

**Report 12-9**  
**May 2012**

# **Health Insurance Risk-Sharing Plan Authority**

STATE OF WISCONSIN



Legislative Audit Bureau ■



# **Health Insurance Risk-Sharing Plan Authority**

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Joe Chrisman  
State Auditor

May 24, 2012

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 2011 and have provided an unqualified 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.

Enrollment in the state-based HIRSP Plan increased from 16,381 policyholders as of December 31, 2009, to 21,317 policyholders as of December 31, 2011, or by 30.1 percent. However, recent premium increases may slow the rate of future enrollment growth. More than 80 percent of policyholders are enrolled in options with higher deductibles and lower premiums.

For several years, the state-based HIRSP Plan had net asset balances in excess of target balances. Actions by the HIRSP Authority to reduce these balances, as well as increases in claims costs, decreased the net asset balance to \$9.5 million as of December 31, 2011, or \$6.7 million less than the target balance. The HIRSP Authority is accepting the lower level of net assets, in part, due to uncertainty about the future of the state-based HIRSP Plan as provisions of the 2010 federal health care reform legislation are implemented and the U.S. Supreme Court considers cases challenging the legislation.

In July 2010, as part of the federal health care reform efforts, the federal government contracted with the HIRSP Authority to operate a temporary high-risk insurance pool for individuals who are uninsured because of pre-existing medical conditions. The HIRSP Federal Plan enrolled 998 policyholders at the end of 2011. The federal government funds costs in excess of the premiums collected from policyholders.

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 ■

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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 was also 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 and may change benefit levels, deductibles, copayment and coinsurance requirements, exclusions, and limitations that it determines generally reflect and are 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 federal Department of Health and Human Services, we have completed a financial and federal compliance audit for 2011. 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.

## HIRSP Plan Provisions

***The state-based HIRSP Plan currently offers eligible applicants six plan options.***

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. The HIRSP Authority currently offers eligible applicants six options under the state-based HIRSP Plan. These include one Medicare supplement plan and, for applicants who are not eligible for Medicare, five other plans that offer identical coverage and differ primarily in their premium and deductible amounts.

- HIRSP 1,000 offers the lowest deductible with the highest premium levels.
- HIRSP 2,500 offers a moderate deductible with moderate premium levels.
- HIRSP 5,000 offers the highest deductible with the lowest premium levels.
- 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.
- 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 5,000 and HIRSP HSA 3,500 were first offered at the beginning of 2008, and HIRSP HSA 2,500 was first offered at the beginning of 2010.

***State-based HIRSP Plan policyholders with 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 was increased from \$24,999 to \$32,999 beginning in 2009. Effective October 1, 2010, the HIRSP Board increased the household income limit to \$33,999. As of December 31, 2010, and December 31, 2011, 26.6 percent and 26.4 percent, respectively, of state-based HIRSP Plan policyholders were approved for program subsidies. These subsidies cost \$8.9 million in 2010 and \$9.9 million in 2011.

## **HIRSP Federal Plan Provisions**

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 were required to be implemented in 2010, while others are to be implemented through 2014.

***Wisconsin is one of 27 states administering a temporary federal high-risk pool.***

One of the provisions implemented in 2010 was a temporary federal high-risk pool program that provides access to insurance for individuals who are uninsured and have pre-existing medical conditions. The 2010 health care reform legislation allocated each state a portion of \$5.0 billion in federal funding for the temporary high-risk pool program and gave the federal 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 implement the program in Wisconsin. The HIRSP Authority began accepting applications on July 15, 2010, with coverage beginning on August 1, 2010. Wisconsin is 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 Authority is administering 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, and, unlike the state-based HIRSP Plan, there is no six-month waiting period for eligible individuals with pre-existing medical conditions under the HIRSP Federal Plan. However, to qualify for the HIRSP Federal Plan, individuals must not have had creditable coverage for six months prior to enrollment. Policyholders in the state-based HIRSP Plan are therefore precluded from coverage under the HIRSP Federal Plan unless they are willing to be uninsured for six months.

## 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 general purpose revenue. The HIRSP Authority also earns investment income and periodically receives grants that the federal 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 \$3.5 million in federal grant awards in 2010, and \$2.5 million in 2011, 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 the 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.

***Costs in excess of policyholder premiums for the HIRSP Federal Plan are funded by the federal government.***

Operating and administrative costs of the HIRSP Federal Plan are funded in part by policyholder premiums. Costs in excess of premiums are funded by the federal Department of Health and Human Services under its contract with the HIRSP Authority.

## Enrollment in the State and Federal Plans

***The state-based HIRSP Plan had 21,317 policyholders as of December 31, 2011, which is an increase of 30.1 percent since December 31, 2009.***

Enrollment in the state-based HIRSP Plan increased from December 31, 2002, through December 31, 2005, but subsequently declined through 2008. Enrollment then increased by 15.8 percent in 2010 and by 12.4 percent in 2011. As shown in Table 1, total enrollment increased from 16,381 policyholders as of December 31, 2009, to 21,317 as of December 31, 2011, or by 30.1 percent. Enrollment continues to increase in 2012, with 21,645 policyholders as of March 31, 2012.

Table 1

**Enrollment in the State-Based HIRSP Plan**

Date	Enrollment	Percentage Change
December 31, 2002	15,882	–
December 31, 2003	17,447	9.9%
December 31, 2004	18,341	5.1
December 31, 2005	18,947	3.3
December 31, 2006	18,058	(4.7)
December 31, 2007	17,126	(5.2)
December 31, 2008	16,252	(5.1)
December 31, 2009	16,381	0.8
December 31, 2010	18,965	15.8
December 31, 2011	21,317	12.4

Earlier enrollment declines in the state-based HIRSP plan are attributable, in part, to the availability of the federal Medicare Part D program beginning in January 2006, which reduced the number of participants in the HIRSP Medicare Supplement plan. In addition, when the State's BadgerCare Plus program was expanded in 2008 to include all children under the age of 19 regardless of income, approximately 500 policyholders under the age of 19 were no longer eligible to participate in the state-based HIRSP Plan. The HIRSP Authority believes that enrollment increased in the state-based HIRSP Plan during 2010 and during the first half of 2011 primarily because of decreases in premiums during 2010 and increased awareness of the program. Further, it believes that enrollment growth began to moderate during the second half of 2011, in part, due to a 15.0 percent increase in premiums that took effect mid-year for most plan options.

***Enrollment in HIRSP 5,000 experienced rapid growth as policyholders selected options with higher deductibles and lower premiums.***

Table 2 shows enrollment by each of the six state-based HIRSP options as of December 31, 2011. More than 80 percent of policyholders were enrolled in HIRSP 5,000 or HIRSP 2,500. HIRSP 5,000, which includes the highest deductible and lowest premium levels, has experienced rapid growth. Enrollment increased from 3,717 as of December 31, 2009, to 10,266 as of March 31, 2012, or by 176.2 percent. The growth in HIRSP 5,000 accounts for the majority of the enrollment increase in the state-based HIRSP Plan during 2011.

Table 2

**Enrollment in the State-Based HIRSP Plan by Option**  
As of December 31, 2011

Name	Description	Enrollment	Percentage of Total Enrollment
HIRSP 1,000	Offers lowest deductible and highest premium levels	1,324	6.2%
HIRSP 2,500	Offers moderate deductible and premium levels	8,425	39.5
HIRSP 5,000	Offers highest deductible and lowest premium levels	8,791	41.2
HIRSP HSA 2,500	Qualifies policyholders to open health savings account	755	3.6
HIRSP HSA 3,500	Qualifies policyholders to open health savings account	877	4.1
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	1,145	5.4
<b>Total</b>		<b>21,317</b>	<b>100.0%</b>

***Enrollment in the HIRSP Federal Plan was 998 on December 31, 2011.***

Enrollment in the HIRSP Federal Plan grew from 307 as of December 31, 2010, to 1,252 as of March 31, 2012. The Federal Plan's December 31, 2011 enrollment of 998 ranked tenth among the 27 states contracted to administer their temporary federal high-risk pools and fourteenth among all 50 states and the District of Columbia.

The HIRSP Authority took several steps in 2011 to promote growth in the HIRSP Federal Plan. From February 2011 through June 2011, it conducted a statewide marketing and outreach program designed to increase enrollment by increasing awareness among potential enrollees, insurance agents, and others. Advertising approaches included 30-second radio advertisements, Google and social media advertisements, radio interviews, and speaking engagements. In the last quarter of 2011, the HIRSP Authority also began to offer training sessions for insurance agents throughout the state to increase awareness and provide information about both the federal and state-based HIRSP plans.

Effective in fall 2011, the HIRSP Authority Board approved a 6.0 percent decrease in premium rates and eased eligibility requirements for the HIRSP Federal Plan. In addition to accepting an insured's denial letter, the HIRSP Authority also began accepting a physician's letter stating that the applicant has been treated or diagnosed with a qualifying condition within the last five years.

## Financial Status of the HIRSP Authority

***The state-based HIRSP Plan historically has maintained a sound financial position.***

Since its inception on July 1, 2006, the HIRSP Authority has maintained a sound financial position for the state-based HIRSP Plan. Contributing to the positive financial experience in recent years has been the shift toward higher-deductible plans, an increased use of generic rather than brand-name drugs, and other cost-reducing strategies. As part of its funding structure, the HIRSP Authority separately accounts for each funding party's share of the state-based HIRSP Plan's net asset balance and takes these balances into account when establishing funding needs for the next year.

***The HIRSP Authority has taken steps in recent years to reduce the state-based HIRSP Plan's total net asset balance.***

In April 2007, the HIRSP Authority established a policy regarding the state-based HIRSP Plan's target net asset balance based on an analysis of high-risk insurance pools in other states, capital requirements for health insurance companies doing business in Wisconsin, and an opinion from the Office of the Commissioner of Insurance. As shown in Table 3, the total net asset balances from 2007 through 2009 were well in excess of target balances. Consequently, the HIRSP Authority took steps to reduce the net asset balance by reducing premiums, insurer assessments, and health care provider contributions. Further, in December 2008, the HIRSP Authority Board approved a distribution of nearly \$12.0 million to policyholders meeting certain criteria.

Table 3

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

Funding Party	2011	2010	2009	2008	2007
Policyholders	\$ 5.9	\$11.8	\$19.5	\$15.9	\$24.6
Providers	(0.2)	1.0	3.0	9.6	4.7
Insurers	3.8	0.9	5.0	9.9	5.8
Total Net Asset Balance	9.5	13.7	27.5	35.4	35.1
Target Net Asset Balance	16.2	12.6	15.8	16.8	16.8
<b>Excess/(Deficiency) over the Target Balance</b>	<b>\$(6.7)</b>	<b>\$1.1</b>	<b>\$11.7</b>	<b>\$18.6</b>	<b>\$18.3</b>

The Board approved a budget for 2010 that again reduced premiums and assessments in an effort to further reduce the total net asset balance and better match the target balance. Reduced premiums and assessments, along with a large enrollment increase and an unexpected increase in large-dollar medical claims, resulted in a decrease in the total net asset balance to \$13.7 million at the end of 2010, which was closer to the target net asset balance than the previous three years.

**Premiums, insurer assessments, and provider contributions increased in 2011 due to higher costs.**

As the result of higher costs in 2010 that continued into 2011, the HIRSP Authority Board approved a 15.0 percent increase in rates for five of the insurance options available under the state-based HIRSP Plan, effective July 1, 2011. Six months later, the Board approved another 9.0 percent increase for all of the insurance options available under the state-based HIRSP Plan, effective January 1, 2012. Table 4 shows changes in premium rates since the HIRSP Authority's inception. Insurer assessments were also increased by 40.8 percent in 2011 and by 11.7 percent on January 1, 2012. Total health care provider contributions increased by 19.3 percent in 2011 and are budgeted to increase another 21.7 percent in 2012. Even with the increased premiums, insurer assessments, and provider contributions, the total net asset balance decreased to \$9.5 million at the end of 2011, or \$6.7 million below the target balance of \$16.2 million.

Table 4

**State-Based HIRSP Plan  
Premium Rate Changes  
2006 to 2012**

Effective Date	HIRSP 1,000	HIRSP 2,500	HIRSP 5,000	HIRSP HSA 2,500	HIRSP HSA 3,500	HIRSP Medicare Supplement
July 1, 2006	5.0%	5.0%	–	–	–	(21.5)%
July 1, 2007	7.4	(5.1)	–	–	–	(20.0)
January 1, 2008	15.0	6.1	–	–	–	0.0
April 1, 2008	(2.7)	(10.0)	(10.0)%	–	(10.0)%	0.0
January 1, 2009	5.9	3.7	3.6	–	3.5	(9.8)
January 1, 2010	11.0	6.0	(15.0)	–	(3.0)	(5.0)
April 1, 2010	(7.2)	(7.5)	0.0	0.0%	(5.2)	0.0
January 1, 2011	0.0	0.0	0.0	0.0	0.0	(30.0)
July 1, 2011	15.0	15.0	15.0	15.0	15.0	0.0
January 1, 2012	9.0	9.0	9.0	9.0	9.0	9.0



***The future of the state-based HIRSP Plan will be affected by the 2010 federal health care reform legislation and challenges to it currently pending before the U.S. Supreme Court.***

The HIRSP Authority Board has decided to accept levels of net assets that are significantly less than the target balances, in part, due to uncertainties about the future of the state-based HIRSP Plan as various provisions of the 2010 federal health care reform legislation are implemented through 2014. Further, if the Board needs to rebuild the net asset levels, it would likely do so over multiple years to avoid large premium increases. The HIRSP Authority is taking steps to assess the implications and options of merging with the commercial market in 2014, such as the possibility of administering reinsurance and risk-adjustment programs if a health insurance exchange is implemented in Wisconsin. However, the future operations of the state-based HIRSP Plan may ultimately depend on U.S. Supreme Court decisions expected in summer 2012 on legal challenges to certain requirements of the federal legislation.

The total net asset balance for the HIRSP Federal Plan at the end of 2011 was \$0 because the Federal Plan is not designed to accumulate a balance. In 2011, \$3.8 million in operating and administrative costs were funded by the federal Department of Health and Human Services under its contract with the HIRSP Authority. Similar to the state-based HIRSP Plan, the future of the HIRSP Federal Plan, which is currently expected to continue until 2014, also may be affected by the U.S. Supreme Court decisions expected in summer 2012.

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## Audit Opinion ■

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### *Independent Auditor's Report on the Financial Statements of the Wisconsin Health Insurance Risk-Sharing Plan Authority*

We have audited the accompanying basic financial statements 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, 2011, and December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of HIRSP Authority management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.


In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial positions of the state-based HIRSP Plan and the HIRSP Federal Plan as of December 31, 2011, and December 31, 2010, and the respective changes in their financial positions and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 15, 2012, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 15 through 22 be presented to supplement the basic financial statements. Such information, although not part of the financial statements, is required by the Government Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing 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. However, 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 express an opinion or provide any assurance.

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 Awards for the Year Ended December 31, 2011, on page 53 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 audit 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 to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

May 15, 2012

LEGISLATIVE AUDIT BUREAU  
by   
Diann Allsen  
Audit Director

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# Management's Discussion and Analysis ■

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## *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. 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, 2011, and for comparative purposes the calendar years ended December 31, 2010, and December 31, 2009. To provide further insight in the following 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 the U.S. Department of Health and Human Services. The HIRSP Federal Plan had 998 participants as of December 31, 2011.
- Increased membership in the HIRSP Plan from 16,381 as of December 31, 2009, to 21,317 as of December 31, 2011.
- Increase in claims costs in response to increased membership and an unexpected increase in claims costs in late 2010 through early 2011.

Financial operations also have been affected by budgetary decisions of the HIRSP Authority Board over this period. The HIRSP Authority Board developed a budget for 2009 and 2010 with the intent to "spend down" or use policyholder, insurer, and provider surpluses, or reserves. In response to higher than anticipated costs that the HIRSP Plan experienced late in 2010 and 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.

## Financial Position

As anticipated, total net assets decreased over the last two years. As shown in Table A, total net assets decreased by 30.6 percent in 2011, and 50.0 percent in 2010. The total net assets balance of \$9.5 million as of December 31, 2011, is \$6.7 million below the risk-based capital target reserve of \$16.2 million established by the HIRSP Authority Board for 2011. The Board is aware of this situation and intentionally budgeted for a level of reserves below its target for 2012. The Board had previously determined that if reserves reached a point where they were below the target, it would take action to rebuild the reserves level over the course of multiple years to avoid large premium increases. The uncertainty surrounding implementation of the Patient Protection and Affordable Care Act and its impact on HIRSP operations was also a consideration.

Table A

**Condensed Financial Information**  
As of December 31

	2011	Percentage Change from 2010	2010	Percentage Change from 2009	2009
Total Assets	\$41,100,423	(2.9)%	\$42,313,764	(18.0)%	\$51,602,064
Total Liabilities	31,559,480	10.4	28,574,450	18.4	24,134,524
<b>Total Net Assets</b>	<b>\$ 9,540,943</b>	<b>(30.6)</b>	<b>\$13,739,314</b>	<b>(50.0)</b>	<b>\$27,467,540</b>

### Assets

Total assets decreased by \$10.5 million, or 20.4 percent, over the last two years. A large portion of the decrease occurred in 2010, as the HIRSP Authority took steps to reduce excess reserves that had accumulated in prior years. 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. The make-up of assets also changed in 2010 as the HIRSP Authority used \$20.0 million of cash assets it had in the Local Government Investment Pool to purchase investments, with the goal of obtaining a better return.

### Liabilities

Total liabilities have steadily increased over the last two 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 \$1.1 million, or 8.2 percent, in 2011, and \$3.3 million, or 32.7 percent, in 2010. The increase in unpaid medical loss liabilities in 2010 also reflected higher per member per month (PMPM) gross medical claims costs the HIRSP Plan experienced in 2010 compared to 2009.

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

As noted, the HIRSP Authority established operating budgets that had the objective of decreasing net income and spending down policyholder, insurer, and provider surpluses during 2009 and 2010. When the 2009 net loss was less than originally budgeted, the budget for 2010 was adjusted accordingly to continue toward the objective of spending down the remaining surplus. Therefore, the \$13.7 million decrease in net assets in 2010 shown in Table B was \$5.7 million greater than the \$8.0 million decrease in 2009 as a result of the Board's policy to spend down the policyholder surplus, as well as the unanticipated increase in claims costs for 2010.

The surplus had been fully expended for insurers and providers, and policyholders maintained a small surplus at the end of 2010. However, because of higher costs in 2010 that continued into the beginning of 2011, 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 costs. The \$4.2 million decrease in net assets in 2011 was \$9.5 million less than the decrease in 2010, primarily as a result of the Board's action to increase premiums in 2011.

Table B

### Condensed Financial Information 2011, 2010, and 2009

	2011	Percentage Change from 2010	2010	Percentage Change from 2009	2009
Total Operating Revenues	\$146,218,469	28.6%	\$113,736,083	2.4%	\$111,116,302
Total Operating Expenses	153,137,508	16.8	131,067,893	7.5	121,909,675
Operating Income (Loss)	(6,919,039)	60.1	(17,331,810)	(60.6)	(10,793,373)
Total Nonoperating Income (Loss)	2,720,668	(24.5)	3,603,584	27.9	2,818,296
<b>Change in Net Assets</b>	<b>\$ (4,198,371)</b>	<b>69.4</b>	<b>\$ (13,728,226)</b>	<b>(72.1)</b>	<b>\$ (7,975,077)</b>

### Operating Revenues

Total operating revenues in 2011 were \$146.2 million and increased \$32.5 million, or 28.6 percent, compared to 2010 operating revenues. From 2009 to 2010, total operating revenues increased by \$2.6 million, or 2.4 percent.



During 2011, total premium revenue increased by \$17.0 million, or 20.8 percent, compared to 2010 premium revenue. Premium revenue for the HIRSP Federal Plan increased by \$2.2 million because of increased membership, as well as experiencing its first full year of operations in 2011. In 2010, the HIRSP Federal Plan only had five months of premium revenue because it first began accepting applications in August 2010. The remaining premium revenue increase was related to the increased membership and premium rate increases for the HIRSP Plan in 2011. In contrast, total premium revenue decreased by \$1.8 million, or 2.1 percent, during 2010, as a result of the Board lowering the HIRSP Plan premium rates for 2010 to address excess policyholder reserves.

Insurer assessments increased in both 2010 and 2011. They increased by \$3.4 million, or 12.5 percent, in 2010 as the Board sought to bring the insurers' funding level back up to the statutorily required 20.0 percent of plan costs following the decrease in the funding level in 2009 in order to spend down insurer reserves. The insurer assessments increased by another \$12.6 million, or 40.8 percent, in 2011, as the Board sought to replenish the insurer reserves and cover the increase in medical and pharmacy claims costs for 2011, which was due in part to enrollment growth.

The HIRSP Authority also received federal contract revenue to cover excess losses for the HIRSP Federal Plan of \$3.8 million in 2011, which was an increase of 300.1 percent compared to the federal contract revenue of \$957,000 in 2010. This increase is due to increased enrollment in the plan as well as the plan being active for a full year in 2011.

### **Operating Expenses**

Total operating expenses increased by \$22.1 million, or 16.8 percent, in 2011, and \$9.2 million, or 7.5 percent, in 2010, largely because of increases in medical and pharmacy losses associated with membership increases in the HIRSP Plan. Of the total increase in operating expenses, \$5.1 million was attributable to the HIRSP Federal Plan, which experienced its first full year of operations and increased membership in 2011.

### **Nonoperating Income**

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. In 2009, the HIRSP Authority had nonoperating income of \$2.8 million, which was composed of federal grant revenue of \$2.6 million and investment income of \$256,000. 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 21,317 as of December 31, 2011. This was an increase of 12.4 percent, or 2,352 policyholders, compared to December 31, 2010, when HIRSP Plan enrollment was 18,965. In 2010, HIRSP Plan enrollment increased by 2,584 policyholders, or 15.8 percent, compared to 16,381 policyholders as of December 31, 2009. HIRSP Federal Plan enrollment was 998 as of December 31, 2011. This was an increase of 225.1 percent, or 691 policyholders, compared to December 31, 2010, when HIRSP Federal Plan enrollment was 307 policyholders.

## Per Member Per Month Plan Costs

As shown in Table C, PMPM gross claims costs for the HIRSP Plan in 2011 were \$720.46, a decrease of 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. The PMPM gross claims costs in 2010 increased 2.8 percent from PMPM gross claims costs of \$717.11 in 2009. The increase is a result of the net effect of the increase in HIRSP provider payment rates, changes in utilization, and a continued shift of membership to higher-deductible plans.

Also, as shown in Table C, PMPM gross claims costs for HIRSP Federal Plan in 2011 were \$650.73, a decrease of 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  
2011, 2010, and 2009**

Description	2011	2010	2009	2011 PMPM	2010 PMPM	2009 PMPM
Member Months (Sum of Total Members Enrolled in Each Month)	247,363	211,586	196,808			
Gross Claims (Costs before Provider Contributions Are Deducted)	\$178,214,105	\$155,980,614	\$141,132,163	\$720.46	\$737.20	\$717.11
Administrative Expenses	\$7,821,735	\$6,725,423	\$6,630,362	\$31.62	\$31.79	\$33.69

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

Description	2011	2010	2011 PMPM	2010 PMPM
Member Months (Sum of Total Members Enrolled in Each Month)	8,133	940		
Gross Claims	\$5,292,378	\$666,677	\$650.73	\$709.23
Administrative Expenses	\$1,034,266	\$586,176	\$127.17	\$623.59

Administrative expenses incurred for the HIRSP Plan in 2011 equaled 4.2 percent of total plan costs. Administrative expenses equaled 4.1 percent of total plan costs in 2010 and 4.5 percent of total plan costs in 2009. The majority of the administrative costs are incurred on a PMPM basis and therefore vary by year according to plan membership. In 2011, total administrative expenses increased 16.3 percent as a result of enrollment growth and the implementation of a medication management program in June 2011. On a PMPM basis, there was no significant change and 2011 administrative expenses decreased 0.5 percent compared to 2010. In 2010,

total administrative costs increased 1.4 percent as a result of the growth in enrollment in that year. On a PMPM basis, 2010 administrative expenses decreased 5.6 percent compared to 2009, primarily as a result of a reduction in fees charged by HIRSP's third-party plan administrator.

For the HIRSP Federal Plan, 2011 total administrative expenses increased 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. 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  
33 East Main Street, Suite 230  
Madison, WI 53703  
Phone: (608) 441-5777  
Fax: (608) 441-5776

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## **Financial Statements ■**

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## Balance Sheet

### December 31, 2011

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents (Note 2)	\$ 21,603,576	\$ 113,009	\$ 21,716,585
Investments (Note 2)	7,365,307	0	7,365,307
Interest Receivable (Note 3)	49,215	0	49,215
Drug Rebates Receivable (Note 3)	3,281,112	58,574	3,339,686
Premiums Receivable (Note 3)	389,154	11,148	400,302
Claims Recoverable (Note 3)	202,021	38,824	240,845
Assessments Receivable (Note 3)	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 4)	52,772	0	52,772
Federal Contract Revenue Receivable (Note 5)	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 2)	6,825,757	0	6,825,757
Capital Assets, Net of Accumulated Depreciation	<u>7,771</u>	<u>0</u>	<u>7,771</u>
Total Noncurrent Assets	<u>6,833,528</u>	<u>0</u>	<u>6,833,528</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 39,875,958</u></b>	<b><u>\$ 1,224,465</u></b>	<b><u>\$ 41,100,423</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities:			
Unpaid Medical Loss Liabilities (Note 6)	\$ 13,602,138	\$ 743,213	\$ 14,345,351
Unpaid Pharmacy Loss Liabilities (Note 6)	758,569	34,654	793,223
Unpaid Loss Adjustment Expenses (Note 6)	776,000	36,000	812,000
Unearned Premiums (Note 1D)	12,643,204	319,910	12,963,114
Payments to Providers (Note 3)	1,765,040	53,605	1,818,645
Accounts Payable and Accrued Administrative Expenses	<u>790,064</u>	<u>37,083</u>	<u>827,147</u>
<b>Total Liabilities</b>	<b>30,335,015</b>	<b>1,224,465</b>	<b>31,559,480</b>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	7,771	0	7,771
Unrestricted	<u>9,533,172</u>	<u>0</u>	<u>9,533,172</u>
<b>Total Net Assets</b>	<b><u>9,540,943</u></b>	<b><u>0</u></b>	<b><u>9,540,943</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 39,875,958</u></b>	<b><u>\$ 1,224,465</u></b>	<b><u>\$ 41,100,423</u></b>

The accompanying notes are an integral part of this statement.

## Balance Sheet

### December 31, 2010

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents (Note 2)	\$ 18,398,110	\$ 201,129	\$ 18,599,239
Investments (Note 2)	2,757,730	0	2,757,730
Interest Receivable (Note 3)	56,785	0	56,785
Drug Rebates Receivable (Note 3)	2,739,674	6,014	2,745,688
Premiums Receivable (Note 3)	219,067	1,756	220,823
Claims Recoverable (Note 3)	359,205	2,042	361,247
Assessments Receivable (Note 3)	118,039	0	118,039
Interfund Receivable (Payable)	29,438	(29,438)	0
Prepaid Items	6,348	0	6,348
Federal Grant Revenue Receivable (Note 4)	89,803	0	89,803
Federal Contract Revenue Receivable (Note 5)	0	200,747	200,747
Total Current Assets	<u>24,774,199</u>	<u>382,250</u>	<u>25,156,449</u>
Noncurrent Assets:			
Investments (Note 2)	17,143,829	0	17,143,829
Capital Assets, Net of Accumulated Depreciation	13,486	0	13,486
Total Noncurrent Assets	<u>17,157,315</u>	<u>0</u>	<u>17,157,315</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 41,931,514</u></b>	<b><u>\$ 382,250</u></b>	<b><u>\$ 42,313,764</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities:			
Unpaid Medical Loss Liabilities (Note 6)	\$ 13,047,987	\$ 207,947	\$ 13,255,934
Unpaid Pharmacy Loss Liabilities (Note 6)	611,271	4,855	616,126
Unpaid Loss Adjustment Expenses (Note 6)	776,000	13,000	789,000
Unearned Premiums (Note 1D)	10,868,590	129,151	10,997,741
Payments to Providers (Note 3)	1,647,247	10,953	1,658,200
Accounts Payable and Accrued Administrative Expenses	1,241,105	16,344	1,257,449
<b>Total Liabilities</b>	<b><u>28,192,200</u></b>	<b><u>382,250</u></b>	<b><u>28,574,450</u></b>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	13,486	0	13,486
Unrestricted	13,725,828	0	13,725,828
<b>Total Net Assets</b>	<b><u>13,739,314</u></b>	<b><u>0</u></b>	<b><u>13,739,314</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 41,931,514</u></b>	<b><u>\$ 382,250</u></b>	<b><u>\$ 42,313,764</u></b>

The accompanying notes are an integral part of this statement.

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

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
<b>OPERATING REVENUES</b>			
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 5)	0	3,827,060	3,827,060
<b>Total Operating Revenues</b>	<b>139,882,085</b>	<b>6,336,384</b>	<b>146,218,469</b>
<b>OPERATING EXPENSES</b>			
Losses:			
Gross Medical Losses	135,368,932	3,601,493	138,970,425
Provider Contributions (Note 8)	(39,389,116)	0	(39,389,116)
Increase (Decrease) in Unpaid Medical Losses (Note 6)	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 6)	147,298	29,799	177,097
Total Pharmacy Losses	42,061,758	1,155,619	43,217,377
<b>Total Losses</b>	<b>138,824,989</b>	<b>5,292,378</b>	<b>144,117,367</b>
General and Administrative Expenses (Note 9)	7,821,735	1,034,266	8,856,001
Referral Fees (Note 1D)	154,400	9,740	164,140
<b>Total Operating Expenses</b>	<b>146,801,124</b>	<b>6,336,384</b>	<b>153,137,508</b>
<b>OPERATING LOSS</b>	<b>(6,919,039)</b>	<b>0</b>	<b>(6,919,039)</b>
<b>NONOPERATING REVENUES AND EXPENSES</b>			
Federal Grant Revenue (Notes 1D and 4)	2,502,217	0	2,502,217
Investment Income	213,979	0	213,979
Miscellaneous Income (Expense)	4,472	0	4,472
<b>Total Nonoperating Income (Loss)</b>	<b>2,720,668</b>	<b>0</b>	<b>2,720,668</b>
<b>CHANGE IN NET ASSETS</b>	<b>(4,198,371)</b>	<b>0</b>	<b>(4,198,371)</b>
<b>NET ASSETS</b>			
Total Net Assets—Beginning of the Year	13,739,314	0	13,739,314
<b>Total Net Assets—End of the Year</b>	<b>\$ 9,540,943</b>	<b>\$ 0</b>	<b>\$ 9,540,943</b>

The accompanying notes are an integral part of this statement.



## Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended December 31, 2010

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
<b>OPERATING REVENUES</b>			
Premiums (Note 1D)	\$ 81,525,797	\$ 298,695	\$ 81,824,492
Insurers' Assessments (Note 1D)	30,955,033	0	30,955,033
Federal Contract Revenue (Notes 1D and 5)	0	956,558	956,558
<b>Total Operating Revenues</b>	<b>112,480,830</b>	<b>1,255,253</b>	<b>113,736,083</b>
<b>OPERATING EXPENSES</b>			
Losses:			
Gross Medical Losses	116,070,719	352,381	116,423,100
Provider Contributions (Note 8)	(33,005,722)	0	(33,005,722)
Increase (Decrease) in Unpaid Medical Losses (Note 6)	4,100,766	207,947	4,308,713
Total Medical Losses	<u>87,165,763</u>	<u>560,328</u>	<u>87,726,091</u>
Gross Pharmacy Losses	35,671,813	101,494	35,773,307
Increase (Decrease) in Unpaid Pharmacy Losses (Note 6)	137,316	4,855	142,171
Total Pharmacy Losses	<u>35,809,129</u>	<u>106,349</u>	<u>35,915,478</u>
<b>Total Losses</b>	<b>122,974,892</b>	<b>666,677</b>	<b>123,641,569</b>
General and Administrative Expenses (Note 9)	6,725,423	586,176	7,311,599
Referral Fees (Note 1D)	112,325	2,400	114,725
<b>Total Operating Expenses</b>	<b>129,812,640</b>	<b>1,255,253</b>	<b>131,067,893</b>
<b>OPERATING LOSS</b>	<b>(17,331,810)</b>	<b>0</b>	<b>(17,331,810)</b>
<b>NONOPERATING REVENUES AND EXPENSES</b>			
Federal Grant Revenue (Notes 1D and 4)	3,536,213	0	3,536,213
Investment Income	71,280	0	71,280
Miscellaneous Income (Expense)	(3,909)	0	(3,909)
<b>Total Nonoperating Income (Loss)</b>	<b>3,603,584</b>	<b>0</b>	<b>3,603,584</b>
<b>CHANGE IN NET ASSETS</b>	<b>(13,728,226)</b>	<b>0</b>	<b>(13,728,226)</b>
<b>NET ASSETS</b>			
Total Net Assets—Beginning of the Year	27,467,540	0	27,467,540
<b>Total Net Assets—End of the Year</b>	<b>\$ 13,739,314</b>	<b>\$ 0</b>	<b>\$ 13,739,314</b>

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>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
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)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(5,265,826)</u>	<u>(88,120)</u>	<u>(5,353,946)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Cash Received for Federal Grant	2,539,248	0	2,539,248
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>2,539,248</u>	<u>0</u>	<u>2,539,248</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net (Purchase) and Sales of Investments	5,634,179	0	5,634,179
Investment Income	297,865	0	297,865
<b>Net Cash Provided by Investing Activities</b>	<u>5,932,044</u>	<u>0</u>	<u>5,932,044</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,205,466</b>	<b>(88,120)</b>	<b>3,117,346</b>
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>
<b>RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
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>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ (5,265,826)</u>	<u>\$ (88,120)</u>	<u>\$ (5,353,946)</u>

The accompanying notes are an integral part of this statement.

## Statement of Cash Flows for the Year Ended December 31, 2010

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash Received for Premiums	\$ 81,550,566	\$ 422,830	\$ 81,973,396
Cash Received for Assessments	30,827,035	0	30,827,035
Cash Received for Federal Contract	0	755,811	755,811
Cash Payments for Miscellaneous Expense	(4,564)	0	(4,564)
Cash Payments for Medical Losses	(83,965,957)	(356,273)	(84,322,230)
Cash Payments for Pharmacy Losses	(35,646,117)	(96,556)	(35,742,673)
Cash Payments for Other Expenses	(6,406,178)	(524,683)	(6,930,861)
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>(13,645,215)</u>	<u>201,129</u>	<u>(13,444,086)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Cash Received for Federal Grant	3,446,410	0	3,446,410
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>3,446,410</u>	<u>0</u>	<u>3,446,410</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net (Purchase) and Sales of Investments	(19,926,980)	0	(19,926,980)
Investment Income	39,916	0	39,916
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>(19,887,064)</u>	<u>0</u>	<u>(19,887,064)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(30,085,869)</u>	<u>201,129</u>	<u>(29,884,740)</u>
Cash and Cash Equivalents, Beginning of Year	48,483,979	0	48,483,979
Cash and Cash Equivalents, End of Year	<u>\$ 18,398,110</u>	<u>\$ 201,129</u>	<u>\$ 18,599,239</u>
<b>RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Net Operating Income (Loss)	\$ (17,331,810)	\$ 0	\$ (17,331,810)
Adjustments to Reconcile Net Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	5,714	0	5,714
Miscellaneous Expense Reported as Nonoperating Expense	(4,564)	0	(4,564)
Changes in Assets and Liabilities:			
Decrease (Increase) in Receivables	(373,049)	(181,121)	(554,170)
Decrease (Increase) in Prepaids	164	0	164
Increase (Decrease) in Medical Loss Liabilities	3,055,881	207,947	3,263,828
Increase (Decrease) in Pharmacy Loss Liabilities	137,316	4,855	142,171
Increase (Decrease) in Unpaid Loss Adjustment Expenses	(4,000)	13,000	9,000
Increase (Decrease) in Unearned Premiums	141,516	129,151	270,667
Increase (Decrease) in Liability for Payments to Providers	267,949	10,953	278,902
Increase (Decrease) in Accounts Payable and Accrued Administrative Expenses	459,668	16,344	476,012
Total Adjustments	<u>3,686,595</u>	<u>201,129</u>	<u>3,887,724</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ (13,645,215)</u>	<u>\$ 201,129</u>	<u>\$ (13,444,086)</u>

The accompanying notes are an integral part of this statement.



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# Notes to the Financial Statements ■

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## 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 (HHS). 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.

Effective October 1, 2010, 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. For the first three quarters of 2010, the annual income threshold was \$32,999. 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 HIRSP Authority has not applied Financial Accounting Standards Board pronouncements issued after November 30, 1989. 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 6, and the health care provider contributions as described in Note 8.

**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. The cash and cash equivalents also consist of a money market mutual fund account held at a commercial bank. Refer to Note 2 for further information regarding cash deposits.

**c) *Investments***

Investments are carried at fair value based on quoted market prices. Refer to Note 2 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, premium income is reported in the financial statements net of allowed premium subsidies. For both the HIRSP Plan and the HIRSP Federal Plan, the liability for unearned premium income is established to properly recognize the liability for premium income that has 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 cost 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 asset positions of each of the three funding constituencies are separately accounted for in the HIRSP Authority's records.

Contributions and surplus net assets 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 asset position of the other two funding constituencies. The surplus or deficit net asset 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*

During 2010, and 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 were 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. DEPOSITS AND INVESTMENTS**

**A. Deposits**

The HIRSP Authority maintains bank accounts under a bank services contract at a financial institution. As of December 31, 2011, and December 31, 2010, \$8,369,125 and \$9,286,581, respectively, of the HIRSP Plan’s cash and cash equivalents were deposited with the bank. As of December 31, 2011, and December 31, 2010, \$183,245 and \$214,113, respectively, of the HIRSP Federal Plan’s cash and cash equivalents were deposited with the bank. The entire cash deposit balance on December 31, 2011, and December 31, 2010, 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 mutual fund account with the same financial institution. As of December 31, 2011, and December 31, 2010, \$513,987 and \$30,555, respectively, of the HIRSP Plan's cash and cash equivalents were deposited in the money market mutual fund and were uninsured.

As of December 31, 2011, and December 31, 2010, \$13,555,019 and \$10,139,878, respectively, of the remaining cash and cash equivalents of the HIRSP Plan were deposited with the Local Government Investment Pool (LGIP). 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 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 charged 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](http://www.swib.state.wi.us).

## B. Investments

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, 2011, and December 31, 2010, are as follows:

	December 31, 2011	December 31, 2010
	<u>Fair Value</u>	<u>Fair Value</u>
U.S. Agencies	\$ 5,545,518	\$12,069,308
U.S. Treasury	376,084	703,339
Certificates of Deposit	1,970,863	747,972
Corporate Bonds	<u>6,298,599</u>	<u>6,380,940</u>
Total	<u>\$14,191,064</u>	<u>\$19,901,559</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, 2011, and December 31, 2010, are found in the tables below:

		December 31, 2011
	<u>Rating</u>	<u>Fair Value</u>
U.S. Agencies	AA+	\$ 5,545,518
U.S. Treasury	AA+	376,084
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>

		December 31, 2010
	<u>Rating</u>	<u>Fair Value</u>
U.S. Agencies	AAA	\$12,069,308
U.S. Treasury	AAA	703,339
Certificates of Deposit	NA	747,972
Corporate Bonds	A to AAA	<u>6,380,940</u>
Subtotal		19,901,559
LGIP	Not Rated	<u>10,139,878</u>
Total		<u>\$30,041,437</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, 2011, and December 31, 2010, the HIRSP Authority has more than five percent of its investments invested with the following issuers:

<u>Issuer</u>	<u>Percentage of Portfolio December 31, 2011</u>	<u>Percentage of Portfolio December 31, 2010</u>
Federal Home Loan Bank (FHLB)	7.3%	10.1%
Federal Home Loan Mortgage Corp (FHLMC)	7.3	10.1
Federal National Mortgage Association (FNMA)	5.4	17.5

### *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 does not have an investment policy for 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, 2011, and December 31, 2010, the investments of the HIRSP Plan had the following weighted average maturity:

	<u>December 31, 2011 Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Agencies	\$ 5,545,518	1.1
U.S. Treasury	376,084	0.4
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

	<u>December 31, 2010 Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
U.S. Agencies	\$12,069,308	2.0
U.S. Treasury	703,339	1.4
Certificates of Deposit	747,972	1.0
Corporate Bonds	<u>6,380,940</u>	1.9
Subtotal	19,901,559	1.9
LGIP	<u>10,139,878</u>	0.2
Total	<u>\$30,041,437</u>	1.3

### **3. 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.

#### **4. 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 \$3,536,213 in August 2009 and was awarded an additional supplemental federal grant of \$2,502,217 in September 2010. These funds were applied to low-income subsidy and disease management program costs for the HIRSP Plan in 2010 and 2011, 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 \$2,557,401 in September of 2011. The intent of the grant application was to apply the funds to low-income subsidy and disease management program costs in 2012. Therefore, none of the funds were disbursed in 2011, 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 2011.

#### **5. 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.

## 6. 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 2011 and 2010.

<u>HIRSP Plan</u>	<u>2011</u>	<u>2010</u>
Balance—Beginning of the Year	<u>\$ 14,435,258</u>	<u>\$ 11,246,061</u>
Incurred Claims:		
Provision for insured events of the current fiscal year	145,516,242	127,074,892
Changes in provision for insured events of prior fiscal years	<u>(2,253,946)</u>	<u>(327,048)</u>
Total Incurred	<u>143,262,296</u>	<u>126,747,844</u>
Payments:		
Claims attributable to insured events of the fiscal year	130,834,216	113,159,691
Claims attributable to insured events of prior fiscal years	<u>11,726,631</u>	<u>10,398,956</u>
Total Paid	<u>142,560,847</u>	<u>123,558,647</u>
Balance—End of the Year	<u>\$ 15,136,707</u>	<u>\$ 14,435,258</u>
<u>HIRSP Federal Plan</u>	<u>2011</u>	<u>2010</u>
Balance—Beginning of the Year	<u>\$ 225,802</u>	<u>\$ 0</u>
Incurred Claims:		
Provision for insured events of the current fiscal year	5,418,959	688,533
Changes in provision for insured events of prior fiscal years	<u>(7,805)</u>	<u>0</u>
Total Incurred	<u>5,411,154</u>	<u>688,533</u>
Payments:		
Claims attributable to insured events of the fiscal year	4,618,112	462,731
Claims attributable to insured events of prior fiscal years	<u>204,977</u>	<u>0</u>
Total Paid	<u>4,823,089</u>	<u>462,731</u>
Balance—End of the Year	<u>\$ 813,867</u>	<u>\$225,802</u>

**7. PREMIUM, DEDUCTIBLE, AND DRUG COINSURANCE SUBSIDIES**

The HIRSP Authority provides subsidies to eligible low-income policyholders enrolled in the HIRSP Plan. 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 2009, and through September 30, 2010, HIRSP Plan policyholders whose annual household incomes did not exceed \$32,999 were eligible for various premium, deductible, and drug coinsurance subsidies. Effective October 1, 2010, the annual household income threshold was raised to \$33,999. The 2011 and 2010 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 <sup>3</sup>	\$375–\$1,250
HIRSP HSA 2,500, 3,500	15–43%	\$150–\$750 <sup>3</sup>	Not Applicable <sup>1</sup>
Medicare Supplement	10–35%	Not Applicable <sup>2</sup>	\$125–\$500

<sup>1</sup> 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.

<sup>2</sup> A medical deductible discount is not available for the HIRSP Medicare Supplement plan.

<sup>3</sup> During 2010, the subsidized medical deductible discount ranged from \$100 to \$500.

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.

As of December 31, 2011, and December 31, 2010, 26.4 percent and 26.6 percent, respectively, of HIRSP policyholders were approved for premium, deductible, and/or drug expense subsidies. The cost of the subsidies totaled \$9,940,745 during 2011 and \$8,936,065 during 2010. The following table summarizes the amounts provided for each subsidy type during those periods.

<u>Subsidy Type</u>	<u>2011</u>	<u>2010</u>
Premium	\$7,884,912	\$7,289,054
Deductible	938,463	645,266
Out-of-Pocket Drug Expense	<u>1,117,370</u>	<u>1,001,745</u>
Total	\$9,940,745	\$8,936,065

In 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. For 2010, federal grant funds totaling \$3,214,609 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 \$2,860,728.

## 8. 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; rather they 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 paid by the HIRSP Authority to 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 23.2 percent was applied to the HIRSP Authority's 2010 fee schedule rates to derive the HIRSP-allowed amount. The discount factor for 2011 was increased to 24.4 percent 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 to begin to move toward paying HIRSP usual and customary rates within the constraints of the available federal funding.

## 9. 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 include policyholder and provider services, claims and systems administration, medical management, data collection and reporting, subrogation, coordination of benefits, and disaster recovery.



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 disease 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.

During 2010, the HIRSP Authority entered into a contract agreement with HHS to operate the temporary federal high-risk health insurance pool known as the HIRSP Federal Plan. 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.

**10. LEASES**

**A. Operating Leases**

The HIRSP Authority has entered into a lease for administrative office space for a term of five years and ten months. The lease term commenced on March 1, 2007, and will terminate on December 31, 2012. Office lease rental payments charged to expenses were \$54,342 for 2011 and \$52,252 for 2010.

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 charged to expenses under the previous operating lease for the office copier equipment during 2011 and 2010 were \$2,916 annually.

**B. Noncancelable Lease Terms**

As of January 1, 2012, the minimum aggregate rental commitments are as follows:

<u>Year</u>	<u>Commitment</u>
2012	\$62,552
2013	6,036
2014	6,036

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

**11. PENSION BENEFITS**

During 2011 and 2010, 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 11.6 percent of employees' gross salaries for 2011 and 11.0 percent of employees' gross salaries for 2010. The relative position of the HIRSP Authority in the WRS is not available because the WRS is a statewide, multi-employer plan.

**12. CAPITAL ASSETS**

The HIRSP Authority did not purchase office furniture in 2011 or 2010. The capital assets are included in "Capital Assets, Net of Accumulated Depreciation" on the Balance Sheet, and depreciation expense is included in general and administrative expenses. 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>

The change in book value for 2010 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>(16,745)</u>	<u>(5,714)</u>	<u>0</u>	<u>(22,459)</u>
Total Capital Assets Being Depreciated, Net	<u>\$19,200</u>	<u>\$(5,714)</u>	<u>\$ 0</u>	<u>\$13,486</u>

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# Auditor's Report ■

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***Independent Auditor's Report on Internal Control over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards***

We have audited the financial statements of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority's state-based HIRSP Plan and HIRSP Federal Plan as of and for the years ended December 31, 2011, and December 31, 2010, and have issued our report thereon dated May 15, 2012. 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.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

The HIRSP Authority's management is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits, we considered the HIRSP Authority's internal control as a basis for designing our auditing procedures 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 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 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control for 2011 that we consider to be material weaknesses as defined in the preceding paragraph. The material weakness in internal control over financial reporting for 2009 and until the last quarter of 2010 has been addressed, as is further discussed in report 11-9, issued in June 2011.


### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the HIRSP Authority's financial statements are free of material misstatement, we performed tests of its 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*.

We noted a certain additional matter pertaining to processing of HIRSP subsidies that we reported to management of the HIRSP Authority in separate correspondence dated June 6, 2011.

This independent auditor's report is intended solely for the information and use of the HIRSP Authority's management and Board of Directors, the Wisconsin Legislature, federal awarding agencies, and pass-through entities. This report is a matter of public record and its distribution is not limited. However, because we do not express an opinion on the effectiveness of the HIRSP Authority's internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

May 15, 2012

LEGISLATIVE AUDIT BUREAU  
 by   
 Diann Allsen  
 Audit Director

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# Auditor's Report ■

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***Independent Auditor's Report on the Wisconsin Health Insurance Risk-Sharing Plan Authority's Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program, Internal Control over Compliance, and the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133***

## COMPLIANCE

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, 2011. 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 Awards for the year ended December 31, 2011. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the HIRSP Authority's major federal program is the responsibility of HIRSP Authority management. Our responsibility is to express an opinion on the HIRSP Authority's compliance based on our audit.

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 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 occurred. 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. Our audit does not provide a legal determination on the HIRSP Authority's compliance with those requirements.

In our opinion, the HIRSP Authority complied, in all material respects, with the 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, 2011.

### INTERNAL CONTROL OVER COMPLIANCE

Management of the HIRSP Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the HIRSP Authority's internal control over compliance with the requirements that could have a direct and material effect on its major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but 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, or detect and correct, noncompliance with a type of compliance requirement of a federal program 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 detected and corrected, on a timely basis.

Our consideration of 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined in the preceding paragraph.

This report is intended for the information and use of the HIRSP Authority's management and Board of Directors, the Wisconsin Legislature, federal awarding agencies, and pass-through entities. This report is a matter of public record and its distribution is not limited. However, this report is not intended to be used by anyone other than these specified parties.

May 15, 2012

LEGISLATIVE AUDIT BUREAU

by 

Diann Allsen  
Audit Director





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## **Schedule of Expenditures of Federal Awards ■**

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## Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2011

<b>FEDERAL GRANTOR/Pass-Through Grantor/Program Title</b>	<u>CFDA Number</u>	<u>Federal 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>\$2,502,217</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		<u><u>\$2,502,217</u></u>

The accompanying notes are an integral part of this schedule.



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# Notes to the Schedule of Expenditures of Federal Awards ■

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## 1. PURPOSE

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority for the year ended December 31, 2011. 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 2011.

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 2011.

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# Schedule of Findings and Questioned Costs ■

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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 2011:

#### Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	No
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major program:	
Material weaknesses identified?	No
Significant deficiencies identified?	No
Type of auditor’s report issued on compliance for major programs:	Unqualified
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?	No

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, 2011.

**Section III**

**Federal Award Findings and Questioned Costs for 2011**

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, 2011.



**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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