

## **Health Care Proposal Offers More Questions than Answers**

**by Scott Niederjohn**

A proposal called the Wisconsin Health Plan (WHP) is floating around Madison and scheduled to be debated in this legislative session. The WHP seeks to provide universal health insurance coverage for all Wisconsin residents. It would be funded by a new payroll tax. It would establish a system by which health insurance providers would bid to sell insurance plans to state residents. The program would be managed by a private, not-for-profit, unelected board without representation from health insurers or providers; this board, called the Health Insurance Purchasing Corporation (HIPCo), would categorize insurance plans in tiers based on price and quality. Plans placed in the first tier would not impose a monthly premium on the insured.

Each of the qualifying tier 1 plans would provide insurance for basic preventative care, including dental coverage for children, without any cost-sharing requirement. For other services, the plans would require an annual deductible of \$100 per child and \$1,200 per adult, as well as coinsurance requirements between 10 and 20 percent. The annual out-of-pocket maximum would be \$500 for children, \$2,000 for adults, and \$3,000 for families. Theoretically, employers would no longer offer health insurance coverage to their employees unless the employers chose to enhance the benefits offered by the WHP. The WHP would also provide \$500 toward the purchase of a Health Savings Account (HSA) that could be used to pay medical expenses and would be combined with a high-deductible health insurance plan.

The WHP authors have proposed that this new initiative be funded through a payroll tax. Each Wisconsin employer would be required to pay a new payroll tax of up to 12 percent of total social security payroll. All employees would be required to pay a flat tax of 2 percent of their social security wages. A special tax would be levied upon certain Wisconsin residents who work for out-of-state firms.

The WHP has positive aspects. These include access to health insurance for most state residents and a shift of the responsibility for choosing a health-care plan to the individual. Further, the combination of a high-deductible insurance plan and an HSA would be likely to have positive effects on individuals' health-care choices.

Overall, however, the WHP presents a number of questions that need answers. The most troubling of which involves the plan's costs. The WHP would create a new state entitlement to health care for Wisconsin citizens. Entitlement programs rarely stand still. Interest groups of all sorts would fight relentlessly to

expand WHP coverage for their members. Actual costs of the WHP would likely dramatically exceed those projected by the plan's authors<sup>1</sup>. Cost overruns will generate pressure for tax increases, or benefit and provider reimbursement cuts, to fund the plan.

Other concerns about the WHP include:

- WHP reimbursement rates for health care providers are likely lower than what providers receive today. Inadequate reimbursement rates will adversely affect the quantity and quality of health care available in Wisconsin.
- The payroll tax needed to pay for the WHP would have negative secondary effects—for example, discouraging employers from creating high-paying jobs in the state.
- The WHP would not affect everyone equally. It would create winners and losers. It would provide health care coverage for most Wisconsin residents who currently are uninsured. But most Wisconsin residents who currently have health care insurance would see a cut in their benefits under the WHP. Employees in the public sector, who frequently pay little or nothing for their health care benefits, would be adversely affected. Other losers would include firms that compete in tight labor markets, along with labor-intensive and high-wage industries.
- Because it would be funded by a new payroll tax, the WHP would almost certainly be under-funded in subsequent years as Wisconsin payrolls lag behind increases in health care costs.
- Under the WHP, all health care decisions in Wisconsin would be made by an un-elected board lacking health care expertise. Concentration of power in the hands of a powerful board would hinder competition in the health care sector.

While this plan has served the purpose of stimulating debate about health care reform in Wisconsin, in the end it leaves us with more questions than answers.

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<sup>1</sup> See *An Evaluation of the Wisconsin Health Plan* for more information.