

An Audit:

## Health Insurance Risk-Sharing Plan

Department of Health  
and Family Services

September 2007

# Report Highlights ■

---

***HIRSP has maintained a sound financial position since FY 2002-03.***

***Policyholder enrollment and claims costs are beginning to moderate.***

***HIRSP is undergoing several significant program and operational changes.***

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

Program costs are shared by policyholders, health insurance companies that do business in Wisconsin, and health care providers. During fiscal year (FY) 2005-06, HIRSP also received \$2.5 million in federal funds designated for high-risk health insurance pools.

HIRSP offers eligible applicants three plans:

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

At the request of the Department of Health and Family Services (DHFS), we completed a financial audit of HIRSP. Our audit report contains our unqualified opinion on HIRSP's financial statements and related notes as of and for the fiscal years ending June 30, 2006 and 2005.

## Key Facts and Findings

*Over 17,600 policyholders are enrolled in HIRSP.*

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

*We have issued an unqualified opinion on HIRSP's FY 2005-06 financial statements.*

*HIRSP's unrestricted net assets increased \$4.2 million during FY 2005-06.*

*2005 Wisconsin Act 74 created the HIRSP Authority, which assumed responsibility for HIRSP on July 1, 2006.*

## Financial Status

At the end of FY 2000-01, HIRSP reported a significant accounting deficit, with unrestricted assets of (\$8.2 million).

After implementing an accrual-based funding approach, HIRSP's financial position improved significantly. At the end of FY 2005-06, it reported an unrestricted net asset balance of \$3.9 million.

| Unrestricted Net Assets<br>(in Millions) |         |
|--|---------|
| Date                                     | Amount  |
| June 30, 2001                            | \$(8.2) |
| June 30, 2002                            | (6.0)   |
| June 30, 2003                            | (0.9)   |
| June 30, 2004                            | 6.8     |
| June 30, 2005                            | (0.3)   |
| June 30, 2006                            | 3.9     |

A balance of excess policyholder premiums increased by \$10.0 million during FY 2005-06 and reached \$19.5 million as of June 30, 2006.

At the direction of HIRSP's governing board, \$13.3 million of that amount was applied toward the policyholders' share of costs, which has helped to limit subsequent premium increases.

The excess premium balance accumulated over the past several years, because the statutory floor for premium rates has typically been greater than premiums needed to fund the policyholders' share—60 percent—of HIRSP's costs.

Statutory changes implemented as part of 2005 Wisconsin Act 74 removed the statutory premium floor effective July 1, 2006.

## Enrollment and Claims Costs

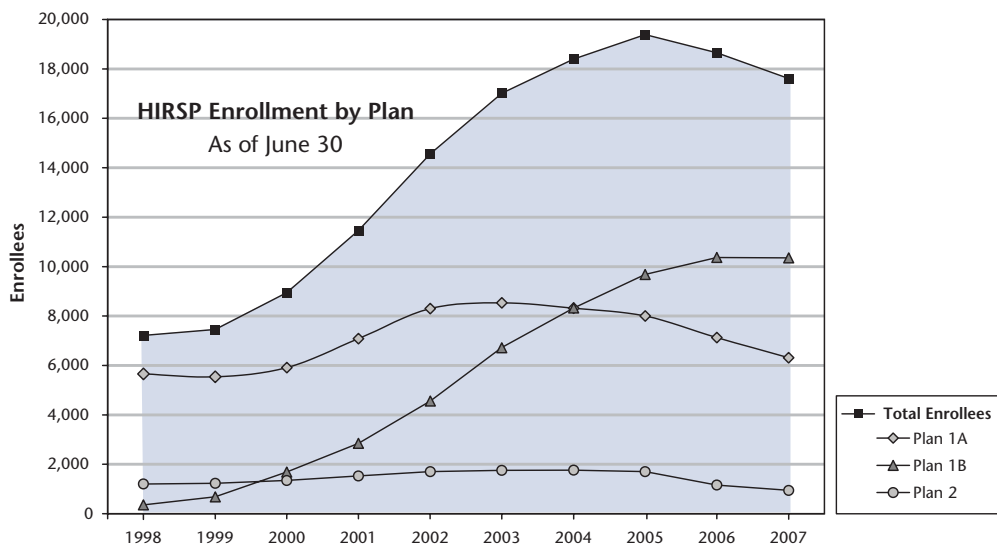
Increasing HIRSP enrollments and increasing claims costs have presented management and funding challenges for several years. However, more recent trends suggest that enrollment and costs are beginning to moderate.

HIRSP enrollment decreased 3.8 percent during FY 2005-06 and 5.6 percent during FY 2006-07, to reach 17,612 at June 30, 2007.

The most significant change in enrollment has been in plan 2, which is available to disabled Wisconsin residents under the age of 65 who participate in Medicare and is used by many for prescription drug coverage.

Over the last two fiscal years, enrollment in plan 2 decreased by 44.5 percent. The decrease is largely attributable to the requirement that, beginning in May 2006, plan 2 policyholders must also enroll in the federal Medicare Part D prescription drug coverage program.

HIRSP's net claims costs, which represent amounts actually paid, decreased by 1.2 percent during FY 2005-06. In the previous four years, net claims costs had increased by double digits.



A major part of the FY 2005-06 decrease in net claims costs was a \$2.0 million, or 4.4 percent, decrease in prescription drug costs. That decrease is attributable, in part, to plan 2 participants leaving HIRSP as they enrolled in the Medicare Part D program.

Costs savings were also achieved through a change in HIRSP's prescription drug formulary and increased rebates implemented when a new pharmacy benefit management company began administering HIRSP in April 2005.

| Net Claims Costs <sup>1</sup><br>(in Millions) |         |                   |
|--|---------|-------------------|
| Fiscal Year                                    | Amount  | Percentage Change |
| 2000-01  | \$ 54.1 | -                 |
| 2001-02  | 67.2    | 24.2%             |
| 2002-03  | 85.8    | 27.7              |
| 2003-04  | 103.9   | 21.1              |
| 2004-05  | 130.4   | 25.5              |
| 2005-06  | 128.9   | (1.2)             |

<sup>1</sup> Net of health care providers' contributions

Finally, recent shifts in enrollment from plan 1A to plan 1B have contributed to more stable medical costs during FY 2005-06. In the last quarter of FY 2005-06, plan 1A costs were \$1,080 per member per month. Plan 1B costs were \$546 per member month.

### Program Changes

2005 Wisconsin Act 74 created the HIRSP Authority, which assumed responsibility for HIRSP on July 1, 2006. The HIRSP Authority is not a state agency and is not subject to the State's budgeting process, but some level of public accountability is retained through open records and open meetings requirements. The Audit Bureau will also be required to audit HIRSP on an annual basis.

Act 74 also made several other significant changes to HIRSP, including:

- simplifying the complex funding formula;

- providing the HIRSP Authority further flexibility in establishing plan design;
- tightening eligibility requirements; and
- establishing tax credits for the insurers that help to fund HIRSP.

During its first year of operations, the HIRSP Authority and its Board of Directors have identified several areas of HIRSP's program and operations for which they are seeking statutory changes. The most significant changes proposed, which are included in 2007 Senate Bill 226/ Assembly Bill 445 and subsequent amendments, include:

- expanding the network of pharmacists and pharmacies that can serve HIRSP policyholders;
- changing the calculation of provider payment rates from Medicaid-based rates to rates established by the HIRSP Authority Board;
- expanding the subsidy programs to all plan options for individuals below specified income levels;
- changing the determination of premium subsidies from a percentage of standard-risk rates to a discount that reduces the unsubsidized premium rate by a specified percentage based on income level; and
- allowing HIRSP funds to be invested in the State Investment Fund, which is administered by the State of Wisconsin Investment Board.

## Additional Information

For a copy of report  
07-13, call (608) 266-2818  
or visit our Web site:



[www.legis.wisconsin.gov/lab](http://www.legis.wisconsin.gov/lab)

Address questions regarding  
this report to:

[Diann Allsen](#)  
(608) 266-2818

*The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.*

### Legislative Audit Bureau

22 East Mifflin Street  
Suite 500  
Madison, WI 53703  
(608) 266-2818

Janice Mueller  
State Auditor