



REPORT HIGHLIGHTS

Report 19-2
February 2019State Auditor
[Joe Chrisman](#)**Administration and Oversight of Group Insurance Programs***Department of Employee Trust Funds*

The 11-member Group Insurance Board (GIB) oversees group insurance programs that the Department of Employee Trust Funds (ETF) administers. These programs, which are available to state employees and certain local government employees, include the Group Health Insurance, Income Continuation Insurance (ICI), and Group Life Insurance programs. Until January 2018, GIB also oversaw the Long-term Disability Insurance program, which is closed to new benefit claims. Expenditures for these four programs totaled \$1.7 billion in 2017. The four programs were funded primarily by premiums paid by employers and participants and by investment income earned on program reserves.

In calendar year 2017, 262,732 participants were in the Group Health Insurance program, 59,726 participants were in the ICI program, and 257,413 participants were in the Long-term Disability Insurance program. As of December 31, 2017, 203,001 participants were in the Group Life Insurance program.

To complete this evaluation, we analyzed:

- ETF's administration and GIB's oversight of the four programs in recent years;
- the administration of program reserves, particularly for the Group Health Insurance program; and
- the opinions of state agencies and local governments about the Group Health Insurance program.

Contract Administration

ETF administers the group insurance programs with assistance from various firms. Program administrators process benefit claims and make benefit payments. Program actuaries estimate future benefit payments and recommend changes to program premiums. Auditors independently assess the performance of program administrators and other firms that help administer the programs.

Some firms have helped administer the programs for many years. For example, the same firm has been the program administrator for the Group Life Insurance program since 1958. ETF indicated that this contract has not been rebid since 2010, in part, because it and GIB were busy with tasks related to the potential transition of the State to self-insured medical benefits.

We found that ETF did not consistently provide adequate administration of contracts with firms. For example:

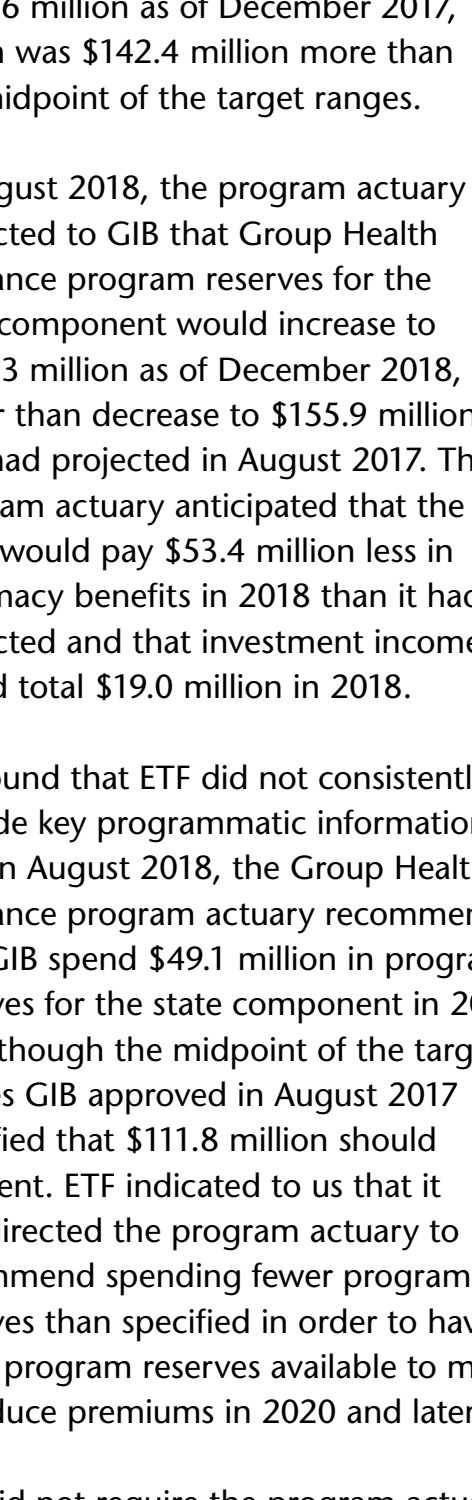
- ETF did not determine the extent to which firms achieved contractually specified performance measure goals or the extent to which it could have assessed financial penalties when firms did not achieve these goals;
- not all firms were contractually required to submit audits of information technology (IT) controls, and ETF did not consistently collect audits or review submitted audits; and
- ETF executed contract amendments for actuarial services without the approval of GIB or the ETF Board.

We also found that ETF did not consistently prepare and provide GIB with the results of its written analyses of key programmatic information provided by firms that helped administer the programs. For example, ETF did not consistently prepare and provide GIB with the results of its written analyses of recommendations from consultants hired to identify improvements to the Group Health Insurance program or key information provided by the program actuary.

Program Reserves

Statutes require GIB to use excess funds from operating the programs to reduce premiums or establish program reserves, which help cover the costs of future benefits. Reserves are tracked separately for the state and local components of the Group Health Insurance program. GIB annually votes on the amount of program reserves to spend in a given year, based on recommendations from the program actuary.

Total Group Health Insurance program reserves increased by \$134.9 million from 2015 through 2017. Program reserves change from year to year based on factors such as investment income earned on the program reserves and the amounts GIB votes to spend. GIB did not vote to spend any program reserves in 2016 or 2017, in part, because it was considering whether all medical benefits should be self-insured. In addition, the amount GIB votes to spend may differ from the amount actually spent, in part, because GIB cannot know how much pharmacy and dental benefits will cost when it votes to spend program reserves. Instead, these costs are estimated by the program actuary.



GIB intends to maintain Group Health Insurance program reserves within minimum and maximum amounts that are termed the "target range." GIB did not establish such target ranges until August 2011, it did not modify them until August 2017, and it did not establish a policy requiring a periodic review of them to ensure they continue to be appropriate.

In August 2017, GIB approved a plan to spend Group Health Insurance program reserves from 2018 through 2021 in order for program reserves to be at the midpoint of the target ranges after 2021. We found that program reserves for the state component totaled \$206.6 million as of December 2017, which was \$142.4 million more than the midpoint of the target ranges.

In August 2018, the program actuary projected to GIB that Group Health Insurance program reserves for the state component would increase to \$228.3 million as of December 2018, rather than decrease to \$155.9 million as it had projected in August 2017. The program actuary anticipated that the State would pay \$53.4 million less in pharmacy benefits in 2018 than it had projected and that investment income would total \$19.0 million in 2018.

We found that ETF did not consistently provide key programmatic information to GIB. In August 2018, the Group Health Insurance program actuary recommended that GIB spend \$49.1 million in program reserves for the state component in 2019, even though the midpoint of the target ranges GIB approved in August 2017 specified that \$111.8 million should be spent. ETF indicated to us that it had directed the program actuary to recommend spending fewer program reserves than specified in order to have more program reserves available to maintain or reduce premiums in 2020 and later.

ETF did not require the program actuary to consider future investment income earned on program reserves when recommending the amount of program reserves to spend. Investment income can be substantial and totaled \$29.9 million in 2017. From 2008 through 2017, ETF also did not require the program actuary to explain to GIB why the annual changes in program reserves differed from the amounts GIB had voted to spend. In 2018, the program actuary provided such an explanation.

GIB did not establish target ranges for program reserves for the other three group insurance programs. Reserves for the state component of the ICI program were in a deficit from 2008 through 2017, and funds may be inadequate to pay future benefits if the deficit continues. In February 2017, GIB approved a redesign proposal for the ICI program to improve its long-term stability, but statutory modifications are required to fully implement it.

Employer Opinions

We surveyed all state agencies and local governments that participated in the Group Health Insurance program as of July 2018. Most survey respondents indicated that they were satisfied with the program and the assistance ETF provided them.

Governance

GIB makes decisions about the group insurance programs based, in part, on programmatic information provided by ETF. We found that ETF at times provided information to GIB members only after they had arrived at meetings.

ETF has taken steps to improve its administration of the group insurance programs. However, it should compile additional information about the performance of program administrators, program actuaries, and auditors. GIB can use this information to make programmatic decisions, such as determining whether to continue to contract with a given firm or rebid the contract. ETF should also establish a written plan to periodically contract for actuarial audits to assess the appropriateness of information provided by program actuaries and provide GIB with the actuarial audit results.

Recommendations

We include recommendations for ETF to report to the Joint Legislative Audit Committee by November 22, 2019, on its efforts to:

- require staff to track on an ongoing basis how they spend their time (*p.* 19);
- improve administration of the Group Health Insurance program (*pp.* 29, 31, and 34);
- improve administration of Group Health Insurance program reserves (*pp.* 42, 43, and 45);
- improve administration of the ICI program (*pp.* 66 and 71);
- improve administration of the Group Life Insurance program (*pp.* 78 and 81);
- improve IT security (*pp.* 84 and 86); and
- work with GIB to improve its oversight of the group insurance programs (*pp.* 90, 92, 93, and 95).

Issues for Legislative Consideration

The Legislature could consider modifying statutes to:

- require ETF to annually provide it with information about program reserves (*p.* 47);
- specify that the Administrator of the Department of Administration's (DOA's) Division of Personnel Management is a GIB member (*p.* 95); and
- clarify the membership requirements of four GIB members (*p.* 95).

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