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An Audit:

Health Insurance Risk-Sharing Plan

Department of Health and Family Services

November 2003

Report Highlights

HIRSP's financial position improved during FY 2001-02.

Policyholder enrollment and claims costs continue to increase.

The 2003-05 Biennial Budget Act included changes to HIRSP.

Oversight of pharmacy claims could be improved.

The Health Insurance Risk-Sharing Plan (HIRSP) was established in 1980 to provide medical insurance for individuals who cannot obtain coverage in the private market because of the severity of their health conditions. In the late 1990s, it was also designated as Wisconsin's plan to meet federal Health Insurance Portability and Accountability Act regulations and to provide health insurance to people who lose employer-sponsored group health insurance and meet other specified criteria.

HIRSP is funded through policyholder premiums; financial assessments on health insurance companies that do business in Wisconsin; reduced reimbursements to health care providers; and, until recently, general purpose revenue (GPR). As of June 30, 2003, 17,017 policyholders were enrolled in HIRSP. HIRSP offers eligible applicants three plans:

- The primary plan, plan 1A, is similar to coverage provided by many private major medical plans.
- The alternative plan, plan 1B, offers the same coverage as plan 1A but at lower premium rates, and it requires policyholders to pay a higher deductible before HIRSP begins paying claims.
- An additional plan, plan 2, is available to Wisconsin residents under the age of 65 who participate in the federal Medicare program because of a disability.

At the request of the Department of Health and Family Services (DHFS), we completed a financial audit of HIRSP. Our audit report contains our unqualified opinion on HIRSP's financial statements and related notes for the fiscal years ending June 30, 2002 and 2001.

Key Facts and Findings

HIRSP is funded through policyholder premiums, insurer assessments, and reduced reimbursements to health care providers.

We have issued an unqualified opinion on HIRSP's FY 2001-02 financial statements.

HIRSP's accounting deficit decreased by $2.7 million, to reach $5.5 million as of June 30, 2002.

Increasing enrollment and claims costs present challenges to the management and funding of HIRSP.

The 2003-05 Biennial Budget Act eliminated all GPR support for HIRSP. In the 2001-03 biennium, GPR support was $21.0 million.

Financial Status of the Plan

Since we began auditing HIRSP's financial statements in 1998, we recommended that HIRSP be funded on an accrual basis, rather than the cash-based approach used at the time.

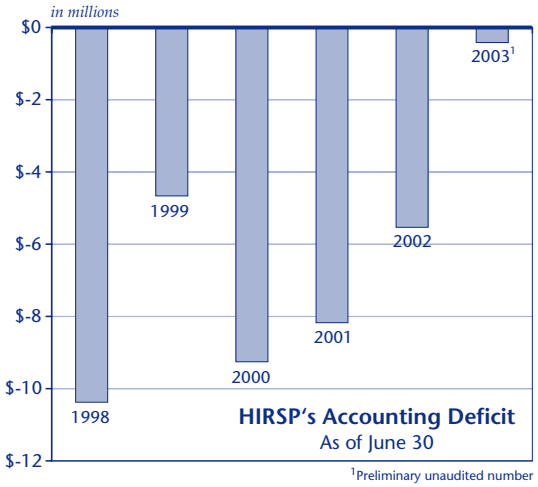
A cash-based funding approach takes into account estimated cash disbursements. An accrual basis takes into account the full costs associated with events that occur during a plan year, including actuarial cost estimates for claims incurred that may not be filed until after the plan year.

HIRSP previously used a cash-based funding approach that contributed to an accounting deficit because it did not factor in all claims liabilities. As a result, HIRSP's accounting deficit of $8.2 million as of June 30, 2001, represented the estimated additional cash HIRSP would eventually need to make payment on its liabilities.

DHFS and HIRSP's Board of Governors decided to implement an accrual-based approach to funding HIRSP beginning with FY 2001-02. The change to an accrual-based approach required funding to eliminate the accounting deficit that had accumulated under the cash-based approach, in addition to funding HIRSP's newly incurred costs on an accrual basis.

As a result of increasing program costs and the funding change, policyholder premiums and insurer assessments increased significantly during fiscal year (FY) 2001-02. Total premiums increased 29.3 percent, while insurer assessments almost doubled, from $9.9 million in FY 2000-01 to $19.6 million in FY 2001-02.

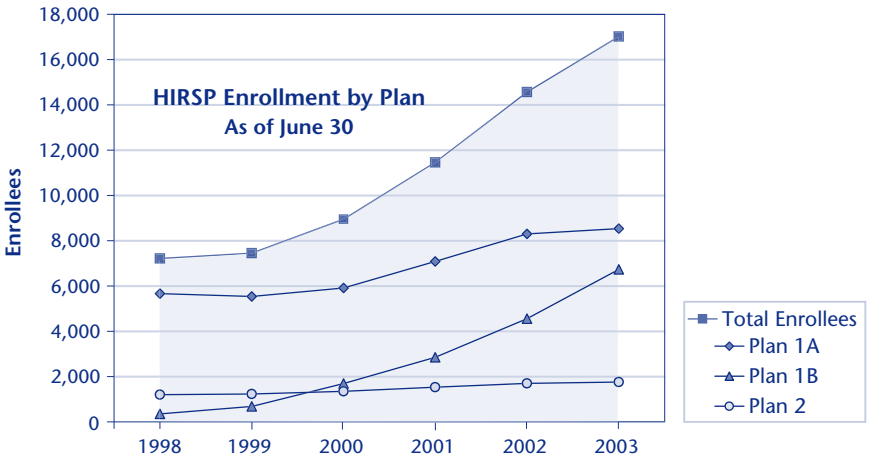
The increased revenues that resulted from increases in premiums and insurer assessments contributed to a $2.7 million reduction in HIRSP's accounting deficit, which was $5.5 million as of June 30, 2002. Based on preliminary unaudited financial statements, the deficit was less than $1.0 million as of June 30, 2003.



Increasing Enrollment and Claims Costs

Increasing enrollment and claims costs present continuing challenges to the management and funding of HIRSP. Policyholder enrollment increased 16.9 percent during FY 2002-03, to 17,017 policyholders as of June 30, 2003, and continues to increase.

Although growth has begun to level off for two of the plans in recent years, enrollment in plan 1B has continued to increase steadily. While a variety of factors may have contributed to interest in plan 1B, its lower premiums in comparison to plan 1A have made it popular.



Like enrollment levels, HIRSP's claims costs are also increasing. Net of health care providers' discounts, the increase was 48.7 percent, or $17.7 million, in FY 2000-01, and 24.1 percent, or $13.1 million, in FY 2001-02. Based on unaudited data, claims costs increased 27.8 percent, or $18.7 million, in FY 2002-03.

Claims Costs

Fiscal Year	Amount	Percentage Change
1998-99	$31,671,704	–
1999-00	36,399,671	14.9%
2000-01	54,120,507	48.7
2001-02	67,180,778	24.1
2002-03[1]	85,849,897	27.8

[1]Preliminary unaudited number

A large portion of these increases can be explained by the enrollment increases, although they are also affected by increases in medical costs similar to those experienced by others in the health insurance industry. For example, the average cost per HIRSP policyholder, net of provider discounts, increased 12.5 percent, from $4,824 in FY 2000-01 to $5,428 in FY 2001-02.

Enrollment and cost trends are also increasing required funding levels. If these trends continue, pressures likely will increase to control the costs borne by HIRSP's funding parties and to evaluate the fairness and effectiveness of the current funding structure.

Budget Provisions

Beginning in FY 1997-98, the Legislature provided GPR funding to offset program costs, in addition to GPR funding for premium and deductible subsidies available for low-income policyholders that had been in place for several years. GPR support for HIRSP during the 2001-03 biennium totaled $21.0 million.

Under 2003 Wisconsin Act 33, the 2003-05 Biennial Budget Act, all GPR support for HIRSP is eliminated, effective FY 2003-04. The other funding parties are now required to pay for costs previously funded through GPR.

Act 33 also eliminated the requirement that the HIRSP plan administrator be the Medicaid fiscal agent, and instead authorizes DHFS to select the HIRSP plan administrator through a competitive bidding process. HIRSP's Medicaid fiscal agent has been the administrator since 1998. DHFS is currently developing a request for vendor proposals, with the intent of selecting and contracting with a vendor to administer HIRSP beginning in FY 2004-05.

Fiscal Management Issues

DHFS has improved the system for pharmacy claims, which were $23.1 million during FY 2001-02 and $32.4 million during FY 2002-03, by using a pharmacy benefit management company beginning in FY 2001-02. However, oversight of pharmacy claims could be further improved with periodic reviews of the controls put in place by the pharmacy benefit management company.

Claims processing organizations and other entities that provide similar services to several organizations often obtain special independent external reviews of their controls to fulfill the needs of user organizations and their auditors. These reviews, which are commonly

referred to as "SAS 70" service organization audits, provide an in-depth audit of a service organization's control activities.

Although HIRSP's plan administrator regularly obtains a SAS 70 audit, the pharmacy benefit management company does not. In response to recommendations we made orally during this audit, DHFS is considering pursuing a SAS 70 audit or alternative steps to provide independent reviews of controls over pharmacy claims.

DHFS has also taken steps to address two areas of concern identified during our FY 2000-01 audit.

First, we found that inadequate procedures and communication regarding claims data and the actuarial process led to an estimate of actuarial loss liabilities that was materially in error and required an adjustment to HIRSP's financial statements. In response, procedures were revised, and the Board of Governor's Financial Oversight Committee took responsibility to review the loss liability estimates. The estimates for the FY 2001-02 financial statements were materially correct.

The second area of concern in our prior audit was problems with plan administrator fees, which totaled $3.2 million in FY 2001-02. In response, DHFS implemented a streamlined fee structure to simplify the billing process and make it easier to monitor administrative invoices. We noted no problems during our current audit.

Additional Information

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