WISCONSIN LEGISLATIVE AUDIT BUREAU
AUDIT SUMMARY

Report 99-6

April 1999

Health Insurance Risk-Sharing Plan

The Health Insurance Risk-Sharing Plan (HIRSP) was established in 1980 to provide major medical insurance and Medicare supplemental insurance for individuals who cannot obtain private coverage because of the severity of their health conditions. At the end of 1998, 7,068 policyholders were enrolled in the plan.

Oversight responsibility for HIRSP was transferred from the Office of the Commissioner of Insurance to the Department of Health and Family Services (DHFS) on January 1, 1998, by 1997 Wisconsin Act 27, which also made significant changes to plan funding, modified the plan in response to federal health care reform legislation, and required daily operations to be transferred to a new plan administrator that is the State's fiscal agent for Medicaid.

Our Auditor's Opinion on the Financial Statements Is Qualified

1997 Wisconsin Act 27 provided HIRSP with $17.9 million in general purpose revenue to offset program costs in the 1997-99 biennium, and it increased health care providers' responsibility for funding these costs. Before January 1, 1998, HIRSP had two primary funding sources: premiums paid by policyholders, and annual financial assessments on health insurance companies that do business in Wisconsin. Act 27 required health care providers to share equally with insurers in program costs that are not covered by policyholder premiums and state funding.

DHFS is required by statutes to calculate funding rates so that policyholders, insurers, and providers each contribute an appropriate share annually. However, the way in which DHFS accounted for health care providers' contributions did not allow it to determine whether statutory funding requirements had been met from January through June 1998. Our auditor's report on the fiscal year 1997-98 financial statements is therefore qualified. DHFS has been working with the new plan administrator to address the accounting concerns we noted.

Adopting a Medicaid-based System Has Affected Services and Costs

DHFS had not intended that coverage would change when HIRSP adopted Medicaid cost-containment, billing, and reimbursement practices. However, policyholders and providers have experienced problems under the new plan administrator, which began processing claims on July 1, 1998. Problems include confusion about the new cost-containment provisions, delays in processing and paying claims, and difficulty in receiving responses to inquiries. At one point, 97 percent of claims required manual processing and, on average, 2,300 calls per month were not answered before callers hung up. DHFS is taking steps to address these concerns and believes that service has improved.

Because DHFS has given priority to addressing service needs, it has been delayed in providing program oversight in several areas, including financial and management reporting; monitoring of claim liabilities; and cash management, including analyzing whether there may be higher-yield options available for cash kept in an interest-bearing checking account.

Higher-than-anticipated plan administration costs are also being incurred under the new plan administrator. Some additional costs might have been expected because of the complex funding structure introduced in 1997 Wisconsin Act 27, DHFS's limited experience in administering an insurance program, and the challenge associated with merging HIRSP with Medicaid cost-containment provisions. However, DHFS is committing significantly more of its own staffing resources than were provided under Act 27, and the plan administrator's most recent estimate of $261,000 in ongoing monthly service costs is 50 percent higher than the amount agreed to one year earlier and 80 percent higher than the amount paid to the former plan administrator. To help control these costs, DHFS will need to adopt specific

funding requirements for the plan administrator, as well as standards and measures of quality and penalties for nonperformance.

Program Changes Are Being Proposed

DHFS is developing a proposal to clarify statutory provisions concerning plan administration and to take better advantage of Medicaid cost-containment provisions that could be put in place by the plan administrator. This proposal includes creating HIRSP-specific rates for hospital services; establishing a maximum annual amount for deductibles, coinsurance, and prescription drug co-payments; and providing authority for an additional 3.5 positions within DHFS, funded by HIRSP, to oversee all HIRSP operations and policy. In considering this proposal or any other proposed program changes, the Legislature may also wish to consider requiring DHFS to take other steps to ensure sound financial management of HIRSP, such as funding the plan on a full-cost basis that considers all claim costs, and instituting sound cash management practices.

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