	\$233	\$339	\$106	-31%
\$65,000	\$267	\$339	\$72	-21%
\$75,000	\$300	\$339	\$39	-12%
\$85,000	\$333	\$339	\$6	-2%
\$90,000	\$350	\$339	costs \$11	3%
\$102,000 (Maximum)	\$390	\$339	costs \$51	15%

Figure 8 compares premium and deductible costs between *Healthy Wisconsin* and High Deductible Health Plans (HDHPs), which are often associated with Health Savings Accounts (HSAs). According to Kaiser/HRET the average annual deductible for a family HDHP policy associated with an HSA is \$3,883.¹⁶ This comparison shows very large savings for every income group under *Healthy Wisconsin*. For example, the average Wisconsin family would save 62%, or \$4,188 per year.

Figure 8: HDHP Premiums and Deductibles and *Healthy Wisconsin* Payroll Assessment and Deductibles.

Household Income	HW Assessment and Deductible	HDHP Premiums and Deductibles	Savings	Difference
\$30,000	\$150	\$562	\$412	-73%
\$35,000	\$167	\$562	\$395	-70%
\$40,000	\$183	\$562	\$379	-67%
\$45,000	\$200	\$562	\$362	-64%

\$48,903 (Median)	\$213	\$562	\$349	-62%
\$55,000	\$233	\$562	\$329	-59%
\$65,000	\$267	\$562	\$295	-52%
\$70,000	\$283	\$562	\$279	-50%
\$75,000	\$300	\$562	\$262	-47%
\$85,000	\$333	\$562	\$229	-41%
\$95,000	\$350	\$562	\$212	-38%
\$102,000 (Maximum)	\$390	\$562	\$172	-31%

How *Healthy Wisconsin* Savings are Achieved

In addition to distributing health insurance costs more fairly based on a sliding scale, *Healthy Wisconsin* is able to lower family costs while guaranteeing access to high quality coverage by reducing inefficiencies in the current system.

According to the highly respected Lewin Group, a national actuarial firm used by all sides of the health care reform debate, *Healthy Wisconsin* saves \$750 million in the first year and \$13.8 billion over 10 years.¹⁷

The breakdown in annual cost savings projected by the Lewin Group are detailed in Figure 9:

Figure 9: Major Annual Savings Under *Healthy Wisconsin*¹⁸

Emphasis on Primary and Preventative Care	\$565 Million
Bulk Purchase of Prescription Drugs	\$178 Million
Provider Administrative Costs	\$407 Million
Insurance Company Administrative Costs	\$1.6 Billion

Discussion

This report examined the savings under *Healthy Wisconsin* for families with employer-based insurance. Over 2/3rds of Wisconsinites get their health insurance coverage through their employers. This tight focus on cost does not take into account *Healthy Wisconsin's* well above average benefits package, or the additional value to a family of having health coverage they can never lose as long as they reside in Wisconsin. It also does not take into account the current rate of health care hyperinflation, which will make employer-based health insurance even more unaffordable in coming years, even for those who have relatively affordable coverage today. According to a recent report by the Centers for Medicare & Medicaid Services, U.S. health care costs will double again by 2017 to \$4 trillion per year, or 20% of the Gross Domestic Product.¹⁹

Using a very conservative methodology that likely understates the savings of *Healthy Wisconsin*, this report shows substantially reduced health care costs for Wisconsin families. The typical Wisconsin family with employer-based coverage can expect an

immediate annual savings of between \$1,320 and \$4,180 per year, depending on the kind of plan in which their family is currently enrolled and their health status. Savings are even more substantial for lower wage families, and families who get health care coverage through small business employers.

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ENDNOTES

¹ Kaiser Family Foundation/Health Research and Educational Trust, “Employer Health Benefits: 2007 Annual Survey,” September 2007, 23, 11, 66.

² Families USA, “Too Great a Burden: Wisconsin’s Families at Risk,” December 2007, 1.

³ Guy Bolton, “Health Cost Increases Slow,” *Milwaukee Journal Sentinel*, November 20, 2007, <http://www.jsonline.com/story/index.aspx?id=688195>.

⁴ For variations in health insurance costs and rankings by city and region, as well as a review of literature on higher than average health care costs in Wisconsin see Robert Kraig, “Wisconsin Health Insurance Cost Rankings 2008,” Citizen Action of Wisconsin, December 4, 2007, 3-4.

⁵ Kaiser Family Foundation State Health Facts, <http://www.statehealthfacts.org/comparebar.jsp?ind=126&cat=3&yr=1&typ=2&sort=162&o=a>

⁶ Kaiser/HRET, “Employer Health Benefits: 2007 Annual Survey,” 70.

⁷ Joint Economic Committee, U.S. Congress, “Wisconsin Economic Snapshot,” January 28, 2008, <http://jec.senate.gov/State%20by%20State/January%202008/WI.pdf>

⁸ U.S. Census Bureau, <http://www.census.gov/compendia/statab/tables/08s0684.xls>; In an earlier study, the Institute on Taxation and Economic Policy found that 80% of Wisconsin taxpayers make less than \$70,000 per year. <http://www.itepnet.org/wp2000/wi%20pr.pdf>

⁹ Small firms are defined as those with 1-199 employees. Kaiser/HRET, “Employer Health Benefits: 2007 Annual Survey,” 72.

¹⁰ Kaiser/HRET, “Employer Health Benefits: 2007 Annual Survey,” 67, 79, 80.

¹¹ Kaiser/HRET, “Employer Health Benefits: 2007 Annual Survey,” 70.

¹² Kaiser/HRET, “Employer Health Benefits: 2007 Annual Survey,” 125

¹³ Kaiser/HRET, “Employer Health Benefits: 2007 Annual Survey,” 64.

¹⁴ Kaiser/HRET, “Employer Health Benefits: 2007 Annual Survey,” 100.

¹⁵ Kaiser/HRET, “Employer Health Benefits: 2007 Annual Survey,” 100, 70.

¹⁶ Kaiser/HRET, “Employer Health Benefits: 2007 Annual Survey,” 125, 70.

¹⁷ Lewin Group, “Healthy Wisconsin—Your Choice—Your Plan: Cost and Coverage Impacts,” June 19, 2007, http://citizenactionwi.org/images/stories/healthywi_cost_coveragerpt.pdf

¹⁸ See Lewin Group, “Cost and Coverage Impacts.” For further analysis of Lewin findings see David Riemer, “How Healthy Wisconsin Will Reduce Health Costs,” July 2007, http://citizenactionwi.org/images/stories/riemer_cost_reduction_v2.pdf

¹⁹ “Health Care Costs on Pace to Double by 2017,” *Eau Claire Leader Telegram*, Feb 25, 2008, <http://www.leadertelegram.com/story-news.asp?id=BFT28SNFATC>