

**Testimony Presented to the  
Advisory Board to the Consumer Operated and Oriented Plan (CO-OP) Program  
By  
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I want to thank you for the opportunity to provide perspective to the Advisory Board to the Consumer Operated and Oriented Plan (CO-OP) Program on the role that non-profit independent health plans can play in our health insurance system.

My name is Peter Farrow. I have been the General Manager and Chief Executive Officer for Group Health Cooperative of Eau Claire for 11 years. Prior to my service at Group Health Cooperative, I was the Assistant Deputy Commissioner of Insurance for the State of Wisconsin. The perspective that I will offer today comes from both my years operating a non-profit insurance cooperative and as an insurance regulator.

I would like to begin by describing Group Health Cooperative's background and the reasons for its success and the impact Wisconsin's key policy decisions have had in effectively fostering health plan competition. Additionally, I would also like to highlight some key elements of focus that I believe the Board should consider in establishing criteria for funding CO-OPs.

### **Group Health Cooperative of Eau Claire's Success**

As background, Group Health Cooperative of Eau Claire is an independent, non-profit health care cooperative which provides health insurance coverage and related services to 85,000 members in 35 counties of Western Wisconsin, with annual revenue of just over \$280 million. Our revenue base is divided roughly in half between commercial group business and Medicaid managed care provided through a contract with the State of Wisconsin.

Group Health Cooperative was formed in 1974, under Wisconsin's cooperative statutes, and began operating in 1977. For twenty years, it operated as a combination staff and network model health maintenance organization. In 1998, Group Health Cooperative sold its primary care clinics and since then continued to provide service as a network model health maintenance organization. Today, our members have access to a network that includes over 10,000 clinicians and 40 hospitals.

When Group Health Cooperative was formed, several local public and private groups sought an increase in the options of both primary care and insurance coverage in the Eau Claire area. Out of that vision, the small plan grew into what we are today. While the needs of the area and model has changed, the focus of being an independent, consumer oriented plan has remained the same.

When I am asked about the success that Group Health Cooperative has experienced in delivering top level quality and top level member satisfaction, I attribute it to several factors.

### **Consumer Board of Directors and Clear Vision**

The success of an organization starts at the top. As a cooperative, Group Health Cooperative is singularly focused on serving our members. We don't answer to stockholders. We don't answer to provider sponsors. We answer to our members. That message is reinforced through an active consumer-based board of directors. Our 15 member board is comprised of members. Group Health Cooperative staff, including me, is not eligible to serve on the board. This structure reinforces and ensures that our board is committed to the idea of a member-focused organization, and reinforces that commitment regularly at monthly meetings.

The best example of this commitment I can offer is our grievance process. Wisconsin has long had a formal grievance process for health plan members to appeal denials. While Group Health has a grievance rate that is less than one-fourth the statewide average, the opportunity for a member to provide additional information is important. If a grievance is denied, our members are offered the opportunity to appeal it to the Executive Committee of the Board of Directors, who meets with members in these situations on a regular basis. In this manner, members, staff, and board leaders stay in very close contact – a process that assures attention to detail and accountability for the product we offer. Recently, I proposed to our Board that this process was not required by law, and that if it was too burdensome for them to meet with each of these members, we could change the process. I am proud to say that our Board saw this as a key role in their effort to maintain a consumer-based perspective, and voted to continue the activity.

## **Local Administration**

The next important element, I believe, is the fact that we are a locally administered plan. Health management, claims processing, and customer service are all performed in Eau Claire, very close to our members. Our staff is familiar with the provider systems our members utilize, and they understand the locations involved. Because of this proximity, we are able to build a level of trust with our members that is necessary in achieving our organization's purpose of optimizing their health care. Despite being local and having service commitments such as a live-answer phone system, our administrative costs run below national averages.

## **Independence**

By the nature of being a consumer-focused cooperative, Group Health Cooperative operates with the singular focus of optimizing our member's health care. Our economic incentives are aligned solely for our members. Stock plans must deliver reasonable return to stockholders. Provider sponsored plans must answer to a health system that is focused by the values of its system. I am not saying that any are wrong. I believe that each plays a valuable role in providing a different competitive and innovative influence that will keep the marketplace evolving.

From our perspective, communicating that independence from stockholders and providers has allowed us to further build trust with our members.

How does this combination make a difference? Despite our small size, according to the National Committee for Quality Assurance's (NCQA) annual member satisfaction surveys, Group Health Cooperative has outperformed all other commercially available health plans over the last five years. The organization also scores very highly in NCQA's Healthcare Effectiveness Data and Information Set (HEDIS) data as well. Group Health Cooperative is also fully accredited by the Accreditation Association for Ambulatory Health Care (AAAHC).

This is one of the few areas where I believe an anecdote provides valuable perspective.

We have documented several instances when members, or their family, have contacted one of our case managers that specialize in coordinating oncology cases to ask her opinion of whether it was time to move toward hospice care and stop pursuing curative treatment. If we stated that our goal was to have members ask our opinion if they should move to hospice care or not, most people would say that was completely unrealistic. Yet, it has happened. It happens because of the trust we have built with our members - because they know we are consumer focused, local and independent.

## Why is Wisconsin Different?

As we consider public policy options to improve insurance coverage through fostering competition with more non-profit plans, it's important to look at what has worked.

Wisconsin has a health insurance market that in many ways is very different than most other states. While most states have three or four insurers who make up 75% or more of their market, in Wisconsin the top five writers account for 40% of the market. The top ten plans account for 60% and it takes the top 20 plans to get to 80% of the market. Health insurance is provided through a mix of for profit plans and regional non-profit plans that include both independent and provider sponsored ownership. Not coincidentally, Wisconsin has boasted one of the lowest uninsured rates in the country for over two decades.

This success is due to a number of factors. Wisconsin began a push in the late 1970s and early 1980s to encourage a greater role for managed care, and even moved state employees into managed care plans in the early 1980s. This helped create an impetus for regional plans to be formed.

Regulators in the Insurance Commissioner's Office played a key role in assisting the development of these new plans. Wisconsin's insurance regulation has long recognized that a competitive free market will provide the best coverage for residents, a goal that is written into its statutory charter.

The fledgling managed care market was seen as a laboratory by policymakers. Unlike many states, the decision was made to license HMOs as insurance companies, and require them to be domiciled in Wisconsin, keeping them locally focused. To help these new plans, insurance regulators allowed for some flexibility in capital standards for these growing plans. The key was very close, cooperative contact by state regulators to monitor and advise small health plans. The plans were required to be locally operated, and the system was monitored by state regulators that could be flexible, and market focused, in their standards based on the plans they dealt with. Both sides of this equation were vital to Wisconsin's success.

The result was a market that includes non-profit independent plans, provider sponsored plans, stock plans, and cooperatives. Half of the top twenty health plans in Wisconsin are either non-profit plans or sponsored by non-profit organizations. It is a healthy mix. But just as important, all the health plans have local operations and almost half of the market is served by organizations headquartered in Wisconsin. This local-based competition, I believe, is a key to the success and quality of Wisconsin's health insurance market.

## **CO-OPs Role and Focus**

I believe that there is an effective public policy goal in pursuing the creation of targeted Consumer Operated and Oriented Plans (CO-OPs). The initial questions to answer focus on where, who, and how.

### **Where:**

Throughout the health insurance reform debate, there was discussion of areas of the country in which effective competition may not exist in the health insurance market. How to identify where these funds should be focused begins with the geographic question of what regions would best benefit from increased non-profit consumer oriented competition. Many areas may benefit, but given a finite source of funding the question becomes where can that funding be best leveraged.

Wisconsin has a competitive and effective health insurance market, evidenced by low market shares, higher loss ratios, and a low uninsured rate, and can provide a model for an effective market. As with any market-based regulatory approach, identifying areas that have very high market share concentrations, higher costs, and lower loss ratios would seem to be the best initial filter. I would emphasize, however, that accurate market share and financial information is important. During the reform debate last year, I was told that, according to data circulated by a national trade organization, Blue Cross had a 75% market share in the Eau Claire market. That would be difficult since Group Health Cooperative has more than 20% of the local market share and there are about a dozen other active plans.

### **Who and How:**

The goals outlined in the CO-OP section of PPACA are laudable. For the reasons why I believe that Group Health Cooperative has been successful, reinforcing consumer focus is important. But, I am concerned about what seems to be an intense anti-insurance sentiment in the statutory language. Insurance is not a bad thing, and it shouldn't be treated as a pariah. With that in mind, I offer a few perspectives:

- A strong consumer-based governing board, such as the one Group Health Cooperative has, sets the direction of the organization. Makeup of the board of directors does not seem to be discussed in the law, but I believe it is a very important criterion – a critical one. The board of a CO-OP should be singularly focused on its members.
- Language that CO-OPs “have governing documents that incorporate ethics and conflict of interest standards protecting against insurance industry involvement

and influence” is troubling. Insurance expertise is necessary to run a CO-OP, and any CO-OP will fail without it. The question is at what level is that expertise best brought into the organization. I would be more concerned that an organization is locally headquartered and governed by consumers than I would the level of insurance expertise it has. I would state that this language, and similar standards could be interpreted in a manner that fostered the above-mentioned scenario.

- The preceding comments noted, independence is an important issue. A common discussion at many trade meetings is the role that accountable care organizations (ACOs) will play in realigning incentives and help fix our health care system. I understand that there have been suggestions to use CO-OP funding to foster the growth of ACOs. For the moment I will put my economics hat on to explain why I think that approach would be unfortunate. Most experts, including Dr. Elliott Fisher with the Dartmouth Atlas, do not feel that organizations need to be legally merged to share alignment under an ACO. From that standpoint, a CO-OP may be a member of an ACO with providers and still maintain a strong consumer input. For all of the reasons I discussed previously, a strong, autonomous consumer voice is necessary to drive improvement. These funds should not be used to directly create ACOs, but rather consumer-based plans.

Finally,

I have two last thoughts to share.

First, I believe that the health insurance market provides a necessary function of indemnification of risk and quality management, and that plenty of evidence exists to support the idea that private sector delivery of insurance outperforms public sector delivery (but I will grant that it is an issue that intelligent people can effectively debate). The health insurance market and the health care market should be thought of as separate issues. PPACA did not address, at least directly, the issues aggravating our health care market in the United States, and we shouldn't expect to solve all of them with this legislation. Changes in how health care is delivered are still necessary.

Second, and related to that point, I firmly believe that the goals behind the fostering of CO-OPs are valid ones. From an economic perspective, effective market innovation doesn't occur without consumer involvement. Markets are reformed when consumers seek a better alternative, then supply follows to meet that response. Empowering consumers to understand what they should be seeking from health care should be a primary goal of policymakers. It will be a challenge, and will require a strong public policy role, but the consumer must be effectively represented in this market process. CO-OPs and consumer driven activities can play an effective role.

Thank you for your time, and the opportunity to share my perspective with the Board. As you can tell, I am passionate about the role of consumer involvement in the consumption and delivery of health care, and I appreciate your attention. If I can provide further input or clarification, I would welcome the opportunity to do so.