

Report 13-10
June 2013

Health Insurance Risk-Sharing Plan Authority

STATE OF WISCONSIN



Legislative Audit Bureau ■

Health Insurance Risk-Sharing Plan Authority

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CONTENTS

Letter of Transmittal	1
Introduction	3
State-Based HIRSP Plan	4
Funding	5
Enrollment	5
HIRSP Federal Plan	7
Future of the HIRSP Authority	9
Audit Opinion	11
Management's Discussion and Analysis	17
Financial Statements	25
Statement of Net Position as of December 31, 2012	26
Statement of Net Position as of December 31, 2011	27
Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended December 31, 2012	28
Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended December 31, 2011	29
Statement of Cash Flows for the Year Ended December 31, 2012	30
Statement of Cash Flows for the Year Ended December 31, 2011	31
Notes to the Financial Statements	33
Auditor's Report	49
Auditor's Report on the Major Federal Program	53

Schedule of Expenditures of Federal Award	59
Notes to the Schedule of Expenditures of Federal Award	63
Schedule of Findings and Questioned Costs	65



STATE OF WISCONSIN
Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410

www.legis.wisconsin.gov/lab

Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman
State Auditor

June 27, 2013

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As required by s. 13.94 (1)(dh), Wis. Stats., we have completed our annual financial audit of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority for 2012 and have provided an unmodified audit opinion on its financial statements. The HIRSP Authority provides medical and prescription drug insurance for individuals who are unable to obtain coverage in the private market or who have lost employer-sponsored group health insurance. The number of policyholders participating in the state-based HIRSP Plan as of March 31, 2013, totaled 22,333.

In July 2010, as part of the federal Patient Protection and Affordable Care Act, the federal government contracted with the HIRSP Authority to operate a temporary high-risk insurance pool for individuals who are uninsured and have pre-existing medical conditions until other Affordable Care Act provisions become effective at the beginning of 2014. The number of policyholders participating in the HIRSP Federal Plan as of March 31, 2013, totaled 2,320. However, in response to higher-than-expected costs for the program nationwide, new enrollments were suspended in March 2013. In addition, the U.S. Department of Health and Human Services recently established maximum fixed amounts that it would reimburse such state-administered pools for the remainder of the program.

Anticipated implementation of major provisions under the Affordable Care Act in 2014 also may reduce the continued need for high-risk pools, such as the state-based HIRSP Plan. As enrolled, 2013 Assembly Bill 40, the 2013-15 Biennial Budget Bill, provides for the dissolution of the HIRSP Authority. The bill would terminate all policies on January 1, 2014, or the date the health insurance exchange is operational in Wisconsin, whichever is later.

We appreciate the courtesy and cooperation extended to us by the HIRSP Authority, the plan administrator, and the pharmacy benefit manager.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/DA/ss

Introduction ■

The Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority provides medical and prescription drug insurance for individuals who cannot obtain coverage in the commercial health insurance market because of high costs or adverse health circumstances. In the late 1990s, HIRSP also was designated as Wisconsin’s plan to meet federal Health Insurance Portability and Accountability Act (HIPAA) regulations and to provide health insurance to individuals who lose employer-sponsored group health insurance and meet other specified criteria.

The HIRSP Authority began to operate a temporary federal high-risk pool under a contract with the federal government in 2010.

The HIRSP Authority, which was created under 2005 Wisconsin Act 74 as a public body corporate and politic, assumed responsibility for HIRSP from the former Department of Health and Family Services on July 1, 2006. In accordance with statutes, it has established the design of the state-based plan known as the HIRSP Plan to generally reflect and be commensurate with comprehensive health insurance coverage offered in the private individual market in Wisconsin. Since 2010, and under contract with the U.S. Department of Health and Human Services, the HIRSP Authority also has operated a temporary federal high-risk pool, which is known as the HIRSP Federal Plan.

The HIRSP Authority’s governing Board of Directors consists of 13 voting members—representatives of insurers, health care providers, small businesses, and HIRSP policyholders, as well as a consumer advocate—and the Commissioner of Insurance or a designee who serves as a nonvoting member. The HIRSP Authority employs four staff and contracts with Wisconsin Physicians Service Insurance Corporation (WPS), located in Madison, to function as the

plan administrator and with MedTrak Services, LLC located in Overland Park, Kansas, to function as the pharmacy benefit manager.

At the request of the HIRSP Authority, as required by s. 13.94 (1)(dh), Wis. Stats, and in accordance with the HIRSP Authority's contract with the U.S. Department of Health and Human Services, we have completed a financial and federal compliance audit for 2012. We reviewed the HIRSP Authority's internal control procedures, assessed the fair presentation of its financial statements, and reviewed compliance with selected federal requirements and state statutory provisions.

State-Based HIRSP Plan

The state-based HIRSP Plan offered eligible applicants six plan options in 2012.

To participate in the state-based HIRSP Plan, applicants must be Wisconsin residents who are not eligible for employer-sponsored group health insurance, Medical Assistance, or Wisconsin's BadgerCare Plus Standard plan and who meet specified criteria based on their medical conditions or loss of employer-sponsored group health insurance. In 2012, the HIRSP Authority offered eligible applicants six options under the state-based HIRSP Plan. These included one Medicare supplement plan and, for applicants who are not eligible for Medicare, five other plans that offered identical coverage and differed primarily in their premium and deductible amounts. These options include the following:

- The HIRSP Medicare Supplement plan is for participants under the age of 65 who participate in the Medicare program because of disabilities or individuals who turn 65 while enrolled in a HIRSP plan.
- HIRSP 1,000, HIRSP 2,500, and HIRSP 5,000 are health plans that include varying deductible levels with the higher deductible plans offering lower premium rates.
- HIRSP HSA 2,500 and HIRSP HSA 3,500 qualify policyholders to open health savings accounts to pay for health-related expenses and to save for future medical expenses on a tax-free basis.

In response to increasing demand for higher deductible and lower premium plans, HIRSP began offering HIRSP 7,500 in 2013.

A seventh option, HIRSP 7,500, began on January 1, 2013. The HIRSP 7,500 plan, which has an annual deductible of \$7,500, was offered in response to increasing demand for higher deductible and lower premium plans.

State-based HIRSP Plan policyholders with household incomes of less than \$34,000 are eligible for subsidies.

Policyholders who have annual household incomes below a specified threshold may be eligible for premium, medical deductible, and drug coinsurance subsidies. The annual household income limit for subsidy eligibility is currently \$33,999. As of December 31, 2011, and December 31, 2012, 26.4 percent and 27.5 percent, respectively, of state-based HIRSP Plan policyholders were approved for program subsidies. These subsidies totaled \$9.9 million in 2011 and \$11.1 million in 2012.

Funding

Costs for the state-based HIRSP Plan are shared by policyholders, health insurance companies, and health care providers.

The state-based HIRSP Plan is funded primarily through policyholder premiums, financial assessments on health insurance companies that do business in Wisconsin, and reduced reimbursements to health care providers for their services. None of the funding is obtained from state general purpose revenue. The HIRSP Authority also earns investment income and receives a grant annually that the U.S. Centers for Medicare and Medicaid Services make available to qualified high-risk state health insurance pools that meet certain criteria. Statutes require that these federal grants be used to help fund subsidy costs. The HIRSP Authority spent \$2.5 million in federal grant awards in 2011, and \$2.6 million in 2012, to help fund subsidies for the state-based HIRSP Plan and to administer a diabetes disease management program.

Statutes require that policyholder premiums fund 60 percent of estimated operating and administrative costs of the state-based HIRSP Plan. The remaining 40 percent of program costs are to be funded equally by insurers and health care providers who also are equally responsible for the premium, deductible, and drug coinsurance subsidies not funded by federal grants. Insurers are charged their share of operating and administrative costs through annual assessments that are proportionately based on their annual revenue from health insurance premiums. Health care providers contribute through reduced reimbursements for billed services.

Enrollment

The state-based HIRSP Plan had 22,333 policyholders as of March 31, 2013.

Enrollment in the state-based HIRSP Plan has increased over the last four years, with significant increases in 2010 and 2011, and a more moderate increase in 2012, as shown in Table 1. The HIRSP Authority believes that enrollment increased in the state-based HIRSP Plan during 2010 and the first half of 2011 primarily because of decreases in premiums during 2010. Further, it believes that enrollment growth began to moderate during the second half of 2011 and into 2012, in part, because of a 15.0 percent premium

increase in July 2011 and an additional 9.0 percent premium increase in January 2012. Enrollment continues to increase in 2013, with 22,333 policyholders as of March 31, 2013.

Table 1

Enrollment in the State-Based HIRSP Plan
As of December 31

Date	Enrollment	Percentage Change
2003	17,447	–
2004	18,341	5.1
2005	18,947	3.3
2006	18,058	(4.7)
2007	17,126	(5.2)
2008	16,252	(5.1)
2009	16,381	0.8
2010	18,965	15.8
2011	21,317	12.4
2012	21,974	3.1

Table 2 shows enrollment by each of the six state-based HIRSP options as of December 31, 2012. Almost one-half of the policyholders were enrolled in HIRSP 5,000, which included the highest deductible and lowest premium levels offered in 2012. HIRSP 5,000 has experienced rapid growth since it was first offered in 2008. Enrollment in HIRSP 5,000 increased by 22.5 percent in 2012.

Table 2

Enrollment in the State-Based HIRSP Plan, by Option
As of December 31, 2012

Name	Description	Enrollment	Percentage of Total Enrollment
HIRSP 1,000	Offers lowest deductible and highest premium levels	961	4.4%
HIRSP 2,500	Offers moderate deductible and premium levels	7,273	33.1
HIRSP 5,000	Offers highest deductible and lowest premium levels	10,768	49.0
HIRSP HSA 2,500	Qualifies policyholders to open health savings account	865	3.9
HIRSP HSA 3,500	Qualifies policyholders to open health savings account	858	3.9
HIRSP Medicare Supplement	Available to participants under age 65 in the Medicare program because of a disability or who turn 65 while enrolled in a HIRSP plan	1,249	5.7
Total		21,974	100.0%

HIRSP Federal Plan

Federal health care reform legislation enacted in March 2010 included the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010. Several provisions of these laws that affect HIRSP were required to be implemented in 2010, while others are to be implemented through 2014.

One such provision implemented in 2010 was a temporary federal high-risk pool program to provide access to insurance for individuals who are uninsured and have pre-existing medical conditions. This temporary program was intended to only operate until other Affordable Care Act provisions become effective at the beginning of 2014. The Affordable Care Act allocated each state a portion of \$5.0 billion in federal funding for the temporary high-risk pool program and gave the U.S. Department of Health and Human Services 90 days to establish the program directly or through contracts with states and nonprofit entities. In July 2010, the federal agency contracted with the HIRSP Authority to administer the program in Wisconsin. Wisconsin is currently one of 27 states contracted to administer their own pools. In the other 23 states and the District of Columbia, the federal government is administering the pools.

The HIRSP Federal Plan had 2,320 policyholders as of March 31, 2013.

The HIRSP Authority administers the HIRSP Federal Plan separately from the state-based HIRSP Plan. Although medical and drug benefits are comparable, the federal and state plans have different eligibility requirements; premium levels; and deductible, coinsurance, and maximum out-of-pocket cost levels. Further, federal regulations prohibit the HIRSP Federal Plan from providing subsidies for low-income participants. The HIRSP Authority has offered eligible applicants four options under the HIRSP Federal Plan that offer identical coverage and differ primarily in their premium and deductible amounts: Federal 500, Federal 1,000, Federal 2,500, and Federal 3,500. Enrollment in the HIRSP Federal Plan grew from 998 as of December 31, 2011, to 2,320 as of March 31, 2013, or by 132.5 percent.

Operating and administrative costs of the HIRSP Federal Plan are funded, in part, by policyholder premiums. Until recent changes to the program in 2013, costs in excess of premiums were funded by the U.S. Department of Health and Human Services under its contract with the HIRSP Authority. In 2012, \$13.4 million in costs were funded by the U.S. Department of Health and Human Services.

In response to a federal directive, the HIRSP Authority stopped accepting new enrollment applications for the HIRSP Federal Plan as of March 2, 2013.

However, in response to higher-than-expected costs in the federal temporary high-risk pool program, the U.S. Department of Health and Human Services recently has taken actions to limit the costs of the program. Two such actions significantly affected state-administered pools, like the HIRSP Federal Plan. First, acceptance of new enrollment applications in the program nationwide was suspended as of March 2, 2013, for the state-administered pools.

Second, in April 2013, the U.S. Department of Health and Human Services notified the state-administered pools that, effective June 1, 2013, it would establish maximum fixed reimbursement amounts for the remainder of the program's existence. This action will essentially transfer the financial risk of administering the plan from the federal government to the HIRSP Authority. In response, some of the state-administered pools opted to have the U.S. Department of Health and Human Services assume responsibility for their states' policyholders beginning July 1, 2013.

To address the potential risk exposure with administering the plan through the remainder of 2013, the HIRSP Authority contracted with three insurance companies for \$662,000 to provide reinsurance for claims costs that exceed the amount reimbursed by the U.S. Department of Health and Human Services. The HIRSP Authority was able to negotiate a higher fixed reimbursement amount from the U.S. Department of Health and Human Services to cover the cost of the reinsurance.

Future of the HIRSP Authority

Anticipated implementation of the federal Affordable Care Act may reduce the need for the state-based HIRSP Plan.

Anticipated implementation of major provisions under the federal Affordable Care Act on January 1, 2014, may reduce the continued need for high-risk pools, such as those administered by the HIRSP Authority. Effective January 1, 2014, insurers are prohibited from denying insurance coverage because of an individual's pre-existing condition, charging premiums based on health, and applying annual benefit limits. In addition, health insurance exchanges or "marketplaces," which are intended to assist consumers in buying insurance, are scheduled to take effect on the same date. In response to these anticipated changes, the HIRSP Authority Board decided in February 2013 to pursue statutory changes to discontinue or dissolve its operations and assist its policyholders in transitioning to the commercial market.

As enrolled, 2013 Assembly Bill 40, the 2013-15 Biennial Budget Bill, provides for the dissolution of the HIRSP Authority and discontinuation of coverage under the HIRSP Plans. The bill would terminate all policies on January 1, 2014, or the date the health insurance exchange is operational in Wisconsin, whichever is later. The HIRSP Authority Board would be responsible for developing a proposal for the dispensation of the HIRSP Authority's cash assets after all of its obligations are satisfied. Administrative responsibility for the HIRSP Authority's dissolution would be transferred to the Office of the Commissioner of Insurance 60 days after the date all coverage is terminated.

The state-based HIRSP Plan had a net position of \$12.5 million as of December 31, 2012.

The HIRSP Authority managed its finances in the context of uncertainty as the U.S. Supreme Court deliberated on the Affordable Care Act in summer 2012. Following the passage of the Affordable Care Act, the HIRSP Authority has been taking steps to limit the net position of the state-based HIRSP Plan. As shown in Table 3, the state-based HIRSP Plan's net position decreased by one-half in 2010 and totaled \$12.5 million as of December 31, 2012. In addition to managing the state-based HIRSP Plan's net position, the HIRSP Authority also has been ensuring the funding requirements for each funding party are being met. For example, the HIRSP Authority Board approved a 9.0 percent increase in premium rates for 2012 to ensure that policyholders fund their required 60 percent of program costs.

Table 3

State-Based HIRSP Plan Net Position, by Funding Party
As of December 31
(in millions)

Funding Party	2012	2011	2010	2009	2008
Policyholders	\$ 5.7	\$5.9	\$11.8	\$19.5	\$15.9
Providers	(1.1)	(0.2)	1.0	3.0	9.6
Insurers	7.9	3.8	0.9	5.0	9.9
Total Net Position¹	\$12.5	\$9.5	\$13.7	\$27.5	\$35.4

¹ Net Position is the difference between the Plan's assets and liabilities.

In preparing the 2013 budget for the state-based HIRSP Plan, the HIRSP Authority Board established a targeted net position of \$10.0 million as of December 31, 2013. To achieve a \$10.0 million targeted balance, the Board approved another 3.0 percent increase in policyholder premium rates for the state-based HIRSP Plan. In addition, the HIRSP Authority budget included a 17.4 percent decrease in insurer assessments and a 15.5 percent increase in provider contributions for 2013.

The HIRSP Authority anticipates some uncertainty in the enrollment and claims activity during 2013, especially if legislation is enacted that terminates policies on January 1, 2014, or the date the health insurance exchange is operational in Wisconsin, whichever is later. However, it believes its targeted balance of \$10.0 million should be sufficient to pay for remaining costs related to its dissolution. In addition, the HIRSP Authority notes that it has the ability to assess insurers additional assessments after December 31, 2013, if sufficient funds are not available to pay all claims.

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Audit Opinion ■



STATE OF WISCONSIN

Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410

www.legis.wisconsin.gov/lab

Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman
State Auditor

Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Senator Robert Cowles and
Representative Samantha Kerkman, Co-Chairpersons
Joint Legislative Audit Committee

Members of the Board of Directors and
Ms. Amie Goldman, Chief Executive Officer
Health Insurance Risk-Sharing Plan Authority

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority's state-based HIRSP Plan and the HIRSP Federal Plan as of and for the years ended December 31, 2012, and December 31, 2011, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management of the HIRSP Authority is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to

the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on these financial statements.

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial positions of the state-based HIRSP Plan and the HIRSP Federal Plan as of December 31, 2012, and December 31, 2011, and the respective changes in the financial positions and the cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphases of Matter

The accompanying financial statements have been prepared assuming that the HIRSP Authority will continue as a going concern. As discussed in Note 14 to the financial statements, the HIRSP Authority is pursuing statutory changes to dissolve the HIRSP Authority and terminate policies on January 1, 2014, or the date the health insurance exchange is operational in Wisconsin, whichever is later. As a result, there is substantial doubt that the HIRSP Authority will continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, the HIRSP Authority implemented Governmental Accounting Standards Board (GASB) Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which changed the format of its financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information—Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on page 17 through 24 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by GASB, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so.

Accompanying Information—Our audits were conducted for the purpose of forming opinions on the financial statements of the state-based HIRSP Plan and the HIRSP Federal Plan. The accompanying Schedule of Expenditures of Federal Award for the year ended December 31, 2012, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the Schedule of Expenditures of Federal Award is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 11, 2013, on our consideration of the HIRSP Authority's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the HIRSP Authority's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

June 11, 2013

Management's Discussion and Analysis ■

Prepared by the Health Insurance Risk-Sharing Plan Authority

The Health Insurance Risk-Sharing Plan (HIRSP) Authority is a Wisconsin state government public body corporate and politic. The HIRSP Authority was established effective July 1, 2006, by ch. 149, Wis. Stats., to administer the insurance risk-sharing pool known as HIRSP, which provides individual health insurance policies to Wisconsin residents who are unable to obtain coverage from commercial insurers because of high cost or adverse health circumstances, and to persons who are entitled to continuation of coverage under federal law, including the Health Insurance Portability and Accountability Act (HIPAA) under Title XXII, P.L. 104-191. This activity is referred to as the HIRSP Plan or HIRSP in the following Management's Discussion and Analysis (MD&A), the financial statements, and accompanying notes. In addition, beginning in 2010, the HIRSP Authority operates a temporary federal high-risk pool under contract with the U.S. Department of Health and Human Services (HHS). Temporary federal high-risk pools were created under Section 1101 of Title I of the Patient Protection and Affordable Care Act of 2010. This activity is referred to as the HIRSP Federal Plan or HIRSP Federal in the following MD&A, the financial statements, and accompanying notes.

This section provides the MD&A of the HIRSP Authority's financial statements for the calendar year ended December 31, 2012, and for comparative purposes the calendar years ended December 31, 2011, and December 31, 2010. To provide further insight in the MD&A, the HIRSP Federal Plan activity is broken out where appropriate. The financial statements are prepared in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board. The financial statements report upon the financial

position, changes in financial position, and cash flows of the HIRSP Authority and include the accompanying notes. The financial statements, notes to the financial statements, and MD&A are the responsibility of management.

Financial Highlights

The HIRSP Authority's financial operations and financial position have been affected by the following events or trends over the last two years:

- Establishment of and increased membership in the temporary HIRSP Federal Plan under contract with HHS. The HIRSP Federal Plan had 998 participants as of December 31, 2011, and 2,010 participants as of December 31, 2012. As of March 2, 2013, new enrollment in the Federal Plan under direction of HHS has been suspended.
- Increased membership in the HIRSP Plan from 18,965 as of December 31, 2010, to 21,974 as of December 31, 2012.
- Increase in claims costs in response to increased membership and an increase in per member per month (PMPM) medical and pharmacy costs.

Financial operations also have been affected by budgetary decisions of the HIRSP Authority Board over this period. In the beginning of 2011, the HIRSP Authority Board approved a final budget for 2011 that increased policyholder premium rates effective July 1, 2011; increased insurer assessments; and anticipated continued use of the HIRSP Plan's reserves to cover operating expenses. In late 2011, the Board approved a final budget for 2012 that again increased policyholder premium rates and insurer assessments with the acknowledgement that the reserves would be below the targeted level.

At its February 27, 2013 meeting, the HIRSP Authority Board voted to pursue statutory changes that would result in members transitioning to the commercial market in 2014 to obtain their insurance coverage, and to subsequently dissolve the Authority and close its administrative office. Please see Note 14 in the Notes to the Financial Statements for more details. The Board's actions are in response to insurance market regulation changes included in the Patient Protection and Affordable Care Act. The dissolution of the Authority is expected to occur in the first quarter of 2014. However, under the current draft of the proposed statutory changes, the timing of the dissolution would be dependent on the successful implementation of the market reforms under the Affordable Care Act.

Financial Position

As designed by the budget approved by the Board, the total net position decreased 30.6 percent from 2010 to 2011. The 2011 total net position of \$9.5 million was \$6.7 million below the risk-based capital target reserve of \$16.2 million established by the HIRSP Authority Board for 2011. In 2012, in order to avoid significant premium increases, the Board approved a budget that would maintain the 2012 total net position below targeted reserve levels. Actual results for 2012 were better than anticipated and resulted in an increase of 31.0 percent to end the year with a total net position of \$12.5 million. For 2013, given the uncertainty surrounding implementation of the Affordable Care Act and its impact on HIRSP operations, the Board adopted a policy that changed the target reserve levels from 175 percent to 100 percent of the Authorized Control Level Risk Based Capital, based on the National Association of Insurance Commissioners Securities Risk Based Capital model. Therefore, the budget for 2013 anticipates a decrease in the total net position to an estimated \$10.0 million at year end.

Table A

Condensed Financial Information

As of December 31

	2012	Percentage Change from 2011	2011	Percentage Change from 2010	2010
Total Assets	\$47,296,605	15.1%	\$41,100,423	(2.9)%	\$42,313,764
Total Liabilities	34,800,014	10.3	31,559,480	10.4	28,574,450
Total Net Position	\$12,496,591	31.0	\$ 9,540,943	(30.6)	\$13,739,314

Assets

In 2012, total assets increased \$6.2 million, or by 15.1 percent. The increase in total assets is largely reflected in increased cash and investment balances as cash inflows from increased operating revenue exceeded payments for claims and other operating expenses. Another notable change in 2012 was the increase in the federal contract receivable of \$1.4 million. The increase was the result of increased enrollment and PMPM medical and pharmacy costs for the HIRSP Federal Plan. In 2011, total assets decreased by 2.9 percent. The reduction in total assets is largely reflected in reduced cash and investment balances as increased payments for claims and other operating expenses exceeded cash inflows from operating and nonoperating revenue.

Liabilities

Total liabilities have steadily increased over the past three years, in part, because of increases in unpaid medical loss liabilities as incurred medical claims increased with increases in membership. The unpaid medical loss liabilities increased \$3.3 million, or by 23.0 percent, in 2012, and increased \$1.1 million, or by 8.2 percent, in 2011. The increase in unpaid medical loss liabilities in 2012 reflects higher PMPM gross medical claims costs the HIRSP Federal Plan experienced in 2012.

Another major factor that contributed to the increase in liabilities in 2011 was a \$2.0 million, or 17.9 percent, increase in unearned premiums in 2011. Similar to claims, unearned premiums increased as membership increased. In addition, increased premium rates in 2011 contributed to the increase in unearned premiums.

Change in Financial Position

In the first part of 2011, the state-based HIRSP Plan experienced higher-than-anticipated claims costs. In response, the HIRSP Authority Board approved an amended 2011 budget in April 2011 that anticipated continued use of the policyholder surplus and increased premium rates to fund the policyholders' share of the increase in costs. The net impact of the increase in premiums and the increase in claims costs was a \$4.2 million decrease in the total net position in 2011. The Board approved a break-even budget for 2012 that included increases in premium rates and insurer assessment rates and maintained provider reimbursement levels. Actual results for 2012 were better than anticipated and resulted in a \$3.0 million increase in the total net position.

Table B

Condensed Financial Information 2012, 2011, and 2010

	2012	Percentage Change from 2011	2011	Percentage Change from 2010	2010
Total Operating Revenues	\$179,110,653	22.5%	\$146,218,469	28.6%	\$113,736,083
Total Operating Expenses	178,852,048	16.8	153,137,508	16.8	131,067,893
Operating Income (Loss)	258,605	103.7	(6,919,039)	60.1	(17,331,810)
Total Nonoperating Income (Loss)	2,697,043	(0.9)	2,720,668	(24.5)	3,603,584
Change in Total Net Position	\$ 2,955,648	170.4	\$ (4,198,371)	69.4	\$ (13,728,226)

Operating Revenues

Total operating revenues in 2012 were \$179.1 million and increased \$32.9 million, or by 22.5 percent, compared to 2011 operating revenues. From 2010 to 2011, total operating revenues increased \$32.5 million, or by 28.6 percent.

During 2012, total premium revenue increased by \$18.2 million, or by 18.4 percent, compared to 2011 premium revenue. During 2011, total premium revenue increased \$17.0 million, or by 20.8 percent, compared to 2010 premium revenue. Increased premium revenue for the HIRSP Federal Plan was a result of increased membership. The premium revenue increase related to the HIRSP Plan was the result of increased membership and premium rate increases for the HIRSP Plan in 2011 and 2012.

Insurer assessments increased in both 2011 and 2012. In 2011, the insurer assessments increased \$12.6 million, or by 40.8 percent, as the Board sought to replenish the insurer reserves and cover the increase in medical and pharmacy claims costs, which was due, in part, to enrollment growth. The insurer assessment increased another \$5.1 million, or by 11.7 percent, in 2012 in order to have the insurers fund the statutorily required 20.0 percent of plan costs.

The HIRSP Authority also received federal contract revenue to cover excess losses for the HIRSP Federal Plan of \$13.4 million in 2012. This was an increase of 250.8 percent compared to federal contract revenue of \$3.8 million in 2011. This increase is due to increased enrollment in the plan as well as the increase in the PMPM medical and pharmacy losses.

Operating Expenses

Total operating expenses increased \$25.7 million, or by 16.8 percent, in 2012, and \$22.1 million, or by 16.8 percent, in 2011, largely because of increases in medical and pharmacy losses associated with membership increases in the HIRSP and HIRSP Federal Plans. The significant increase in the HIRSP Federal Plan's PMPM pharmacy and medical losses during 2012 also impacted operating expenses.

Nonoperating Income

In 2012, the HIRSP Authority had nonoperating income of \$2.7 million, which was composed of federal grant revenue of \$2.6 million and investment income of \$142,000. In 2011, the HIRSP Authority had nonoperating income of \$2.7 million, which was composed of federal grant revenue of \$2.5 million and investment income of \$214,000. In 2010, the HIRSP Authority had nonoperating income of \$3.6 million, which was composed of federal grant revenue of \$3.5 million and investment income of \$71,000. The fluctuation in the federal grant revenue is a reflection of the amount of grant funding awarded by the Centers for Medicare and Medicaid Services.

Plan Enrollment

HIRSP Plan enrollment was 21,974 as of December 31, 2012. This was an increase of 3.1 percent, or 657 policyholders, compared to December 31, 2011, when HIRSP Plan enrollment was 21,317. In 2011, HIRSP Plan enrollment increased by 2,352 policyholders, or 12.4 percent, compared to 18,965 policyholders as of December 31, 2010.

HIRSP Federal Plan enrollment was 2,010 as of December 31, 2012. This was an increase of 101.4 percent, or 1,012 policyholders, compared to December 31, 2011, when HIRSP Federal Plan enrollment was 998 policyholders. In 2011, HIRSP Federal Plan enrollment increased 225.1 percent, or 691 policyholders, compared to December 31, 2010, when HIRSP Federal Plan enrollment was 307 policyholders. As of March 2, 2013, new enrollment in the HIRSP Federal Plan was suspended under the direction of HHS. Enrollment was 2,320 policyholders as of March 31, 2013.

Per Member Per Month Plan Costs

As shown in Table C, PMPM gross claims costs for the HIRSP Plan in 2012 were \$746.37, an increase of 3.6 percent from PMPM gross claims costs of \$720.46 in 2011. The increase is a result of changes in utilization and adverse claims experience for 2011 flowing through the financial statements in 2012. The PMPM gross claims costs in 2011 decreased 2.3 percent from PMPM gross claims costs of \$737.20 in 2010. The decrease is a result of the net effect of an increase in HIRSP provider payment rates offset by adjustments to the outpatient payment methodology, changes in utilization, and a continued shift of membership to higher-deductible plans.

Also, as shown in Table C, PMPM gross claims costs for the HIRSP Federal Plan in 2012 were \$964.06, an increase of 48.2 percent from the PMPM gross claims costs of \$650.73 in 2011. The increase is due to the increase in provider payment rates and an increase in pharmacy specialty and brand drug costs on a PMPM basis. The PMPM gross claims costs for the HIRSP Federal Plan in 2011 decreased 8.2 percent from the PMPM gross claims costs of \$709.23 in 2010.

Table C

**HIRSP Plan Cost Summary on a per Member per Month Basis
2012, 2011, and 2010**

Description	2012	2011	2010	2012 PMPM	2011 PMPM	2010 PMPM
Member Months (Sum of total members enrolled in each month)	260,716	247,363	211,586			
Gross Claims (Costs before provider contributions are deducted)	\$194,589,654	\$178,214,105	\$155,980,614	\$746.37	\$720.46	\$737.20
Administrative Expenses	\$8,677,163	\$7,821,735	\$6,725,423	\$33.28	\$31.62	\$31.79

**HIRSP Federal Plan Cost Summary on a per Member per Month Basis
2012, 2011, and 2010**

Description	2012	2011	2010	2012 PMPM	2011 PMPM	2010 PMPM
Member Months (Sum of total members enrolled in each month)	18,745	8,133	940			
Gross Claims	\$18,071,271	\$5,292,378	\$666,677	\$964.06	\$650.73	\$709.23
Administrative Expenses	\$893,536	\$1,034,266	\$586,176	\$47.67	\$127.17	\$623.59

Administrative expenses incurred for the HIRSP Plan in 2012 equaled 4.3 percent of total plan costs. Administrative expenses equaled 4.2 percent of total plan costs in 2011 and 4.1 percent of total plan costs in 2010. Because the majority of the administrative costs are incurred on a PMPM basis, they vary by year according to plan membership. Total administrative expenses increased by 10.9 percent in 2012 and 16.3 percent in 2011. The increases are a result of enrollment growth, the implementation of a medication management program in June 2011, and a care management program in June of 2012. On a PMPM basis, 2012 administrative costs increased 5.2 percent as a result of the increased costs related to the medication

management and care management programs. There was no significant change to administrative costs on a PMPM basis in 2011 compared to 2010.

For the HIRSP Federal Plan, 2011 total administrative expenses increased by 76.4 percent as a result of increased membership, the program being active for a full year, and implementation of a robust marketing campaign in 2011. For 2012, total administrative costs decreased by 13.6 percent due to the increase in administrative costs related to enrollment growth being offset by the decrease in marketing campaign costs in 2012. Administrative expenses on a PMPM basis for 2012 decreased by 62.5 percent, which is due to the decrease in marketing campaign costs in 2012. Administrative expenses on a PMPM basis for 2011 decreased by 79.6 percent compared to 2010. In 2010, the plan incurred significant administrative expenses related to the implementation of the new plan.

HIRSP Authority Contact Information

General information regarding the risk-sharing plan may be obtained from the HIRSP Authority's website at <http://www.hirsp.org>.

Questions concerning any of the information provided in the HIRSP Authority's financial reports, or requests for additional information, should be directed to the HIRSP Authority at the following address:

HIRSP Authority
1 East Main Street, Suite 350
Madison, WI 53703
Phone: (608) 441-5777
Fax: (608) 441-5776

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Financial Statements ■

Statement of Net Position

December 31, 2012

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents (Note 3)	\$ 23,426,277	\$ 677,234	\$ 24,103,511
Investments (Note 3)	15,799,391	0	15,799,391
Interest Receivable (Note 4)	40,564	0	40,564
Drug Rebates Receivable (Note 4)	2,968,407	92,049	3,060,456
Premiums Receivable (Note 4)	459,464	25,637	485,101
Claims Recoverable (Note 4)	158,526	53,025	211,551
Assessments Receivable (Note 4)	109,009	0	109,009
Interfund Receivable (Payable)	102,768	(102,768)	0
Prepaid Items	17,738	0	17,738
Federal Grant Revenue Receivable (Note 5)	249,714	0	249,714
Federal Contract Revenue Receivable (Note 6)	0	2,480,114	2,480,114
Total Current Assets	<u>43,331,858</u>	<u>3,225,291</u>	<u>46,557,149</u>
Noncurrent Assets:			
Investments (Note 3)	733,988	0	733,988
Capital Assets, Net of Accumulated Depreciation	5,468	0	5,468
Total Noncurrent Assets	<u>739,456</u>	<u>0</u>	<u>739,456</u>
TOTAL ASSETS	<u>\$ 44,071,314</u>	<u>\$ 3,225,291</u>	<u>\$ 47,296,605</u>
LIABILITIES AND NET POSITION			
Liabilities:			
Unpaid Medical Loss Liabilities (Note 7)	\$ 15,389,654	\$ 2,248,940	\$ 17,638,594
Unpaid Pharmacy Loss Liabilities (Note 7)	827,793	90,506	918,299
Unpaid Loss Adjustment Expenses (Note 7)	814,000	81,000	895,000
Unearned Premiums (Note 1D)	12,038,740	596,420	12,635,160
Payments to Providers (Note 4)	1,685,945	140,896	1,826,841
Accounts Payable and Accrued Administrative Expenses	818,591	67,529	886,120
Total Liabilities	<u>31,574,723</u>	<u>3,225,291</u>	<u>34,800,014</u>
Net Position:			
Net Investment in Capital Assets	5,468	0	5,468
Unrestricted	12,491,123	0	12,491,123
Total Net Position	<u>12,496,591</u>	<u>0</u>	<u>12,496,591</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 44,071,314</u>	<u>\$ 3,225,291</u>	<u>\$ 47,296,605</u>

The accompanying notes are an integral part of this statement.

Statement of Net Position

December 31, 2011

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents (Note 3)	\$ 21,603,576	\$ 113,009	\$ 21,716,585
Investments (Note 3)	7,365,307	0	7,365,307
Interest Receivable (Note 4)	49,215	0	49,215
Drug Rebates Receivable (Note 4)	3,281,112	58,574	3,339,686
Premiums Receivable (Note 4)	389,154	11,148	400,302
Claims Recoverable (Note 4)	202,021	38,824	240,845
Assessments Receivable (Note 4)	73,128	0	73,128
Interfund Receivable (Payable)	14,107	(14,107)	0
Prepaid Items	12,038	0	12,038
Federal Grant Revenue Receivable (Note 5)	52,772	0	52,772
Federal Contract Revenue Receivable (Note 6)	0	1,017,017	1,017,017
Total Current Assets	<u>33,042,430</u>	<u>1,224,465</u>	<u>34,266,895</u>
Noncurrent Assets:			
Investments (Note 3)	6,825,757	0	6,825,757
Capital Assets, Net of Accumulated Depreciation	7,771	0	7,771
Total Noncurrent Assets	<u>6,833,528</u>	<u>0</u>	<u>6,833,528</u>
TOTAL ASSETS	<u>\$ 39,875,958</u>	<u>\$ 1,224,465</u>	<u>\$ 41,100,423</u>
LIABILITIES AND NET POSITION			
Liabilities:			
Unpaid Medical Loss Liabilities (Note 7)	\$ 13,602,138	\$ 743,213	\$ 14,345,351
Unpaid Pharmacy Loss Liabilities (Note 7)	758,569	34,654	793,223
Unpaid Loss Adjustment Expenses (Note 7)	776,000	36,000	812,000
Unearned Premiums (Note 1D)	12,643,204	319,910	12,963,114
Payments to Providers (Note 4)	1,765,040	53,605	1,818,645
Accounts Payable and Accrued Administrative Expenses	790,064	37,083	827,147
Total Liabilities	30,335,015	1,224,465	31,559,480
Net Position:			
Net Investment in Capital Assets	7,771	0	7,771
Unrestricted	9,533,172	0	9,533,172
Total Net Position	<u>9,540,943</u>	<u>0</u>	<u>9,540,943</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 39,875,958</u>	<u>\$ 1,224,465</u>	<u>\$ 41,100,423</u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended December 31, 2012

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
OPERATING REVENUES			
Premiums (Note 1D)	\$ 111,407,580	\$ 5,588,879	\$ 116,996,459
Insurers' Assessments (Note 1D)	48,688,106	0	48,688,106
Federal Contract Revenue (Notes 1D and 6)	0	13,426,088	13,426,088
Total Operating Revenues	160,095,686	19,014,967	179,110,653
OPERATING EXPENSES			
Losses:			
Gross Medical Losses	149,461,379	13,430,000	162,891,379
Provider Contributions (Note 9)	(43,717,556)	0	(43,717,556)
Increase (Decrease) in Unpaid Medical Losses (Note 7)	2,352,392	1,505,727	3,858,119
Total Medical Losses	108,096,215	14,935,727	123,031,942
Gross Pharmacy Losses	42,706,659	3,079,692	45,786,351
Increase (Decrease) in Unpaid Pharmacy Losses (Note 7)	69,224	55,852	125,076
Total Pharmacy Losses	42,775,883	3,135,544	45,911,427
Total Losses	150,872,098	18,071,271	168,943,369
General and Administrative Expenses (Note 10)	8,677,163	893,536	9,570,699
Referral Fees (Note 1D)	287,820	50,160	337,980
Total Operating Expenses	159,837,081	19,014,967	178,852,048
OPERATING INCOME	258,605	0	258,605
NONOPERATING REVENUES AND EXPENSES			
Federal Grant Revenue (Notes 1D and 5)	2,557,401	0	2,557,401
Investment Income	141,602	0	141,602
Miscellaneous Income (Expense)	(1,960)	0	(1,960)
Total Nonoperating Income (Loss)	2,697,043	0	2,697,043
CHANGE IN NET POSITION	2,955,648	0	2,955,648
NET POSITION			
Total Net Position—Beginning of the Year	9,540,943	0	9,540,943
Total Net Position—End of the Year	\$ 12,496,591	\$ 0	\$ 12,496,591

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended December 31, 2011

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
OPERATING REVENUES			
Premiums (Note 1D)	\$ 96,302,130	\$ 2,509,324	\$ 98,811,454
Insurers' Assessments (Note 1D)	43,579,955	0	43,579,955
Federal Contract Revenue (Notes 1D and 6)	0	3,827,060	3,827,060
Total Operating Revenues	139,882,085	6,336,384	146,218,469
OPERATING EXPENSES			
Losses:			
Gross Medical Losses	135,368,932	3,601,493	138,970,425
Provider Contributions (Note 9)	(39,389,116)	0	(39,389,116)
Increase (Decrease) in Unpaid Medical Losses (Note 7)	783,415	535,266	1,318,681
Total Medical Losses	96,763,231	4,136,759	100,899,990
Gross Pharmacy Losses	41,914,460	1,125,820	43,040,280
Increase (Decrease) in Unpaid Pharmacy Losses (Note 7)	147,298	29,799	177,097
Total Pharmacy Losses	42,061,758	1,155,619	43,217,377
Total Losses	138,824,989	5,292,378	144,117,367
General and Administrative Expenses (Note 10)	7,821,735	1,034,266	8,856,001
Referral Fees (Note 1D)	154,400	9,740	164,140
Total Operating Expenses	146,801,124	6,336,384	153,137,508
OPERATING LOSS	(6,919,039)	0	(6,919,039)
NONOPERATING REVENUES AND EXPENSES			
Federal Grant Revenue (Notes 1D and 5)	2,502,217	0	2,502,217
Investment Income	213,979	0	213,979
Miscellaneous Income (Expense)	4,472	0	4,472
Total Nonoperating Income (Loss)	2,720,668	0	2,720,668
CHANGE IN NET POSITION	(4,198,371)	0	(4,198,371)
NET POSITION			
Total Net Position—Beginning of the Year	13,739,314	0	13,739,314
Total Net Position—End of the Year	\$ 9,540,943	\$ 0	\$ 9,540,943

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended December 31, 2012

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received for Premiums	\$ 110,726,873	\$ 5,856,832	\$ 116,583,705
Cash Received for Assessments	48,652,225	0	48,652,225
Cash Received for Federal Contract	0	11,962,991	11,962,991
Cash Payments for Miscellaneous Expense	(1,960)	0	(1,960)
Cash Payments for Medical Losses	(106,286,521)	(13,437,309)	(119,723,830)
Cash Payments for Pharmacy Losses	(42,473,035)	(3,025,876)	(45,498,911)
Cash Payments for Other Expenses	(8,961,784)	(792,413)	(9,754,197)
Net Cash Provided (Used) by Operating Activities	<u>1,655,798</u>	<u>564,225</u>	<u>2,220,023</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash Received for Federal Grant	<u>2,360,459</u>	<u>0</u>	<u>2,360,459</u>
Net Cash Provided by Noncapital Financing Activities	<u>2,360,459</u>	<u>0</u>	<u>2,360,459</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of Capital Assets	<u>(1,494)</u>	<u>0</u>	<u>(1,494)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(1,494)</u>	<u>0</u>	<u>(1,494)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (Purchase) and Sales of Investments	(2,500,777)	0	(2,500,777)
Investment Income	<u>308,715</u>	<u>0</u>	<u>308,715</u>
Net Cash Provided (Used) by Investing Activities	<u>(2,192,062)</u>	<u>0</u>	<u>(2,192,062)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>1,822,701</u>	<u>564,225</u>	<u>2,386,926</u>
Cash and Cash Equivalents, Beginning of Year	<u>21,603,576</u>	<u>113,009</u>	<u>21,716,585</u>
Cash and Cash Equivalents, End of Year	<u>\$ 23,426,277</u>	<u>\$ 677,234</u>	<u>\$ 24,103,511</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net Operating Income (Loss)	<u>\$ 258,605</u>	<u>\$ 0</u>	<u>\$ 258,605</u>
Adjustments to Reconcile Net Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	3,797	0	3,797
Miscellaneous Expense Reported as Nonoperating Expense	(1,960)	0	(1,960)
Changes in Assets and Liabilities:			
Decrease (Increase) in Receivables	161,348	(1,436,601)	(1,275,253)
Decrease (Increase) in Prepaids	(5,700)	0	(5,700)
Increase (Decrease) in Medical Loss Liabilities	1,787,516	1,505,727	3,293,243
Increase (Decrease) in Pharmacy Loss Liabilities	69,224	55,852	125,076
Increase (Decrease) in Unpaid Loss Adjustment Expenses	38,000	45,000	83,000
Increase (Decrease) in Unearned Premiums	(604,464)	276,510	(327,954)
Increase (Decrease) in Liability for Payments to Providers	(79,095)	87,291	8,196
Increase (Decrease) in Accounts Payable and Accrued Administrative Expenses	<u>28,527</u>	<u>30,446</u>	<u>58,973</u>
Total Adjustments	<u>1,397,193</u>	<u>564,225</u>	<u>1,961,418</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,655,798</u>	<u>\$ 564,225</u>	<u>\$ 2,220,023</u>

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended December 31, 2011

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received for Premiums	\$ 97,909,329	\$ 2,688,018	\$ 100,597,347
Cash Received for Assessments	43,624,866	0	43,624,866
Cash Received for Federal Contract	0	3,010,790	3,010,790
Cash Received for Miscellaneous Income	4,472	0	4,472
Cash Payments for Medical Losses	(96,131,293)	(3,636,426)	(99,767,719)
Cash Payments for Pharmacy Losses	(42,338,119)	(1,135,727)	(43,473,846)
Cash Payments for Other Expenses	(8,335,081)	(1,014,775)	(9,349,856)
Net Cash Provided (Used) by Operating Activities	<u>(5,265,826)</u>	<u>(88,120)</u>	<u>(5,353,946)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash Received for Federal Grant	2,539,248	0	2,539,248
Net Cash Provided by Noncapital Financing Activities	<u>2,539,248</u>	<u>0</u>	<u>2,539,248</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (Purchase) and Sales of Investments	5,634,179	0	5,634,179
Investment Income	297,865	0	297,865
Net Cash Provided by Investing Activities	<u>5,932,044</u>	<u>0</u>	<u>5,932,044</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,205,466	(88,120)	3,117,346
Cash and Cash Equivalents, Beginning of Year	18,398,110	201,129	18,599,239
Cash and Cash Equivalents, End of Year	<u>\$ 21,603,576</u>	<u>\$ 113,009</u>	<u>\$ 21,716,585</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net Operating Income (Loss)	\$ (6,919,039)	\$ 0	\$ (6,919,039)
Adjustments to Reconcile Net Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	5,715	0	5,715
Miscellaneous Income Reported as Nonoperating Revenue	4,472	0	4,472
Changes in Assets and Liabilities:			
Decrease (Increase) in Receivables	(494,100)	(930,335)	(1,424,435)
Decrease (Increase) in Prepaids	(5,690)	0	(5,690)
Increase (Decrease) in Medical Loss Liabilities	554,151	535,266	1,089,417
Increase (Decrease) in Pharmacy Loss Liabilities	147,298	29,799	177,097
Increase (Decrease) in Unpaid Loss Adjustment Expenses	0	23,000	23,000
Increase (Decrease) in Unearned Premiums	1,774,614	190,759	1,965,373
Increase (Decrease) in Liability for Payments to Providers	117,793	42,652	160,445
Increase (Decrease) in Accounts Payable and Accrued Administrative Expenses	(451,040)	20,739	(430,301)
Total Adjustments	<u>1,653,213</u>	<u>(88,120)</u>	<u>1,565,093</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (5,265,826)</u>	<u>\$ (88,120)</u>	<u>\$ (5,353,946)</u>

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements ■

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Health Insurance Risk-Sharing Plan Authority

The Health Insurance Risk-Sharing Plan (HIRSP) Authority is a Wisconsin state government public body corporate and politic. The HIRSP Authority was established by ch. 149, Wis. Stats., for the purpose of maintaining and administering the insurance risk-sharing pool that provides individual health care insurance policies to Wisconsin residents who are at high risk for adverse health care costs and who cannot obtain health insurance in the commercial individual health insurance market. HIRSP also provides health care policies to persons who are entitled to continuation of coverage under federal law, including the Health Insurance Portability and Accountability Act (HIPAA) under Title XXII, P.L. 104-191. These activities are referred to as HIRSP or the HIRSP Plan in the statements and in the notes accompanying the statements. In addition, the HIRSP Authority operates a temporary federal high-risk pool under contract with the U.S. Department of Health and Human Services. Temporary risk pools were created under Section 1101 of Title I of the Patient Protection and Affordable Care Act of 2010. The temporary federal high-risk pool operated by the HIRSP Authority is referred to as HIRSP Federal or the HIRSP Federal Plan in the statements and the notes accompanying the statements. The HIRSP Authority qualifies as exempt from federal income taxation pursuant to Internal Revenue Code Section 501(c)(26).

The HIRSP Authority derives all funding for HIRSP Plan costs and policyholder subsidy costs through a funding formula prescribed by s. 149.143, Wis. Stats. Insurance policy premiums paid by policyholders fund 60 percent of plan costs. Assessments levied on insurance companies that write health insurance policies in Wisconsin and discounts on payments to health care providers for health care services rendered to HIRSP policyholders each fund 20 percent of plan costs.

HIRSP policyholders who have annual incomes of \$33,999 or less are eligible for subsidized assistance for premium payments, health care deductible payments, and drug copayments. Premium subsidies are first funded by any available federal grant funds. The remaining premium subsidy costs, plus the deductible and drug copayment subsidy costs, are paid on an equal-share basis by the assessed insurance companies and the participating health care providers.

The HIRSP Authority derives funding for the HIRSP Federal Plan through insurance policy premiums paid by policyholders. The HIRSP Federal Plan costs not supported by premiums are funded through the federal contract entered into with HHS.

B. Accounting Practices

The financial statements of the HIRSP Authority have been prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB) for determining and reporting the financial position, changes in financial position, and cash flows of a governmental enterprise. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

C. Use of Estimates in Preparation of the Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates. Estimates that are particularly susceptible to significant change are the unpaid loss liabilities as described in Notes 1D and 7, and the health care provider contributions as described in Note 9.

D. Accounting Policy*a) Operating Revenues and Operating Expenses*

The HIRSP Authority's operating revenues and operating expenses arise from transactions that are directly related to ongoing indemnity health care insurance and services activities. Nonoperating revenues, including investment income and federal grant funds, are not directly related to ongoing indemnity health care insurance and services. On the financial statements for the HIRSP Plan, both policyholder premiums, net of allowed policyholder premium subsidies, and insurer assessments are reported as elements of total operating revenues. Provider funding contributions, which are derived from discounted payments for provider services, are reported as a deduction from gross medical losses and therefore as a reduction of total operating expenses. For the HIRSP Federal Plan, policyholder premiums and federal contract revenue are reported as elements of total operating revenues.

b) Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits maintained by the HIRSP Authority at a commercial bank and with the State of Wisconsin Local Government Investment Pool. Cash and cash equivalents also consist of a money market account held at a commercial bank. Refer to Note 3 for further information regarding cash deposits.

c) Investments

Investments are carried at fair value based on quoted market prices. Refer to Note 3 for further information regarding investments.

d) Premium Income Recognition

Premiums are recognized as earned in the period in which policyholders are entitled to receive services. For the HIRSP Plan, premiums are reported in the financial statements net of allowed premium subsidies. For both the HIRSP Plan and the HIRSP Federal Plan, the liability for unearned premiums is established to properly recognize the liability for premiums that have been written but will be earned in subsequent accounting periods.

e) Assessment Revenue Recognition

An assessment to provide a funding contribution for the HIRSP Plan program costs is levied on commercial insurance companies that issue health insurance coverage in Wisconsin. The commercial insurers have a statutory requirement to fund 20 percent of the HIRSP Plan cost, plus one-half of the premium, deductible, and copayment subsidies granted to eligible low-income policyholders enrolled in the HIRSP Plan and not otherwise funded by federal grants.

Insurers that have written health insurance premiums in one calendar year are legally obligated to participate in the HIRSP Authority assessment that will be issued in the subsequent calendar year. As provided by s. 149.13, Wis. Stats., each insurer that participates in the assessment pays a proportionate share of the total assessment corresponding to that insurer's proportionate share of the aggregate premiums charged for specified health insurance coverage issued in Wisconsin in the prior calendar year.

Assessment receipts are recognized as earned revenue during the budget period for which the assessments are levied as a funding contribution.

f) Federal Contract Revenue Recognition

Federal funds received from HHS are used to fund program costs for the HIRSP Federal Plan in excess of premium revenue and are recorded as revenue when the expense is incurred.

g) Federal Grant Revenue Recognition

Federal grant funds received from the Centers for Medicare and Medicaid Services are used to fund premium subsidies and disease management program costs for the HIRSP Plan and are recorded as revenue when the expense is incurred.

h) Policyholder, Insurer, and Health Care Provider Contributions

The HIRSP Authority maintains records to separately account for each funding constituency's contributed funds and to ensure that HIRSP Plan program funding operates in conformity with the funding model mandated by s. 149.143, Wis. Stats. An annual operating budget based on an actuarial analysis of projected revenues and program costs determines contribution amounts required from policyholders, assessed insurers, and participating health care providers. To-date funding contributions, plan cost participation, and surplus or deficit net position of each of the three funding constituencies are separately accounted for in the HIRSP Authority's records.

Contributions and surplus net position provided by any one constituency group are restricted to that constituency's account and are not available to offset the program cost obligations or deficit net position of the other two funding constituencies. The surplus or deficit net position interest of each funding constituency is carried forward from one accounting period to the next and is applied solely to the ongoing contribution requirements of the respective funding constituency.

i) *Unpaid Loss Liabilities*

Unpaid loss liabilities consist of health care claims incurred and reported but not paid prior to the close of the accounting period, plus estimates of claims incurred during the accounting period but not reported as of the financial statement date. The HIRSP Plan’s unpaid loss liabilities are reported net of estimated health care provider discounts. The HIRSP Plan’s and the HIRSP Federal Plan’s unpaid loss liabilities are estimated using actuarial methods and assumptions based on claim payment patterns, historical developments such as claim inventory levels, and other relevant factors. Corresponding administrative costs to process outstanding claims are estimated and accrued as unpaid loss adjustment expense liabilities.

Estimates of future payments related to claims incurred in the current and prior accounting periods are continually reviewed by management and adjusted as necessary, with resulting adjustments to the liabilities reflected in current operations.

j) *Referral Fees*

Through October 2011, insurance agents who assisted individuals with the HIRSP application process were paid a one-time nominal referral fee of \$40. Starting in November 2011, agents who completed the HIRSP training and certification process are paid a one-time fee of \$100 and all other agents are paid a one-time fee of \$40 per approved application. Referral fees represent the sole policy acquisition cost of the HIRSP Authority and are recorded as incurred.

k) *Depreciation*

Depreciation and amortization of property and equipment are provided in amounts sufficient to relate the cost of the related assets to operations over their estimated service lives by the straight-line method for financial reporting purposes. The estimated useful lives are as follows:

Office Furniture and Equipment	5 to 7 years
Computer Equipment and Software	3 to 5 years

2. NEW ACCOUNTING STANDARD

In June 2011, GASB issued Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources in a

statement of financial position and related disclosures. The implementation of this statement did not have an impact on the financial position of HIRSP. However, the adoption of this statement requires the HIRSP Authority to make presentation changes on the Balance Sheet and replace it with the Statement of Net Position. In addition, the Statement of Revenues, Expenses, and Changes in Net Assets was also replaced with the Statement of Revenues, Expenses, and Changes in Net Position. These changes were retroactively applied to the 2011 financial statements included in this report.

3. DEPOSITS AND INVESTMENTS

A. Deposits

The HIRSP Authority maintains bank accounts under a bank services contract at a financial institution. As of December 31, 2012, and December 31, 2011, \$9,461,501 and \$8,369,125, respectively, of the HIRSP Plan's cash and cash equivalents were deposited with the bank. As of December 31, 2012, and December 31, 2011, \$772,569 and \$183,245, respectively, of the HIRSP Federal Plan's cash and cash equivalents were deposited with the bank. The entire cash deposit balance on December 31, 2012, and December 31, 2011, was fully insured by the Federal Deposit Insurance Corporation (FDIC). Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, unlimited insurance coverage is provided for noninterest-bearing transaction accounts at all FDIC-insured institutions from December 31, 2010, through December 31, 2012.

The HIRSP Authority also maintains a money market account with the same financial institution. As of December 31, 2012, and December 31, 2011, \$764,976 and \$513,987, respectively, of the HIRSP Plan's cash and cash equivalents were deposited in the money market account and were uninsured.

B. Investments

As of December 31, 2012, and December 31, 2011, \$14,375,380 and \$13,555,019, respectively, of HIRSP Plan cash assets were invested with the Local Government Investment Pool (LGIP). These funds are reported as cash and cash equivalents on the Statement of Net Position but are subject to the investment risk note disclosure. The LGIP is a short-term investment pool of local funds whose goal is to provide for the prudent management of public funds. These funds are combined with the cash balances of the Wisconsin Retirement System and other funds of the State and are managed in a single fund called the State Investment Fund (SIF). The SIF is managed by the State of Wisconsin Investment Board, with oversight by its Board of Trustees and in accordance with Wisconsin Statutes. The SIF is not registered with the U.S. Securities and Exchange Commission.

Sections 25.17(3)(b), (ba), (bd), and (dg), Wis. Stats., enumerate the various types of securities in which the SIF may be invested, which include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, the unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States and solvent financial institutions in Wisconsin, and bankers acceptances. The Board of Trustees may specifically approve other prudent legal investments. For more information on the SIF please see *www.swib.state.wi.us*.

Late in 2010, the HIRSP Authority entered into an investment management relationship with a financial institution. The HIRSP Plan’s investments as of December 31, 2012, and December 31, 2011, are as follows:

	December 31, 2012 <u>Fair Value</u>	December 31, 2011 <u>Fair Value</u>
U.S. Treasury	\$ 0	\$ 376,084
U.S. Agencies	6,941,799	5,545,518
Certificates of Deposit	5,541,796	1,970,863
Corporate Bonds	<u>4,049,784</u>	<u>6,298,599</u>
Total	<u>\$16,533,379</u>	<u>\$14,191,064</u>

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The HIRSP Authority’s investment policy limits investment in securities that have been rated by a nationally recognized statistical rating organization as being of the highest investment grade. Securities authorized under the investment policy are restricted to Class 1 investment grade securities as classified by the National Association of Insurance Commissioners Securities Valuation Office. Aggregate exposures by investment type as of December 31, 2012, and December 31, 2011, are as follows:

	Rating	December 31, 2012 <u>Fair Value</u>
U.S. Agencies	AA+	\$ 6,941,799
Certificates of Deposit	NA	5,541,796
Corporate Bonds	A- to AA+	<u>4,049,784</u>
Subtotal		16,533,379
LGIP	Not Rated	<u>14,375,380</u>
Total		<u>\$30,908,759</u>

		December 31, 2011
	<u>Rating</u>	<u>Fair Value</u>
U.S. Treasury	AA+	\$ 376,084
U.S. Agencies	AA+	5,545,518
Certificates of Deposit	NA	1,970,863
Corporate Bonds	BBB+ to AA+	<u>6,298,599</u>
Subtotal		14,191,064
LGIP	Not Rated	<u>13,555,019</u>
Total		<u>\$27,746,083</u>

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributed to the magnitude of an organization’s investment in a single issuer. The HIRSP Authority’s investment policy limits concentration of credit risk by establishing maximum issuer limits by the type of investment. However, the HIRSP Authority’s investment policy does not place a limit on the maximum exposure for U.S. Treasury or U.S. Agency securities. As of December 31, 2012, and December 31, 2011, the HIRSP Authority had more than five percent of its investments invested with the following issuers:

<u>Issuer</u>	<u>Percentage of Portfolio December 31, 2012</u>	<u>Percentage of Portfolio December 31, 2011</u>
Federal Home Loan Bank (FHLB)	6.5%	7.3%
Federal Home Loan Mortgage Corp (FHLMC)	6.5	7.3
Federal National Mortgage Association (FNMA)	6.2	5.4

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The HIRSP Authority’s investment policy does not address interest rate risk. However, the investment policy does limit the time horizon for longer-term investments to a maximum of three years. As of December 31, 2012, and December 31, 2011, the investments of the HIRSP Plan had the following weighted average maturity:

	December 31, 2012 <u>Fair Value</u>	Weighted Average <u>Maturity (Years)</u>
U.S. Agencies	\$ 6,941,799	0.8
Certificates of Deposit	5,541,796	0.7
Corporate Bonds	<u>4,049,784</u>	0.5
Subtotal	16,533,379	0.7
LGIP	<u>14,375,380</u>	0.2
Total	<u>\$30,908,759</u>	0.5

	December 31, 2011 <u>Fair Value</u>	Weighted Average <u>Maturity (Years)</u>
U.S. Treasury	\$ 376,084	0.4
U.S. Agencies	5,545,518	1.1
Certificates of Deposit	1,970,863	1.4
Corporate Bonds	<u>6,298,599</u>	1.0
Subtotal	14,191,064	1.1
LGIP	<u>13,555,019</u>	0.3
Total	<u>\$27,746,083</u>	0.7

4. RECEIVABLES AND PAYABLES

Unless otherwise noted, receivable balances are expected to be collected within the following year. Management expects that all reported drug rebates will be received. However, it may take more than one year for final settlement of drug rebate balances to occur.

The financial statements report a liability balance labeled "Payments to Providers." The reported liability is for pharmacy claims that were adjudicated and paid by the third-party pharmacy benefit manager in the final two weeks of the reporting period. As of the close of the reporting period, the pharmacy benefit manager was in the process of billing the HIRSP Authority for reimbursement of the paid claims, and HIRSP Authority payment had not yet been remitted.

5. FEDERAL GRANT REVENUE AND FEDERAL GRANT REVENUE RECEIVABLE

In certain years, the federal government has appropriated monies for federal grants that are awarded to state high-risk pools to support the pools' operational losses and other specified bonus activities. The grants are awarded by the Centers for Medicare and Medicaid Services. The HIRSP Authority was awarded a supplemental federal grant for 2008 operational losses of \$2,502,217 in September 2010 and was awarded an additional supplemental federal grant of \$2,557,401 in September 2011. These funds were applied to low-income subsidy and disease management program costs for the HIRSP Plan in 2011 and 2012, respectively.

The financial statements report a receivable labeled "Federal Grant Revenue Receivable" for grant funds that are yet to be received for funds expended for the low-income subsidy and disease management program costs.

The HIRSP Authority was awarded an additional supplemental federal grant award of \$2,098,226 in September 2012. The intent of the grant application was to apply the funds to low-income subsidy and disease management program costs in 2013. Therefore, none of the funds were disbursed in 2012, and because revenue recognition is based on when funds are expended for this reimbursement-type grant, no federal grant revenue was reported for this supplemental federal grant award in 2012.

6. FEDERAL CONTRACT REVENUE AND FEDERAL CONTRACT REVENUE RECEIVABLE

As of July 2, 2010, the HIRSP Authority entered into a contract with HHS to establish a temporary high-risk health insurance pool. Temporary risk pools were created under Section 1101 of Title I of the Patient Protection and Affordable Care Act of 2010. Under this contract, HHS is to reimburse the HIRSP Authority for all costs in excess of premiums for the temporary high-risk health insurance pool known as the HIRSP Federal Plan. The operating revenue labeled "Federal Contract Revenue" represents the funding from HHS to support HIRSP Federal Plan costs in excess of premium revenue.

The receivable labeled "Federal Contract Revenue Receivable" is for contract funds that are yet to be received for HIRSP Federal Plan costs in excess of premium revenue.

7. LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following is a reconciliation of changes in the combined unpaid liabilities for medical and pharmacy losses, together with unpaid loss adjustment expense liabilities for 2012 and 2011.

HIRSP Plan	<u>2012</u>	<u>2011</u>
Balance—Beginning of the Year	<u>\$ 15,136,707</u>	<u>\$ 14,435,258</u>
Incurring Claims:		
Provision for insured events of the current fiscal year	153,508,371	145,516,242
Changes in provision for insured events of prior fiscal years	<u>1,818,297</u>	<u>(2,253,946)</u>
Total Incurred	<u>155,326,668</u>	<u>143,262,296</u>
Payments:		
Claims attributable to insured events of the fiscal year	137,124,882	130,834,216
Claims attributable to insured events of prior fiscal years	<u>16,307,046</u>	<u>11,726,631</u>
Total Paid	<u>153,431,928</u>	<u>142,560,847</u>
Balance—End of the Year	<u>\$ 17,031,447</u>	<u>\$ 15,136,707</u>
HIRSP Federal Plan	<u>2012</u>	<u>2011</u>
Balance—Beginning of the Year	<u>\$ 813,867</u>	<u>\$ 225,802</u>
Incurring Claims:		
Provision for insured events of the current fiscal year	17,982,141	5,418,959
Changes in provision for insured events of prior fiscal years	<u>225,349</u>	<u>(7,805)</u>
Total Incurred	<u>18,207,490</u>	<u>5,411,154</u>
Payments:		
Claims attributable to insured events of the fiscal year	15,579,371	4,618,112
Claims attributable to insured events of prior fiscal years	<u>1,021,540</u>	<u>204,977</u>
Total Paid	<u>16,600,911</u>	<u>4,823,089</u>
Balance—End of the Year	<u>\$ 2,420,446</u>	<u>\$ 813,867</u>

8. PREMIUM, DEDUCTIBLE, AND DRUG COINSURANCE SUBSIDIES

Chapter 149, Wis. Stats., requires the HIRSP Authority Board of Directors to provide policyholders enrolled in the HIRSP Plan with low-income premium subsidies and deductible subsidies and permits the Board to also offer them a

subsidy for prescription drug expenses. Wisconsin Statutes authorize the Board to establish the amounts of the deductible and the prescription drug expense subsidies and, while minimum premium subsidy levels are defined in statute, the Board may establish more generous levels. The subsidies reduce the amounts that these policyholders are required to pay for premiums, health care deductibles, and prescription drug expenses. Policyholders enrolled in the HIRSP Federal Plan are not eligible for these subsidies.

During 2012 and 2011, the HIRSP Plan policyholders whose annual household incomes did not exceed \$33,999 were eligible for various premium, deductible, and drug coinsurance subsidies. The 2012 and 2011 subsidies available to HIRSP policyholders in each of six HIRSP plans are shown in the following table.

<u>Plan</u>	<u>Subsidized Premium Discount</u>	<u>Subsidized Medical Deductible Discount</u>	<u>Subsidized Drug Copayment Out-of-Pocket Maximum</u>
HIRSP 1,000, 2,500, 5,000	15–43%	\$150–\$750	\$425–\$1,500 ¹
HIRSP HSA 2,500, 3,500	15–43%	\$150–\$750	Not Applicable ²
Medicare Supplement	10–35%	Not Applicable ³	\$150–\$750 ⁴

¹ During 2011, the subsidized drug copayment out-of-pocket maximum ranged from \$375 to \$1,250 for the HIRSP 1,000, 2,500, and 5,000 plans.

² The medical and drug benefit in the HSA plan is a combined benefit. The maximum unsubsidized out-of-pocket cost for HSA policyholders is \$5,600 for the HIRSP HSA 3,500 plan and \$4,600 for the HIRSP HSA 2,500 plan.

³ A medical deductible discount is not available for the HIRSP Medicare Supplement plan.

⁴ During 2011, the subsidized drug copayment out-of-pocket maximum ranged from \$125 to \$500 for the HIRSP Medicare Supplement plan.

As of December 31, 2012, and December 31, 2011, 27.5 percent and 26.4 percent, respectively, of HIRSP policyholders were approved for premium, deductible, and/or drug expense subsidies. The cost of the subsidies totaled \$11,067,196 during 2012 and \$9,940,745 during 2011. The following table summarizes the amounts provided for each subsidy type during those periods.

<u>Subsidy Type</u>	<u>2012</u>	<u>2011</u>
Premium	\$ 8,850,779	\$7,884,912
Deductible	977,143	938,463
Out-of-Pocket Drug Expense	<u>1,239,274</u>	<u>1,117,370</u>
Total	\$11,067,196	\$9,940,745

In 2012, federal grant funds totaling \$2,126,533 were applied to premium subsidies. The remaining premium, deductible, and drug expense subsidy costs were shared equally by health insurers and health care providers, with each contributing \$4,470,332. For 2011, federal grant funds totaling \$2,091,300 were applied to premium subsidies. The remaining premium, deductible, and drug expense subsidy costs were shared equally by health insurers and health care providers, with each contributing \$3,924,723.

9. HEALTH CARE PROVIDER CONTRIBUTIONS

Wisconsin Statutes require that 20 percent of the HIRSP Plan costs be funded by health care providers. In addition, 50 percent of the plan subsidies not covered by federal grant funds are required to be funded by health care providers. Under current HIRSP practice, only non-pharmacy providers fund the provider contributions. Provider contributions are not a source of revenue but represent a decrease in expenses and are therefore reflected in the financial statements as a reduction to gross medical losses and a decrease to total operating expenses. Provider contributions are obtained by reducing the usual and customary rates established by the HIRSP Authority before paying participating providers for approved services.

Effective January 1, 2008, the HIRSP Authority adopted a fee schedule to establish its usual and customary rates. The fee schedule is reviewed and updated if necessary on an annual basis. For most health care services, a discount factor of 24.4 percent was applied to the HIRSP Authority's 2012 and 2011 fee schedule rates to derive the HIRSP-allowed amount and to capture the full amount necessary to meet the statutory funding requirement.

The provider contribution is not required for the HIRSP Federal Plan, which reimburses providers using rates based on the Medicaid fee schedule. These rates were increased from 100 percent to 130 percent of Medicaid rates during 2011 and increased to 191 percent of Medicaid rates in 2012 to begin to move toward paying HIRSP usual and customary rates within the constraints of the available federal funding.

10. GENERAL AND ADMINISTRATIVE EXPENSES

HIRSP Authority indemnity insurance operations are performed by HIRSP Authority staff and a third-party plan administrator under an administrative services agreement with Wisconsin Physicians Service Insurance Corporation (WPS).

Services provided under the administrative services agreement in 2011 and 2012 include policyholder and provider services, claims and systems administration, medical management, data collection and reporting, subrogation, coordination of benefits, and disaster recovery. A change order effective June 10, 2012, expanded the care management services provided under the contract.

The HIRSP Authority has a contract with MedTrak Services, LLC for pharmacy benefit management services, Milliman, Inc. for actuarial services, and Staywell Company, LLC for diabetes-related care management services. On June 1, 2011, the HIRSP Authority entered into a contract with Tria Health, LLC (formally known as WellTrak, LLC) for medication management services.

Under its contract with HHS, the HIRSP Authority allocates staff costs and other administrative costs of the HIRSP Authority based on the proportion of staff time spent on activities related to the HIRSP Federal Plan.

11. LEASES

A. Operating Leases

Upon termination of the lease effective during 2012, the HIRSP Authority has entered into a new lease for administrative office space for a term of five years and three months. The lease term commenced on September 27, 2012, and will terminate on December 31, 2017. Office lease rental payments charged to expenses were \$42,296 for 2012 and \$54,342 for 2011.

The HIRSP Authority has entered into an equipment operating lease for office copier equipment. The lease has a term of 36 months and commenced on January 9, 2012. The equipment lease rental payments totaling \$6,036 were charged to expenses under the current operating lease for the office copier equipment during 2012. The equipment lease rental payments totaling \$2,916 were charged to expenses under the previous operating lease for the office copier equipment during 2011.

B. Lease Commitments

As of January 1, 2013, the minimum aggregate rental commitments are as follows:

<u>Year</u>	<u>Commitment</u>
2013	\$64,623
2014	66,381
2015	62,155
2016	64,020
2017	65,940

The HIRSP Authority’s current office space lease agreement includes a clause that allows termination of the lease without penalty if legislation is passed that eliminates or significantly reduces the size or activities of the HIRSP Authority. Under that circumstance, the HIRSP Authority’s total lease commitments indicated above would be substantially reduced.

The HIRSP Authority is not party to any sales-leaseback transactions.

12. PENSION BENEFITS

During 2012 and 2011, eligible HIRSP Authority employees participated in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit plan governed by ch. 40, Wis. Stats. Under the WRS, employees are entitled to an annual formula retirement benefit based on: 1) the employee’s final average earnings; 2) years of creditable service; and 3) a formula factor. If an employee’s contributions, matching employer’s contributions, and interest credited to the employee’s account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit. Copies of the separately issued financial report that includes financial statements and required supplementary information of the WRS are available on the Department of Employee Trust Funds’ website, <http://etf.wi.gov>.

The WRS requires employee contributions equal to specified percentages of qualified earnings based on the employee’s classification, plus employer contributions at a rate determined annually. Employee and employer contributions totaled 11.8 percent of employees’ gross salaries for 2012 and 11.6 percent of employees’ gross salaries for 2011. The relative position of the HIRSP Authority in the WRS is not available because the WRS is a statewide, multi-employer plan.

13. CAPITAL ASSETS

The HIRSP Authority did not purchase office furniture in 2011 but did make some additional purchases in 2012. The capital assets are included in “Capital Assets, Net of Accumulated Depreciation” on the Statement of Net Position, and depreciation expense is included in general and administrative expenses. The change in book value for 2012 is summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Being Depreciated:				
Equipment, at Historical Cost	\$35,945	\$ 1,494	\$ 0	\$37,439
Less Accumulated Depreciation for:				
Equipment	<u>(28,174)</u>	<u>(3,797)</u>	<u>0</u>	<u>(31,971)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 7,771</u>	<u>\$(2,303)</u>	<u>\$ 0</u>	<u>\$ 5,468</u>

The change in book value for 2011 is summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated:				
Equipment, at Historical Cost	\$35,945	\$ 0	\$ 0	\$35,945
Less Accumulated Depreciation for:				
Equipment	<u>(22,459)</u>	<u>(5,715)</u>	<u>0</u>	<u>(28,174)</u>
Total Capital Assets Being Depreciated, Net	<u>\$13,486</u>	<u>\$(5,715)</u>	<u>\$ 0</u>	<u>\$ 7,771</u>

14. SUBSEQUENT EVENTS

At its February 27, 2013 meeting, the HIRSP Authority Board of Directors made a recommendation that the HIRSP Authority pursue statutory changes that would term all HIRSP policies on January 1, 2014, or the date that coverage accessed through an American health benefit exchange (“State Exchange”), as described in 42 USC 18031, is in effect in Wisconsin. In the event legislation is passed and coverage through the State Exchange is in effect as of January 1, 2014, the HIRSP Authority administrative offices would be closed in the first quarter of 2014 and the administration of final “wind down” plan activities would be overseen by the Wisconsin Office of the Commissioner of Insurance. There are agreements in place to ensure key personnel will remain with the Authority through February 2014 and that vendors will carry out their contractual duties during the wind down period. Due to the funding structure of the HIRSP Authority, there are no concerns that financial obligations of the Authority will not be met.

Under direction from Centers for Consumer Information and Oversight (CCIO) within HHS, the HIRSP Federal Plan new enrollment has been suspended as of March 2, 2013. This action has been taken by CCIO to manage the appropriation on a national level. Enrollment in the HIRSP Federal Plan was 2,320 policyholders as of March 31, 2013.

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Auditor's Report ■



STATE OF WISCONSIN
Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410

www.legis.wisconsin.gov/lab

Toll-free hotline: 1-877-FRAUD-17

Joe Chrisman
State Auditor

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Robert Cowles and
Representative Samantha Kerkman, Co-Chairpersons
Joint Legislative Audit Committee

Members of the Board of Directors and
Ms. Amie Goldman, Chief Executive Officer,
Health Insurance Risk-Sharing Plan Authority

We have audited the financial statements and the related notes of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority's state-based HIRSP Plan and the HIRSP Federal Plan as of and for the years ended December 31, 2012, and December 31, 2011, and have issued our report thereon dated June 11, 2013. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our report includes an emphasis of matter paragraph that discusses a substantial doubt that the HIRSP Authority will continue as a going concern.

Internal Control over Financial Reporting

Management of the HIRSP Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the financial statements, we considered the HIRSP Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the HIRSP Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the HIRSP Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the HIRSP Authority's financial

statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the HIRSP Authority's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the HIRSP Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the HIRSP Authority's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

June 11, 2013

Auditor's Report on the Major Federal Program ■



STATE OF WISCONSIN
Legislative Audit Bureau

22 East Mifflin Street, Suite 500
Madison, Wisconsin 53703
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Independent Auditor's Report on the Major Federal Program

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Health Insurance Risk-Sharing Plan Authority

Report on Compliance for the HIRSP Authority's Major Federal Program

We have audited the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority's compliance with the types of compliance requirements described in the federal Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on the HIRSP Authority's major federal program for the year ended December 31, 2012. The HIRSP Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs, as well as in Note 1 of the accompanying Notes to the Schedule of Expenditures of Federal Award for the year ended December 31, 2012.

Management's Responsibility

Management of the HIRSP Authority is responsible for compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the HIRSP Authority's major federal program based on our audit of the types of compliance requirements referred to in the first paragraph. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to in the first paragraph that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the

HIRSP Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the HIRSP Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the HIRSP Authority complied, in all material respects, with the types of compliance requirements referred to in the first paragraph that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of the HIRSP Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to in the first paragraph. In planning and performing our audit, we considered the HIRSP Authority's internal control over compliance with the types of compliance requirements that could have a direct and material effect on the HIRSP Authority's major federal program. This consideration was solely to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133. This consideration was not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the HIRSP Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent noncompliance with a type of compliance requirement of a federal program, or to detect and correct such noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency or combination of deficiencies in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or that material noncompliance will not be detected and corrected on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU

A handwritten signature in black ink, appearing to read "Joe Chrisman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Joe Chrisman
State Auditor

June 11, 2013

Schedule of Expenditures of Federal Award ■

**Schedule of Expenditures of Federal Award
for the Year Ended December 31, 2012**

FEDERAL GRANTOR/<i>Program Title</i>	<u>CFDA Number</u>	Federal <u>Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES— Centers for Medicare and Medicaid Services		
<i>Grants to States for Operation of Qualified High-Risk Pools</i>	93.780	<u>\$2,557,401</u>
TOTAL EXPENDITURES OF FEDERAL AWARD		<u><u>\$2,557,401</u></u>

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Award ■

1. PURPOSE

The Schedule of Expenditures of Federal Award includes the federal grant activity of the Wisconsin Health Insurance Risk-Sharing Plan Authority for the year ended December 31, 2012. The Grants to States for Operation of Qualified High-Risk Pools is a major federal program that was tested for compliance with federal requirements for 2012.

Because the schedule presents only a selected portion of the activities of the HIRSP Authority, it is not intended to and does not present the financial position or results of the operation of the HIRSP Authority.

2. BASIS OF ACCOUNTING

The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The amounts in the schedule are presented on the accrual basis of accounting, which is the same basis as used in the financial statements.

The information included in the schedule may not fully agree with other federal award reports that the HIRSP Authority submits directly to the federal granting agency because the award reports may be prepared for different fiscal periods and may include cumulative data from a prior period rather than data for the current period only.

3. AMOUNT PROVIDED TO SUBRECIPIENTS

OMB Circular A-133 requires the Schedule of Expenditures of Federal Awards, to the extent practical, to include the amount provided to subrecipients under each federal program. The HIRSP Authority did not provide any federal awards to subrecipients during 2012.

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Schedule of Findings and Questioned Costs ■

OMB Circular A-133 requires the auditor to prepare a schedule of findings and questioned costs that includes the following three sections:

- 1) a summary of the auditor's results;
- 2) findings related to the financial statements, which are required to be reported in accordance with *Government Auditing Standards*; and
- 3) findings and questioned costs for federal awards.

Section I

Summary of Auditor's Results

As required by OMB Circular A-133, the Wisconsin Legislative Audit Bureau is providing the following summary information related to the Wisconsin HIRSP Authority's single audit for the year ended December 31, 2012:

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program: Material weaknesses identified?	No
Significant deficiencies identified?	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	Yes

The HIRSP Authority's major federal program is the Grants to States for Operation of Qualified High-Risk Pools, CFDA 93.780, which was awarded by the U.S. Department of Health and Human Services—Centers for Medicare and Medicaid Services.

Section II**Financial Statement Findings**

This section of the schedule includes all deficiencies related to internal control over financial reporting and compliance and other matters that are required to be reported by auditing standards generally accepted in the United States of America and by *Government Auditing Standards*, including those that do not affect federal awards. No financial statement findings are reported for the year ended December 31, 2012.

Section III**Federal Award Findings and Questioned Costs for 2012**

This section of the schedule includes all significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs and other matters that are required to be reported by section 510(a) of OMB Circular A-133. No federal award findings or questioned costs are reported for the year ended December 31, 2012.

**Federal Award Summary Schedule
of Prior Audit Findings**

No federal award findings or questioned costs were reported for the prior period.

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