STATE OF WISCONSIN

Legislative Audit Bureau

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Report 25-08
May 2025

Injured Patients and Families Compensation Fund

FY 2021-22, FY 2022-23, and FY 2023-24

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May 2, 2025

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Wimberger and Representative Wittke:

As required by s. 13.94 (1) (de), Wis. Stats., we have completed a financial audit of the Injured Patients and Families Compensation Fund, which insures health care providers in Wisconsin against medical malpractice claims that exceed the primary malpractice insurance thresholds established in statutes. The Fund is overseen by a Board of Governors and is administered by the Office of the Commissioner of Insurance (OCI). We have provided unmodified opinions on the Fund's financial statements as of and for the years ended June 30, 2024, June 30, 2023, and June 30, 2022.

The Fund's net position decreased from $1.3 billion as of June 30, 2021, to $1.0 billion as of June 30, 2024, or by 17.3 percent. OCI attributes the decrease in net position over the three-year period to investment losses in fiscal year (FY) 2021-22. After a three-year period in which the Board of Governors waived assessments on providers, OCI began collecting assessments in FY 2023-24 and reported $10.9 million in assessments revenue in that year.

There is no limit to the compensation the Fund will pay on behalf of participating providers for economic damages, such as medical costs and loss of income. Since April 6, 2006, compensation paid by the Fund for noneconomic damages, such as loss of companionship and affection, has been statutorily limited to $750,000.

In January 2023, OCI implemented a new computer system by contracting with a service organization to host and maintain the system. OCI uses the computer system to track medical malpractice claims and to maintain the accounts of participating health care providers. We report a significant deficiency in internal control related to the new computer system. This deficiency is included in our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which begins on page 55.

We also identified three other items of interest including noncompliance with a Board of Governors' policy requiring an actuarial audit, the calculation of the Fund's minimum net position level, and continued improvement in the Fund's financial reporting process.

We appreciate the courtesy and cooperation extended to us by the staff of OCI. A response from OCI follows our report.

Respectfully submitted,

Joe Chrisman
State Auditor

JC/CS/ss

Introduction

2003 Wisconsin Act 111 established the Fund as an irrevocable trust for the sole benefit of participating health care providers and claimants.

The Injured Patients and Families Compensation Fund insures participating physicians and other health care providers in Wisconsin against medical malpractice claims that exceed the primary malpractice insurance thresholds established in statutes. The Fund was created as the Patients Compensation Fund in Chapter 37, Laws of 1975, in response to concerns over the cost and availability of medical malpractice insurance. 2003 Wisconsin Act 111 changed the Fund's name to the Injured Patients and Families Compensation Fund and established it as an irrevocable trust for the sole benefit of participating health care providers and claimants. Wisconsin is one of at least eight states with active compensation funds for patients, although the structure of each fund varies by state.

Most health care providers in Wisconsin are required to participate in the Fund, which provides unlimited secondary medical malpractice coverage.

Statutes require most health care providers that operate or have permanent practices in Wisconsin to maintain primary medical malpractice coverage of $1.0 million for each incident and $3.0 million per policy year. Statutes also require participation in the Fund, which provides unlimited secondary medical malpractice coverage for economic damages that exceed the primary medical malpractice coverage.

The Fund provides coverage to individual health care providers, such as physicians and nurse anesthetists; institutions, such as hospitals, ambulatory surgery centers, and certain nursing homes; entities, such as medical partnerships, corporations, and cooperatives; and hospital-owned or -controlled entities. Certain providers are statutorily exempt from participation in the Fund, including public employees and those providing services for 240 hours or less in a fiscal year. As of June 30, 2024, 20,028 individual providers, institutions, and other entities participated in the Fund.

The Fund, which is administered by the Office of the Commissioner of Insurance (OCI), is governed by a 13-member Board of Governors chaired by the Commissioner of Insurance or the Commissioner's designee. The Commissioner has statutory responsibility for administering the Fund. During the three-year audit period, OCI contracted with external firms for claims administration, actuarial services, risk management, and accounting services.

The Fund's investments are managed by the State of Wisconsin Investment Board.

The Fund's investments are managed by the State of Wisconsin Investment Board (SWIB), which during our audit period contracted with external investment managers to oversee the Fund's investment portfolio. The Fund invests primarily in fixed-income securities and equity securities. The Fund's investment policy allows investment in equity securities to be up to 20.0 percent of the Fund's total investment portfolio. The Fund's cash balances are accounted for in the State Investment Fund, which is a short-term pool of state and local funds managed by SWIB, and in the Short-Term Investment Fund, which is a commingled fund managed by the external investment managers.

Audit Results

We provided unmodified opinions on the Injured Patients and Families Compensation Fund's financial statements as of and for the years ended June 30, 2024, June 30, 2023, and June 30, 2022.

As required by s. 13.94 (1) (de), Wis. Stats., we have completed an audit of the financial statements and related notes of the Injured Patients and Families Compensation Fund and have provided unmodified opinions on its financial statements as of and for the years ended June 30, 2024, June 30, 2023, and June 30, 2022. In completing our audit, we reviewed OCI's internal controls over financial reporting; tested financial transactions; assessed the fair presentation of its financial statements as of and for the years ended June 30, 2024, June 30, 2023, and June 30, 2022; and reviewed compliance with certain statutory provisions. We also followed up on the recommendations from our prior audit (report 22-6) for OCI to improve financial reporting for the Fund.

We report a significant deficiency in internal controls related to the service organization audit report for the Fund's computer system.

We identified internal control deficiencies during our audit that are required to be reported under *Government Auditing Standards.* Specifically, we identified one significant deficiency in internal control related to the Fund's computer system. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. In comparison, a material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented or will not be detected and corrected on a timely basis. We did not report any material weaknesses. The Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, which begins on page 55, discusses concerns and includes the response from OCI. The corrective action plan prepared by OCI management for this finding is on page 63.

Claim Payments

There is no limit to the compensation the Fund will pay on behalf of participating providers for economic damages, such as medical costs and loss of income.

There is no limit to the compensation the Fund will pay on behalf of participating providers for economic damages, such as medical costs and loss of income. If the Fund does not have sufficient funds to pay the claims, Wisconsin Statutes allow up to $100.0 million to be supplemented by general purpose revenue (GPR). Prior to April 6, 2006, awards of noneconomic damages in medical malpractice claims, which include compensation for suffering, mental distress, and loss of companionship and affection, were also not limited because a 2005 Wisconsin Supreme Court ruling found the limit in place at that time to be unconstitutional. Since April 6, 2006, awards of noneconomic damages have been limited by Wisconsin Statutes to $750,000. This limit was upheld by the Wisconsin Supreme Court in a June 2018 ruling.

From its inception through June 30, 2024, the Fund paid $985.6 million for 699 claims.

From its inception in 1975 through June 30, 2024, the Fund paid $985.6 million for 699 claims. During this period, individual claim payments ranged from $4,000 to $34.3 million. As shown in Table 1, 69.1 percent of paid claims were for amounts less than $1.0 million. However, these 483 paid claims account for only 16.9 percent of the Fund's total payments for all claims through June 30, 2024. In contrast, 52 claims with payments of $5.0 million or more represent 48.5 percent of the total claim payments over that time period.

Table 1

Paid Claims from the Fund's Inception in 1975 through June 30, 2024

Claim Amount	Number of Paid Claims	Percentage of Paid Claims	Amount Paid for All Claims	Percentage of Total Payments for All Claims
$5.0 Million or More	52	7.4%	$478,044,272	48.5%
At Least $1.0 Million but Less Than $5.0 Million	164	23.5	341,462,589	34.6
Less Than $1.0 Million	483	69.1	166,076,047	16.9
Total	**699**	**100.0%**	**$985,582,908**	**100.0%**

For each claim for which future medical expense payments from the Fund exceed $100,000, OCI is required by s. 655.015, Wis. Stats., to establish an account for the claimant. OCI is to credit to each account the future medical expense payments to be made as well as its share of interest earned by the Fund. Medical expenses are subsequently paid from the account and, if a balance remains at the time of the claimant's death, it is returned to the Fund. As of June 30, 2024, the Fund held $62.3 million in these future medical expense accounts.

The Fund had fifteen claims of $10.0 million or more from its inception through June 30, 2024.

As shown in Table 2, the Fund has had fifteen claims of $10.0 million or more from its inception in 1975 through June 30, 2024. The two largest claims were for incidents that occurred prior to April 2006 and included significant noneconomic damage awards that were not subject to any limit. The largest noneconomic damages award was $11.5 million, which was included as part of a $34.3 million claim paid in FY 2007-08.

Table 2

Claims of $10.0 Million or More from the Fund's Inception in 1975 through June 30, 2024
(in millions)

Fiscal Year of Incident	Fiscal Year of Initial Payment	Claimant Allegations	Economic Damages	Noneconomic Damages	Total
2003-04	2007-08	Negligent blood transfusion caused cardiac arrest and brain damage.	$22.8	$11.5	$34.3
2004-05	2010-11	Negligent labor and delivery caused brain damage.	11.0	11.0	22.0
2015-16	2018-19	Negligent prolonged low blood pressure during surgery that caused brain damage.	20.7	0.8[1]	21.5[2]
1985-86	1992-93	Diet pills prescribed without a complete physical evaluation caused cardiac arrest and brain damage.	9.0	9.0	18.0
2006-07	2008-09	Improperly performed surgical procedure caused brain damage.	–[3]	–[3]	16.3
1993-94	1996-97	Negligent treatment caused quadriplegia.	–[3]	–[3]	15.6
1993-94	2000-01	Initial surgery and follow-up treatments of pinched nerve were negligent, which caused continuing pain.	4.3	9.3	13.6
2014-15	2022-23	Negligent treatment caused brain damage.	11.2	0.8[1]	12.0
2001-02	2012-13	Negligent delivery caused brain damage.	8.9	3.1	12.0
2016-17	2020-21	Negligent delivery caused brain damage.	11.2	0.8[1]	12.0
2003-04	2006-07	Negligent delivery caused brain damage.	11.0	0.0	11.0
2020-21	2022-23	Negligent labor and delivery caused brain damage.	10.2	0.8[1]	11.0
1996-97	2005-06	Negligent treatment caused brain damage.	9.1	1.0	10.1
2001-02	2006-07	Negligent labor and delivery caused brain damage.	–[3]	–[3]	10.0
2019-20	2023-24	Negligent delivery caused brain damage.	9.2	0.8[1]	10.0

[1] Since April 6, 2006, awards of noneconomic damages have been statutorily limited to $750,000.

[2] The claimant died and the account balance of the future medical expense was returned to the Fund. The total amount paid to the claimant prior to their death was $9.5 million.

[3] The claim was based on a settlement in which the economic and noneconomic damage amounts were not specified.

A small number of large-value claims can significantly affect the Fund's operations and cash flow. Both the uncertainty and long-term nature of medical malpractice claims make it difficult to predict if or when large claims will be settled and paid from the Fund. As a result, total annual claim payments can fluctuate from year to year and sufficient reserves need to be set aside to ensure funds are available to pay these claims.

To estimate the amount of reserves that needs to be set aside to pay potential claims, the Fund uses an actuary to project the estimated loss liabilities for medical malpractice incidents that have occurred but may not yet have been settled or even reported. The estimated loss liabilities include an additional risk margin of 25.0 percent to account for the uncertainties related to the estimates. The Board of Governors relies on the Fund's actuary to help estimate loss liabilities.

Accurately estimating the Fund's loss liabilities is challenging because:

- secondary medical malpractice insurance claims typically are infrequent and involve severe cases;
- a medical malpractice claim may be filed years after an incident occurred;
- there is no limit on the amount of economic losses the Fund may be required to pay;
- legislation and court decisions can significantly affect the Fund's loss liabilities; and
- the methodology and assumptions used by an actuary can significantly affect the result of an analysis.

The Fund's loss liabilities fluctuate and were $530.4 million as of June 30, 2024.

The Fund's actuary reviews and revises total loss liability estimates each year, based on an additional year of claims experience and other information. The estimate of the Fund's loss liabilities over the past ten years has fluctuated, as shown in Table 3. For example, reported loss liabilities to cover future claim payments decreased from $486.0 million as of June 30, 2015, to $279.8 million as of June 30, 2019, but increased to $530.4 million as of June 30, 2024. Due to the significant uncertainties involved, the actuarial estimates are emphasized in our unmodified audit opinion on the Fund's financial statements.

Table 3

Total Loss Liabilities
As of June 30
(in millions)

Year	Total Loss Liabilities	Percentage Change
2015	$486.0	–
2016	424.5	(12.7)%
2017	357.1	(15.9)
2018	366.5	2.6
2019	279.8	(23.7)
2020	387.8	38.6
2021[1]	428.8	10.6
2022	463.9	8.2
2023	463.0	(0.2)
2024	530.4	14.6

[1] Total Loss Liabilities as of June 30, 2021, was restated due to an adjustment in the liability for future medical expense in FY 2020-21.

One factor contributing to the recent increase in the estimated loss liabilities is the amount of reserves to be set aside for unreported cases, which is estimated by the Fund's actuary. According to the 2023 actuarial report, which is used to determine the estimated loss liabilities as of June 30, 2024, the actuary estimated that prior year liabilities were understated after having an additional year of claims experience. The actuarial report indicated that this understatement was caused, in part, by the Fund materially increasing the amount it reserved for certain claims since the prior year. As a result, the actuary's estimate for unpaid loss liabilities increased as of June 30, 2024. The Loss Liability for Incurred but not Reported Losses on the Statement of Net Position increased from $56.4 million as of June 30, 2023, to $184.1 million as of June 30, 2024. This also affected the overall loss liability used by the actuary in projecting the reserves.

Estimated loss liabilities also increased due to a change in the investment rate assumption. As approved by the Board of Governors, the investment rate assumption for discounting loss liabilities was 3.0 percent for the loss liabilities as of June 30, 2024, and 2.0 percent for the loss liabilities as of June 30, 2023, and June 30, 2022. As a result, the Amount Representing Interest account on the Statement of Net Position increased from $30.3 million as of June 30, 2023, to $52.6 million as of June 30, 2024.

The change in the estimated loss liability each year also affects the benefit expenses reported on the financial statements each year. Absent other changes, as the estimated loss liabilities increase so too do the benefit expenses increase. For example, total benefit expenses reported on the Statement of Revenues, Expenses, and Changes in Net Position, were $22.1 million for FY 2022-23, and increased to $95.5 million for FY 2023-24, which reflects the increase in the estimated loss liability as of June 30, 2024.

Annual Assessments

Assessment rates vary by provider type and specialty area.

To cover claims against the Fund, participating providers pay annual assessments based on their type and specialty area. For example, among individual providers, assessment rates are higher for physicians than for nurses and are higher for physicians who perform surgery than for those who do not. Physicians were assessed rates for FY 2023-24 coverage that ranged from $382 for general practice physicians to $2,521 for obstetric and neurological surgeons.

In consultation with the Fund's actuary, and within established statutory limits, the Board of Governors attempts to set annual assessment rates so that the assessments for the period of coverage will cover the ultimate claims that are associated with events that occurred during the same period of coverage. In establishing assessment rates, the Board also considers the Fund's financial position, its cash flow needs, and Wisconsin's medical malpractice environment. Because of the Fund's financial position and investment income, the Board of Governors has generally decreased assessment rates in the past eight fiscal years, as shown in Table 4.

Table 4

Assessment Rates and Revenues
(in millions)

Policy Year	Percentage Change in Provider Assessment Rates	Assessment Revenues
FY 2016-17	(30.0)%	$16.2
FY 2017-18	(30.0)	11.4
FY 2018-19	(10.0)	11.0
FY 2019-20	0.0	11.0
FY 2020-21	–[1]	(0.2)[2]
FY 2021-22	–[1]	(0.1)[2]
FY 2022-23	–[1]	–
FY 2023-24	0.0	10.9

[1] The Board of Governors approved a waiver on assessments for FY 2020-21 and extended it through FY 2022-23.

[2] Amount represents refunds of assessments paid by providers in prior policy years.

The Board of Governors approved a waiver of assessments for Fund participants from July 1, 2020, through June 30, 2023, and began to collect assessments on July 1, 2023.

In response to requests from stakeholders, in June 2020 the Board of Governors approved waiving assessments for FY 2020-21 for the health care professionals and providers enrolled in the Fund. In Board meeting materials, it was indicated that the assessment waivers would not jeopardize the solvency of the Fund and would provide aid to the medical systems and providers affected by the public health emergency. Further, in December 2020 and again in December 2021, the Board of Governors extended the assessment waiver for FY 2021-22 and FY 2022-23, respectively. In December 2022, the Board of Governors requested no change to Fund fees that participants must pay to the Fund. OCI began to collect assessments beginning on July 1, 2023.

The assessments for FY 2023-24 were not sufficient to cover the ultimate claims that were associated with events that occurred during FY 2023-24.

As a result of the assessment waiver and no change in rates, the assessments were not sufficient to cover the ultimate claims that were associated with events that occurred during the same period of insurance coverage. For example, the actuary estimated the ultimate claims for events that occurred during FY 2023-24 to be $51.9 million and the assessments for FY 2023-24 were $10.9 million. Positive investment income has enabled the Fund to maintain its net position as of June 30, 2024.

Investment Income

The investment income of the Fund contributed to the decision of the Board of Governors to decrease the assessment rates and to approve the recent assessment waiver. As shown in Table 5, the Fund has earned positive investment income in nine of the last ten years. The positive investment income has significantly contributed to the increase and stability of the Fund's net position.

Table 5

Investment Income
(in millions)

Fiscal Year	Investment Income
2014-15	$ 30.2
2015-16	72.1
2016-17	48.4
2017-18	22.3
2018-19	115.1
2019-20	135.8
2020-21	111.0
2021-22	(179.2)
2022-23	38.0
2023-24	88.4

Financial Position of the Fund

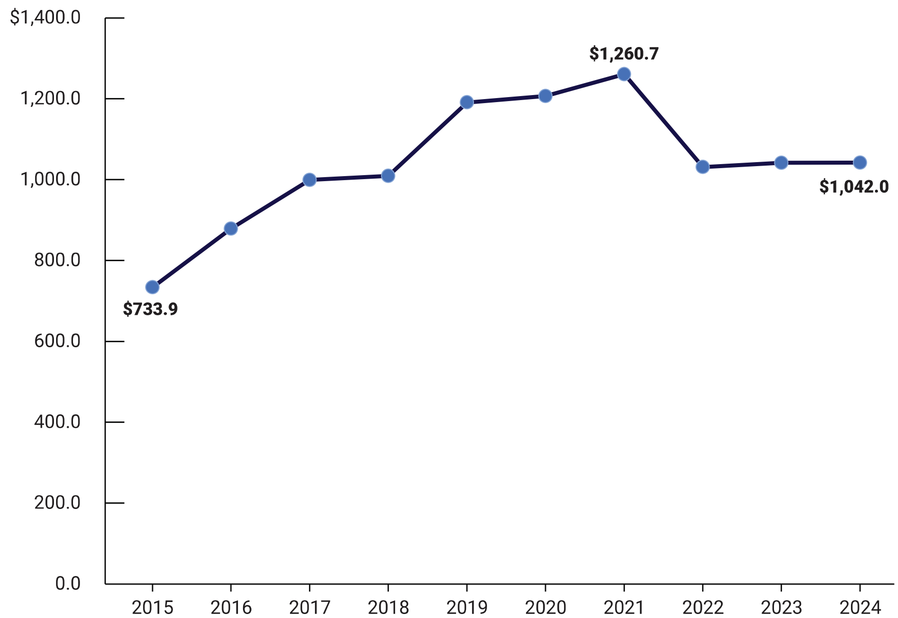
A positive financial position is important to ensure adequate resources are available to pay unexpected claims. The uncertainties associated with the long-term nature of the Fund increases the importance of maintaining a positive financial position. Although their interests and priorities differ, health care providers, users of health care services, and attorneys in malpractice cases all benefit by having confidence in the reliability and soundness of the Fund's financial operations.

The Fund had a net position of $1.0 billion as of June 30, 2024.

The Fund's financial position is represented by its net position on the Statement of Net Position. A positive net position indicates that sufficient assets have been set aside to fully fund the estimated loss liabilities and other liabilities. The Fund's net position increased steadily from $733.9 million as of June 30, 2015, to $1.3 billion as of June 30, 2021, as shown in Figure 1. The Fund's net position decreased in FY 2021-22 due to investment losses and then stabilized in FY 2022-23 and FY 2023-24. The Fund had a net position of $1.0 billion as of June 30, 2024.

Figure 1

Net Position
As of June 30
(in millions)



The Fund's net position is affected by factors including its assessments, investment income, and benefit expenses, which primarily consists of changes to its estimated loss liabilities. As noted, over the past ten years the Fund's investment income has been largely positive. This factor has substantially contributed to the stability of the Fund's financial position. The Board of Governors has limited control of these factors and can only decrease assessment rates in order to reduce the Fund's net position. As noted, the Board of Governors has taken steps to reduce assessment rates and waived assessments for FY 2020-21, FY 2021-22, and FY 2022-23.

OCI has not computed the minimum net position level for the Fund since September 2020.

To assist in managing the Fund's net position, the Board of Governors, with the help of the Fund's actuary, set the Fund's minimum net position level to be 500.0 percent of risk-based capital, which was approximately $211.0 million in September 2020. The actuary recommended this level and indicated that a lower net position would expose the Fund to significant risk from a single claim. At its quarterly meetings, the Board of Governors monitors the Fund's financial information. However, OCI has not computed the minimum net position and provided an updated amount to the Board of Governors since September 2020. According to OCI, the minimum net position level has not been computed as the current net position is well above the amount established in 2020. In addition, OCI indicated that the risk-based capital calculation is expensive and labor intensive to complete.

It is important that the Board of Governors continue to monitor the level of the Fund's net position.

It is important that OCI continue to manage the Fund prudently for the benefit of both the participating providers and the claimants. To further support the prudent management of the Fund, it is important that the Board of Governors continue to monitor the Fund's net position on a quarterly basis and be aware of the level of net position at which action will need to be taken by the Board to prevent the Fund's net position from decreasing to or below the minimum net position level.

☑ Recommendation

We recommend the Wisconsin Office of the Commissioner of Insurance:

- *consult its actuary to assess its current method for calculating the minimum net position level and make changes as determined appropriate;*
- *work with the Board of Governors to establish the frequency with which it will calculate and report the minimum net position level to the Board of Governors; and*
- *report to the Joint Legislative Audit Committee by January 9, 2026, on the status of its efforts to implement this recommendation.*

Actuarial Audit

In response to prior audit recommendations, the Board of Governors established a policy that requires OCI to contract for an actuarial audit of the Fund at least once every three years. As part of the actuarial audit, another actuary independent of the Fund's actuary assesses the reasonableness of the actuarial methodology and assumptions used in developing estimates of the Fund's loss liabilities. Such reviews or audits are common for critical actuarial analyses, such as those completed for the Fund. The most recent actuarial audit, which reviewed the Fund's 2019 and 2020 actuarial reports, was completed in December 2021 and found the methods and assumptions used conformed with generally accepted actuarial standards of practice, the actuary reached reasonable conclusions regarding the reserves required for the Fund, and the actuary made use of an appropriate risk margin. However, in our prior audit, we identified an error in the 2019 actuarial report that was not identified by the Board of Governors' Actuarial and Underwriting

Committee, the Board of Governors, or the Fund's actuarial auditor. As a result, in report 22-6 we recommended that OCI reassess the scope and depth of the actuarial audits performed to ensure these audits meet the needs of the Fund. In its response to our recommendation, OCI indicated it was asking for the approval of the Board of Governors to expand the scope of the independent actuarial audit from auditing one year in a three-year period to a comparative and comprehensive review of actuarial reports for all three years.

OCI is not in compliance with a policy of the Board of Governors that requires OCI to contract for an actuarial audit at least once every three years.

We reviewed the Board of Governors' meeting materials and made inquiries to OCI in January 2025 regarding the status of the actuarial audit. We found OCI had not contracted for the next actuarial audit, and was in noncompliance with the Board of Governors' policy. Further, OCI had not taken steps to seek approval of the Board of Governors to expand the scope of the actuarial audit. OCI indicated it had not done so because of management oversight and staff turnover. Subsequently, OCI began the procurement process and received simplified bids in February 2025 to review the Fund's 2022 and 2023 actuarial reports.

Timely and regular actuarial audits are important because the independent actuary may recommend further improvements to the process for estimating the Fund's loss liabilities. OCI does not have sufficient policies and procedures to ensure that timely and regular actuarial audits are being completed at least once every three years.

☑ Recommendation

We recommend the Wisconsin Office of the Commissioner of Insurance:

- *develop and implement sufficient written procedures to ensure that timely and regular actuarial audits are being completed at least once every three years;*

- *ensure that future actuarial audits are comparative, comprehensive, and cover all actuarial reports issued since the previous actuarial audit; and*

- *report to the Joint Legislative Audit Committee by January 9, 2026, on the results of the actuarial audit and the status of its efforts to implement these recommendations.*

Oracle Insurance Policy Administration (OIPA) System

OCI implemented a new computer system in January 2023 and incurred $9.9 million in expenses through June 30, 2024, for the new system.

Since March 2010, OCI has used a legacy computer system to track medical malpractice claims and to maintain the accounts of participating health care providers. 2021 Wisconsin Act 58, the 2021-23 Biennial Budget Act, provided OCI with $9.0 million for the purchase and initial maintenance costs of the cloud-based Oracle Insurance Policy Administration System (OIPA) computer system to replace the legacy computer system. OCI implemented the OIPA system in January 2023. 2023 Wisconsin Act 19, the 2023-25 Biennial Budget Act, subsequently provided OCI with additional funds for the ongoing maintenance costs of the OIPA system. Through June 30, 2024, OCI has incurred $9.9 million in expenses for the purchase and ongoing maintenance costs of the OIPA system.

Similar to the legacy system, the OIPA system is used to track medical malpractice claims and to maintain the accounts of participating health care providers. The OIPA system was used for the first time to bill participating health care providers in October 2023. Participating health care providers may pay their assessments by check, automated clearing house (ACH), or credit card. If a participating health care provider pays by credit card, the Fund pays the credit card fees, which totaled $41,000 in FY 2023-24.

OCI implemented the OIPA system by contracting with a service organization to host and maintain the system. Weaknesses in the service organization's internal controls could affect the Fund. However, OCI did not gain assurances that the internal controls at the service organization were operating effectively. Such assurances could be gained through a service organization audit, which includes a report on the service organization's internal controls by an independent auditor. We identified a significant deficiency in internal control over financial reporting related to the service organization audit report for the OIPA system (Finding 2025-001).

Given the importance the OIPA system has on Fund operations, OCI should report to the Joint Legislative Audit Committee on its efforts to improve its internal controls related to the computer system.

☑ Recommendation

We recommend the Wisconsin Office of the Commissioner of Insurance report to the Joint Legislative Audit Committee by January 9, 2026, on the status of its efforts to implement our recommendations in Finding 2025-001.

Prior Audit Follow-Up

We also reviewed corrective actions OCI took to address findings related to financial reporting from our prior audit (report 22-6). Accurate financial reporting is important to help ensure that interested parties have confidence in the Fund's financial operations and the Board of Governors has the best information available to make decisions regarding the Fund's financial operations. Therefore, it is important that effective procedures and controls are in place to prevent, or to detect and correct in a timely manner, financial statement errors. In report 22-6, we recommended that OCI review its financial reporting process and establish adequate procedures and controls to ensure the accuracy of the Fund's financial statements.

During our current audit, we found that OCI improved procedures for completing and verifying the accuracy of the Fund's financial statements. For example, OCI contracted with an external accounting firm to provide assistance in preparing and reviewing its financial statements and implemented an analysis tool in FY 2022-23 to complete a comparison between years to identify any changes or trends.

During our current audit, we also identified financial reporting errors. For example, we found the Change in Liability for Incurred but not Reported Losses account was understated by $6.4 million and the Change in Liability for Future Medical Expense account was overstated by $6.4 million on the FY 2021-22 Statement of Revenues, Expenses, and Changes in Net Position. In addition, we identified several amounts on the cash flow statements did not agree with the supporting documentation. Although the errors we identified were not significant, the number of errors indicate OCI should continue to evaluate and take additional steps to improve its process for preparing and reviewing the financial statements.

☑ Recommendation

We recommend the Wisconsin Office of the Commissioner of Insurance assess the errors we identified, take steps to improve its process for preparing and reviewing the Fund's financial statements, and report to the Joint Legislative Audit Committee by January 9, 2026, on the status of its efforts to implement this recommendation.

■ ■ ■ ■

Audit Opinion

STATE OF WISCONSIN
Legislative Audit Bureau

Joe Chrisman
State Auditor

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

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee

Members of the Board of Governors, and
Mr. Nathan Houdek, Commissioner of Insurance
Injured Patients and Families Compensation Fund

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements and the related notes for the Injured Patients and Families Compensation Fund, administered by the State of Wisconsin Office of the Commissioner of Insurance (OCI), as of and for the years ended June 30, 2024, June 30, 2023, and June 30, 2022, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Injured Patients and Families Compensation Fund as of June 30, 2024, June 30, 2023, and June 30, 2022, the respective changes in its financial position, and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit 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,* which is issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section. We are required to be independent of OCI and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphases of Matter

As discussed in Note 1 to the financial statements, the financial statements referred to in the first paragraph present only the Injured Patients and Families Compensation Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin as of June 30, 2024, June 30, 2023, and June 30, 2022, the changes in its financial position, or where applicable, its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

As discussed in Notes 2F and 4 to the financial statements, the Injured Patients and Families Compensation Fund's projected ultimate loss liabilities are estimates based on recommendations of a consulting actuary and approved by the Fund's Board of Governors. Uncertainties inherent in projecting the frequency and severity of medical malpractice insurance claims, the Fund's unlimited liability coverage for economic damages, and extended reporting and settlement periods make it likely that amounts paid will ultimately differ from the reported estimated liabilities.

Our opinions are not modified with respect to these matters.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance. Therefore, reasonable assurance is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we exercised professional judgment and maintained professional skepticism throughout the audit. We also identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, and designed and performed audit procedures responsive to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

In addition, we obtained an understanding of internal control relevant to the audit in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of OCI's internal control. Accordingly, no such opinion is expressed. We also evaluated the appropriateness of accounting policies used and the reasonableness of significant accounting estimates and related disclosures made by management, and evaluated the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 23 through 32, be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board that 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. These procedures 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 audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2025, which begins on page 55, on our consideration of OCI's internal control over financial reporting; our testing of its compliance with certain provisions of laws, regulations, and contracts; and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OCI's 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 used in considering OCI's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU

Legislative Audit Bureau

April 30, 2025

Management’s Discussion and Analysis

Prepared by Management of the Wisconsin Injured Patients and Families Compensation Fund

This section presents Management’s Discussion and Analysis of the financial performance of the Wisconsin Injured Patients and Families Compensation Fund (the Fund) during the fiscal years ended June 30, 2024, June 30, 2023, and June 30, 2022. This discussion should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes, and this discussion are the responsibility of the management of the Fund.

Overview of the Fund

The Fund, formerly known as the Patients Compensation Fund, was created in 1975 to provide excess medical malpractice coverage for Wisconsin health care providers. Under broad authority granted to it by s. 655.27(2), Wis. Stats., the Fund is governed by a 13-member Board of Governors. The Board consists of three insurance industry representatives appointed by the Commissioner of Insurance; a member named by the Wisconsin Association for Justice; a member named by the State Bar of Wisconsin; two members named by the Wisconsin Medical Society; a member named by the Wisconsin Hospital Association; four public members appointed by the Governor; and the Deputy Commissioner of Insurance, who serves as the chair as of June 2024, and previously by the Commissioner. The Fund’s administrative staff is provided by the Office of the Commissioner of Insurance.

The Board is assisted by its Actuarial and Underwriting Committee; Legal Committee; Claims Committee; Finance, Investment, and Audit Committee; and Peer Review Council. The Board and most committees meet quarterly.

The Fund operates on a July 1 through June 30 fiscal year basis. Administrative costs and operating costs, including claim payments, are funded through assessments on participating health care providers.

Financial Statements

The Fund's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Financial statements for each of the past three fiscal years follow this discussion and analysis. Only significant sections of the financial statements are discussed in the following pages.

Assets

The Fund's assets consist primarily of investments, which are managed by the State of Wisconsin Investment Board. Wisconsin Statutes, program policy provisions, appropriate governing bonds, and general resolutions contained in revenue bond indenture documents define the types of securities authorized as appropriate investments and the conditions for making investment transactions. The Board of Governors and its Finance, Investment, and Audit Committee provide oversight through statutory guidelines in the investment structure of the Fund's portfolio. Compliance with these guidelines is reviewed quarterly by the Finance, Investment, and Audit Committee.

The Fund's investment strategy is to invest at least 75.0 percent of its assets in fixed-income securities that have a reasonable degree of safety of principal, as well as income-paying ability. The rest may be invested in equities or held as a cash reserve with a maximum of 20.0 percent being in equities. High priority is given to matching the maturity of assets with the liquidity needs of the liabilities. Equities made up 15.4 percent of total investments as of June 30, 2024, 13.3 percent as of June 30, 2023, and 13.4 percent as of June 30, 2022. Consequently, the Fund has remained in compliance with its investment guideline that limits equity investments to no more than 20.0 percent of total investments. Investments are reported at fair value.

As shown in Table A, total assets decreased in fiscal year (FY) 2021-22 and increased in FY 2022-23 and FY 2023-24. The Fund's investment portfolio was impacted by inflationary pressures in 2022 when the inflation rate was 9.1 percent. This decreased to 3.0 percent for FY 2022-23 and FY 2023-24. Inflation impacted both the fixed income investments as bond prices moved inversely with interest rates and equity portfolios were adversely impacted due to future uncertainty. As a result of changes in inflation, unrealized capital gains (losses) were ($233.5) million for FY 2021-22, ($3.2) million for FY 2022-23, and $50.8 million for FY 2023-24.

Table A

Total Assets
As of June 30

Year	Total Assets	Percentage Change from Prior Year
2024	$1,587,033,030	4.6%
2023	1,517,488,165	0.4
2022	1,511,754,542	(11.2)
2021[1]	1,702,386,080	

[1] Total Assets as of June 30, 2021 are restated from amounts reported in report 22-6.

The Cash and Cash Equivalents and Restricted Cash and Cash Equivalents accounts allow for liquidity to support near-term operational requirements and a segregated fund for future medical expenses. The amounts for these accounts were $118.9 million as of June 30, 2024, $130.5 million as of June 30, 2023, and $123.4 million as of June 30, 2022.

Liabilities

The major component of liabilities, which are shown in Table B, are loss liabilities which are amounts expected to be paid in the future for incidents that have already occurred. Loss liabilities include actuarially determined estimates for losses that have been incurred but have not yet been reported to the Fund (Loss Liability for Incurred but not Reported Losses), the total of individual estimates for reported losses (Loss Liability for Reported Losses) , and provisions for the estimated future payment of loss adjustment costs associated with outstanding claims (Loss Liability for Loss Adjustment Expense). Amount Representing Interest, pursuant to s. Ins. 17.27 (3), Wis. Adm. Code, is an adjustment to the loss liabilities to report them at their present value. Liabilities for Future Medical Expense represents the portion of future medical expenses agreed to be paid by the Fund in the settlement of a loss.

Table B

Total Liabilities
As of June 30

Year	Total Liabilities	Percentage Change from Prior Year
2024	$545,130,943	14.5%
2023	476,040,613	(0.9)
2022	480,497,691	8.8
2021	441,582,775	

The uncertainties inherent in projecting the frequency and severity of claims because of the Fund's unlimited liability coverage for economic damages, extended reporting and settlement periods, and the effect of court decisions and legislative initiatives make it likely that the amounts ultimately paid will differ from the reported estimated liabilities. These differences cannot be quantified. The estimated amounts included in the balance of Total Loss Liabilities are continually reviewed and adjusted as the Fund gains additional experience. Such adjustments are reflected in current operations. Because of the changes in these estimates, the benefit expense for the fiscal year is not necessarily indicative of the loss experience for the year. The Fund's actuary performs an annual review of the outstanding liabilities and adjusts its estimate as deemed appropriate. Liabilities for Future Medical Expense is not included in the actuary's analysis as the future cost is established with the loss settlement.

Actuarially determined loss liabilities are affected by an interest rate assumption to arrive at a discount factor used in determining their present values. The investment rate assumption for discounting loss liabilities approved by the Board of Governors was 3.0 percent effective for the loss liabilities as of June 30, 2024, and 2.0 percent for the loss liabilities effective June 30, 2023, and June 30, 2022. The investment rate assumptions resulted in discount factors of 0.899 for FY 2023-24, 0.928 for FY 2022-23, and 0.928 for FY 2021-22. Based on the Fund's actuarial estimates, total loss liabilities reported were $530.4 million for FY 2023-24, an increase of 14.6 percent, $463.0 million for FY 2022-23, a decrease of 0.2 percent, and $463.9 million in FY 2021-22, an increase of 8.2 percent.

The Liabilities for Future Medical Expense for future medical expense payments are established with the loss settlement and there is no actuarial estimation. The change in the future medical expense balance is equal to a monthly interest rate earned by the Fund less any payments made. Future medical payments shall be made under s. 655.015, Wis. Stats., until either the account is exhausted or the claimant dies.

Net Position

The Fund's net position, which is the assets plus deferred outflows less the liabilities and deferred inflows, for each of the past four years is shown in Table C. The changes in the net position are largely attributable to the difference between revenues earned and expenses incurred each fiscal period. Revenues include assessments of participants including fees and penalties and interest and investment income. Expenses incurred include loss liabilities and other expenses paid during the year and the change in the corresponding liability during that fiscal period. Interest and investment income includes interest and dividends net of investment expenses, realized capital gains (losses) from a gain on a sale of an investment, and unrealized capital gains (losses) from the change in value of investments still held by the Fund. Additional discussion of revenue and expenses are included in the relevant sections of the Management's Discussion and Analysis.

Table C

Net Position
As of June 30

Year	Net Position	Percentage Change from Prior Year
2024	$1,042,034,636	0.0%
2023	1,041,642,934	1.0
2022	1,031,164,933	(18.2)
2021[1]	1,260,703,891	

[1] Net position as of June 30, 2021, is restated from amounts reported in report 22-6.

The 18.2 percent decline in the net position in FY 2021-22 was due to the $233.5 million unrealized capital loss related to the Fund's invested assets. The decline was offset by investment income of $32.2 million and realized capital gains of $23.3 million for a net investment loss of $179.2 million. In addition, operating expenses exceeded operating income by $50.3 million in FY 2021-22. There was an assessment holiday in FY 2021-22.

Net position was largely flat in FY 2022-23 and FY 2023-24 due to investment income being adequate to cover the deficiency in revenues compared to the expenses for those periods.

Revenues

The Fund's revenues consist of assessments, along with fees and penalties, and interest and investment income. All Fund participants are billed annually in accordance with an assessment rate determined by the Board of Governors. The Fund used the Oracle Insurance Policy Administration (OIPA) system to bill assessments for FY 2023-24. Participants are required to pay assessments at least quarterly and have new payment options in the OIPA system, including automatic clearing house (ACH) and credit card.

As shown in Table D, total revenue varied over the three-year period, due to bond and stock market volatility from the inflationary period in 2022, which was followed by improving economic conditions.

Table D

Total Revenues

Fiscal Year	Total Revenues	Percentage Change from Prior Year
2023-24	$ 99,337,723	161.6%
2022-23	37,969,024	121.2
2021-22	(179,281,318)	(261.7)
2020-21	110,842,215	

Assessment revenues, which are shown in Table E, depend on the number of each type of provider participating in the Fund and the assessment rates in effect for each provider type. The Board of Governors authorized a waiver of assessments for FY 2020-21, FY 2021-22, and FY 2022-23. For FY 2021-22, the negative amount was primarily related to provider refunds. For FY 2022-23, there were no assessments, as well as provider refunds as many of the accounts were cleaned up in the legacy system during FY 2020-21 and FY 2021-22. There were no rate changes for FY 2023-24. During FY2023-24, the Fund began billing assessments on October 1, 2023, from the OIPA system. Total assessments can fluctuate at a rate somewhat different than the approved rate change because of variances in the number and classification of providers.

Table E

Assessment Revenues

Fiscal Year	Assessment Revenues
2023-24	$10,917,961
2022-23	0
2021-22	(85,725)
2020-21	(205,884)

As Table F illustrates, physicians are classified into one of four classes based upon a risk assessment of their specialty. Hospitals are assessed based upon the number of beds and outpatient visits. As of June 30, 2024, Fund participants were mostly physicians.

Table F

Providers by Type
As of June 30, 2024

Provider Type	Number of Providers	Percentage of Total Providers
Physicians	17,256	86.2%
Nurse Anesthetists	1,172	5.8
Corporations	1322	6.6
Hospitals	165	0.8
Partnerships	13	0.1
Hospital-Affiliated Nursing Homes	16	0.1
Hospital-Owned or -Controlled Entities	18	0.1
Ambulatory Surgery Centers	65	0.3
Cooperatives	1	0.0
Total	**20,028**	**100.0%**

As discussed in the Assets section, investment income, as shown in Table G, can also be significantly affected by changes in unrealized gains and losses associated with changes in the fair value of the Fund's investments. Fair value of investments can be affected by the Fund's experience in the equities market, changes in the ratings within the fixed-income portfolio, and changes in the interest rate environment. Interest and dividends increased over the period due to the Fund investment in fixed income securities bearing higher interest rates.

Table G

Investment Income

Fiscal Year	Investment Income	Percentage Change from Prior Year
2023-24	$ 88,419,762	132.9%
2022-23	37,969,024	121.2
2021-22	(179,195,593)	(261.4)
2020-21	111,048,099	

Expenses

The Fund's total operating expenses, which are shown in Table H, are based on incurred amounts. The amount incurred in any one fiscal period is determined by the amount paid adjusted by the increase (decrease) in the reserve from the prior fiscal year end to the current fiscal year end. The amounts increased significantly in FY 2023-24 after declining in FY 2022-23 due to the increases in losses incurred in FY 2023-24 compared to the declines reported in FY 2022-23 and FY 2021-22.

Table H

Total Operating Expenses

Fiscal Year	Operating Expenses	Percentage Change from Prior Year
2023-24	$98,931,215	262.6%
2022-23	27,286,970	(45.7)
2021-22	50,242,755	(9.8)
2020-21	55,713,249	

Table I shows the breakout of the components of the Operating Expenses.

Table I

Operating Expenses—Detail

Account	FY 2023-24	FY 2022-23	FY 2021-22	FY 2020-21
Net Losses Paid	$23,007,400	$17,411,546	$ 5,300,782	$16,366,157
Future Medical Expenses Paid	1,012,779	1,767,471	909,099	656,069
Loss Adjustment Expenses Paid	4,103,424	3,821,881	3,656,871	2,973,359
Risk Management Expenses Paid	1,866	0	0	1,866
Changes in Loss Liabilities	67,401,045	(861,967)	35,047,235	34,614,065
General Administrative Expenses	3,404,701	5,148,039	5,328,768	1,101,733
Total	**$98,931,215**	**$27,286,970**	**$50,242,755**	**$55,713,249**

The large increase in the changes in loss liabilities in FY 2023-24 compared to the prior year is due to the actuary's estimate for the ultimate losses and loss adjustment expense (LAE) increasing by 7.5 percent in FY 2023-24 and only 0.8 percent in FY 2022-23. The ultimate incurred liability increased 2.8 percent in FY 2021-22.

General Administrative Expenses were higher in FY 2021-22, FY 2022-23, and FY 2023-24 due to expenses related to the implementation of the OIPA system. The amount spent in the period on the implementation and ongoing maintenance of the OIPA system was $9.9 million.

Summary

The Wisconsin Injured Patients and Families Compensation Fund, a segregated fund administered by the Office of the Commissioner of Insurance, operates as a risk-sharing fund. Assessments are collected from participating health care providers and are used to pay benefit and administrative expenses. The Fund's Board of Governors determines the assessment rates annually, based on actuarial advice. While Fund investments currently can be used to meet current claim obligations, the Board is closely monitoring the revenues, assets, and net position of the Fund. Investments are predominantly conservative (approximately 80.0 percent in fixed-income securities and 20.0 percent in equities), with the intent to match assets with liabilities while maximizing return.

Contacting the Fund's Financial Management

This financial report is designed to provide the Legislature, the executive branch of government, the Board of Governors, the public, and other interested parties with an overview of the financial results of the Fund's activities and to show the Fund's financial position. If you have questions about this report or need additional information, contact the director of the Wisconsin Injured Patients and Families Compensation Fund at:

Office of the Commissioner of Insurance
101 E Wilson Street
P.O. Box 7873
Madison, Wisconsin 53707-7873

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Financial Statements

Statement of Net Position
June 30, 2024, June 30, 2023, and June 30, 2022

	June 30, 2024	June 30, 2023	June 30, 2022
Assets			
Current Assets:			
Cash and Cash Equivalents (Notes 2C and 3)	$ 56,586,113	$ 58,745,223	$ 61,720,037
Investments (Note 3)	17,530,178	14,320,000	14,864,143
Investment Income Receivable	20,711,320	18,853,196	18,338,160
Other Assets	25,698	42,035	23,330
Total Current Assets	94,853,309	91,960,454	94,945,670
Noncurrent Assets:			
Investments (Note 3)	1,429,888,437	1,353,724,797	1,354,878,589
Restricted Cash and Cash Equivalents (Notes 3 and 4D)	62,286,969	71,795,992	61,707,765
Sick Leave OPEB	4,315	6,922	22,695
Net Pension Asset	0	0	199,823
Total Noncurrent Assets	1,492,179,721	1,425,527,711	1,416,808,872
Total Assets	**1,587,033,030**	**1,517,488,165**	**1,511,754,542**
Deferred Outflow of Resources	**434,981**	**587,672**	**489,483**
Total Assets and Deferred Outflows of Resources	**1,587,468,011**	**1,518,075,837**	**1,512,244,025**
Liabilities			
Current Liabilities:			
Loss Liabilities—Current Portion (Note 4)	62,220,450	58,305,617	56,039,256
Assessments Received in Advance	503,482	0	0
Provider Refunds Payable	591,267	363,934	464,145
General and Administrative Expense Payable	554,589	1,369,074	809,618
Investment Purchases Payable	12,863,027	10,958,117	15,111,753
Other Liabilities	(62,909)	23,278	25,257
Total Current Liabilities	76,669,906	71,020,020	72,450,029
Noncurrent Liabilities:			
Loss Liabilities (Note 4):			
Loss Liability for Incurred but Not Reported Losses	184,063,198	56,391,407	196,396,707
Loss Liability for Reported Losses	246,196,953	295,785,119	171,174,277
Loss Liability for Loss Adjustment Expense	90,401,594	69,355,117	65,750,805
Estimated Loss Liabilities	520,661,745	421,531,643	433,321,789
Amount Representing Interest	(52,555,825)	(30,335,790)	(31,175,843)
Discounted Loss Liabilities	468,105,920	391,195,853	402,145,946
Liabilities for Future Medical Expense	62,286,969	71,795,992	61,707,865
Total Loss Liabilities	530,392,889	462,991,845	463,853,811
Less: Loss Liabilities—Current Portion	(62,220,450)	(58,305,617)	(56,039,256)
Noncurrent Loss Liabilities	468,172,439	404,686,228	407,814,555
Compensated Absences, Net Pension, and OPEB Liabilities	288,598	334,365	233,107
Total Noncurrent Liabilities	468,461,037	405,020,593	408,047,662
Total Liabilities	**545,130,943**	**476,040,613**	**480,497,691**
Deferred Inflow of Resources	**302,432**	**392,290**	**581,401**
Net Position			
Net Position (Note 2I):			
Restricted for Other Purposes	4,315	6,922	222,518
Restricted for Injured Patients and Families	1,042,030,321	1,041,636,012	1,030,942,415
Total Net Position	**$ 1,042,034,636**	**$ 1,041,642,934**	**$ 1,031,164,933**

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30, 2024, June 30, 2023, and June 30, 2022

	Year Ended June 30, 2024	Year Ended June 30, 2023	Year Ended June 30, 2022
Operating Revenues			
Assessments (Note 2E)	$ 10,881,270	$ 0	$ (85,733)
Assessment Interest and Administrative Fee Income	36,691	0	8
Total Operating Revenues	**10,917,961**	**0**	**(85,725)**
Operating Expenses			
Benefit Expenses:			
Net Losses Paid	23,007,400	17,411,546	5,300,782
Loss Adjustment Expenses Paid	4,103,424	3,821,881	3,656,871
Risk Management Expenses	1,866	0	0
Future Medical Expenses Paid	1,012,779	1,767,471	909,099
Change in Liability for Incurred but Not Reported Losses	127,671,791	(140,005,300)	8,520,045
Change in Liability for Reported Losses	(49,588,166)	124,610,842	32,648,494
Change in Liability for Loss Adjustment Expense	21,046,477	3,604,312	3,264,149
Change in Amount Representing Interest	(22,220,035)	840,053	(2,832,715)
Change in Liability for Future Medical Expense	(9,509,022)	10,088,126	(6,552,738)
Total Benefit Expenses	95,526,514	22,138,931	44,913,987
General and Administrative Expenses	3,404,701	5,148,039	5,328,768
Total Operating Expenses	**98,931,215**	**27,286,970**	**50,242,755**
Operating Income (Loss)	**(88,013,254)**	**(27,286,970)**	**(50,328,480)**
Nonoperating Revenues (Expenses) and Transfers			
Investment Income	88,419,762	37,969,024	(179,195,593)
Net Income Before Transfers	406,508	10,682,054	(229,524,073)
Transfers:			
Transfers to the General Fund	(14,806)	(204,053)	(14,883)
Change in Net Position	**391,702**	**10,478,001**	**(229,538,956)**
Net Position			
Net Position—Beginning of the Year	1,041,642,934	1,031,164,933	1,261,576,614
Restatements (Note 8)			(872,725)
Net Position—Beginning of the Year (Restated)	1,041,642,934	1,031,164,933	1,260,703,889
Net Position—End of the Year	$ 1,042,034,636	$ 1,041,642,934	$ 1,031,164,933

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Years Ended June 30, 2024, June 30, 2023, and June 30, 2022

	Year Ended June 30, 2024	Year Ended June 30, 2023	Year Ended June 30, 2022
Cash Flows from Operating Activities			
Cash Received from Providers for Assessments	$ 10,982,454	$ 0	$ 0
Cash Paid for Losses	(23,007,400)	(17,411,546)	(5,195,688)
Cash Paid for Loss Adjustment Expenses	(4,103,424)	(3,821,881)	(3,656,871)
Cash Paid for Future Medical Expenses	(1,012,779)	(1,767,471)	(883,153)
Cash Paid for Other Expenses	(3,481,805)	(4,500,056)	(4,951,743)
Cash Paid to Providers for Refunds of Assessments	(47,584)	(215,918)	(148,105)
Net Cash Provided by (Used for) Operating Activities	**(20,670,538)**	**(27,716,872)**	**(14,835,560)**
Cash Flows from Noncapital Financing Activities			
Transfers to the General Fund	(14,806)	(204,053)	(14,883)
Net Cash Provided by (Used for) Noncapital Financing Activities	**(14,806)**	**(204,053)**	**(14,883)**
Cash Flows from Investing Activities			
Interest Received	44,283,190	37,729,842	34,261,210
Cash Received as Proceeds from Sales of Investments	294,614,538	351,587,086	369,343,204
Cash Paid for Purchase of Investment Securities	(329,880,517)	(354,282,590)	(356,402,940)
Net Cash Provided by (Used for) Investment Activities	**9,017,211**	**35,034,338**	**47,201,474**
Net Increase (Decrease) in Cash and Cash Equivalents	**(11,668,133)**	**7,113,413**	**32,351,031**
Cash and Cash Equivalents—Beginning of the Year	130,541,215	123,427,802	91,076,771
Cash and Cash Equivalents—End of the Year	$ 118,873,082	$ 130,541,215	$ 123,427,802
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities			
Operating Income	$ (88,013,254)	$ (27,286,970)	$ (50,328,480)
Adjustments to Reconcile Operating Income to			
Net Cash Provided by Operating Activities:			
Changes in Assets and Liabilities:			
Decrease (Increase) in Unearned Revenue	503,482	0	0
Decrease (Increase) in Other Assets	(1,839,174)	196,892	(58,404)
Increase (Decrease) in Deferred Inflows of Resources	(89,858)	(189,112)	137,470
Decrease (Increase) in Deferred Outflows of Resources	152,691	(98,189)	(144,965)
Increase (Decrease) in Loss Liabilities	67,401,045	(861,967)	35,047,235
Increase (Decrease) in Other Liabilities	1,214,530	522,474	511,584
Total Adjustments	67,342,716	(429,902)	35,492,920
Net Cash Provided by (Used for) Operating Activities	**$ (20,670,538)**	**$ (27,716,872)**	**$ (14,835,560)**
Noncash Activities:			
Net Change in Unrealized Gains (Losses)	50,756,455	(3,211,208)	(233,523,025)
Amortization of Bond Discounts	(1,243,691)	(2,056,901)	(2,887,981)

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

1. DESCRIPTION OF THE FUND

The Injured Patients and Families Compensation Fund is part of the State of Wisconsin financial reporting entity and is reported as an enterprise fund in the State's basic financial statements, which are included in the State's Annual Comprehensive Financial Report (ACFR). The statements in this report only present the financial position and results of operations of the Fund and are not meant to present the financial activity for the State of Wisconsin as a whole. The Fund, formerly known as the Patients Compensation Fund, was created in 1975 for the purpose of paying that portion of medical malpractice claims exceeding the legal primary insurance limits prescribed in s. 655.23 (4), Wis. Stats., or the maximum liability limit for which the health care provider is insured, whichever limit is greater. Most health care providers permanently practicing or operating in the State of Wisconsin are required to pay annual assessments.

Management of the Fund is vested with a 13-member Board of Governors, which is chaired by the Deputy Commissioner of Insurance as of June 2024, and previously by the Commissioner. The Board has designated the Commissioner of Insurance as the administrator of the Fund. Similarly, under s. 655.27 (2), Wis. Stats., the Commissioner shall either provide staff services necessary for the operation of the Fund or, with the approval of the Board, contract for all or part of these services. During fiscal year (FY) 2023-24, FY 2022-23, and FY 2021-22, the Board contracted for the Fund's actuarial, risk management, claims administration, and accounting services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting and Basis of Presentation

The financial statements of the Injured Patients and Families Compensation Fund have been prepared in conformance with generally accepted accounting principles (GAAP) for proprietary funds as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements were prepared based upon the flow of economic resources focus and full accrual basis of accounting, with revenues recognized when earned and expenses recognized when incurred.

The Statement of Revenues, Expenses, and Changes in Net Position classifies the Fund's fiscal year activity as either operating or nonoperating. Because the Fund is an enterprise fund, which also is a type of proprietary fund, it accounts for its activities similar to that of a private business. Enterprise funds provide goods or services to the general public for a fee. Operating revenues are derived from exchange transactions. Assessments, which are received from health care providers in exchange for coverage under the Fund, represent a significant component of operating revenues. Operating expenses include benefit and administrative expenses.

Certain revenues and expenses that are not related to the Fund's primary purpose are reported as nonoperating revenues and expenses. The most significant source of the Fund's nonoperating income is investment income.

B. Accounting Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant changes in future years are the liabilities for unpaid losses and loss adjustment expenses. In estimating these liabilities, management uses the methodology discussed in Note 4 on ultimate and discounted loss liabilities.

C. Cash and Cash Equivalents

Cash and cash equivalents include cash balances deposited with the State and shares in the State Investment Fund, which is a short-term pool of state and local funds, and shares in a Short-Term Investment Fund, which is a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. The State Investment Fund and Short-Term Investment Fund shares are included in both the current portion of cash and cash equivalents and noncurrent portion restricted for future medical expenses as noted in Note 4D. Balances pooled in the State Investment Fund and Short-Term Investment Fund are restricted to legally stipulated investments valued consistent with GASB Statement Number 72, *Fair Value Measurement and Application*.

D. Investment Valuation

Investments of the Fund consist of fixed-income securities, preferred securities, and shares in equity index funds. All investments are managed by the State of Wisconsin Investment Board (SWIB) and are reported at fair value. Fair value information is determined using quoted market prices.

E. Assessments

Assessments are billed and recognized as revenues on a fiscal year basis, which is also the policy year. Assessments received for the next fiscal year are treated as unearned revenue and reported as assessments received in advance. Accounts of providers are automatically credited and reported as provider refunds payable when primary insurance lapses. Assessments resumed in FY 2023-24 after three years of an assessment holiday with the Oracle Insurance Policy Administration (OIPA) system.

F. Loss Liabilities

Loss liabilities are estimated based on the recommendations of a consulting actuary and are discounted to the extent that they are matched by cash and invested assets. The uncertainties inherent in projecting the frequency and severity of claims, the Fund’s unlimited liability coverage for economic damages, and extended reporting and settlement periods make it likely that the amounts ultimately paid will differ from the reported estimated liabilities.

G. Policy Acquisition Costs

Since the Fund has no marketing staff and incurs no sales commissions, acquisition costs are minimal and charged to operations as incurred.

H. Capital Assets

The Fund capitalizes all assets, both tangible and intangible, which have a historic cost or estimated historic cost in excess of $5,000 and a useful life of two or more years. As of June 30, 2024, June 30, 2023, and June 30, 2022, the Fund held no capital assets.

I. Net Position

Section 655.27 (6), Wis. Stats., requires the Injured Patients and Families Compensation Fund to be held in an irrevocable trust and used for future claim payments for injured patients and families. For the three-year period, net position totaled $1.04 billion as of June 30, 2024, $1.04 billion as of June 30, 2023, and $1.03 billion as of June 30, 2022, and was primarily restricted for injured patients and families. On September 16, 2020, the Board set the Fund’s minimum surplus (net position) level at 500 percent of risk-based capital.

J. Employee Compensated Absences

The Fund’s compensated absence liability consists of accumulated unpaid leave, compensatory time, personal holiday hours, and Saturday/legal holiday hours earned and vested as of June 30. The compensated absences liability is classified as either a short-term liability under general and administrative expenses payable or a long-term liability under compensated absences and other postemployment benefit (OPEB) liabilities based upon an estimate determined by management. The long-term liability portion of the compensated absences liability generally is not paid out until retirement.

3. DEPOSITS AND INVESTMENTS

Although classified as cash and cash equivalents on the Statement of Net Position and the Statement of Cash Flows, shares in the State Investment Fund and Short-Term Investment Fund, are subject to investment risk disclosures. The State Investment Fund is a short-term investment pool of State and local funds managed by SWIB, with oversight by its Board of Trustees and in accordance with Wisconsin Statutes. It is not registered with the Securities and Exchange Commission as an investment company. Shares in the State Investment Fund are reported at fair value as of June 30. The Short-Term Investment Fund is a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return.

The various types of securities in which the State Investment Fund may invest are enumerated in ss. 25.17 (3) (b), (ba), (bd), and (dg), Wis. Stats., and include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, 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 including solvent financial institutions in Wisconsin, and bankers acceptances. SWIB's Board of Trustees may specifically approve other prudent legal investments. Interest income, gains, and losses of the State Investment Fund are allocated monthly.

The Fund's investments are managed by SWIB, whose objective is to maintain a portfolio of investments to provide a balance between capital appreciation, preservation of capital, and current income consistent with the needs of the Fund. Section 25.17 (3) (a), Wis. Stats., allows investments in loans, securities, and any other investments as authorized by s. 620.22, Wis. Stats. Classes of investments permitted by s. 620.22, Wis. Stats., include bonds of governmental units or private corporations, loans secured by mortgages, preferred or common stock, real property, and other investments not specifically prohibited by statute.

The Fund's investment strategy is to invest at least 75.0 percent of its assets in fixed-income securities that have a reasonable degree of safety of principal, as well as income-paying ability. The rest may be invested in equities or held as a cash reserve with a maximum of 20.0 percent being in equities. On a quarterly basis, SWIB will report the actual market value of investments by sub-asset class, in relation to the targets with the Board's Finance, Audit, and Investment Committee.

The Board of Governors has authorized the allocation of up to 10.0 percent of the Fund's equity portfolio to alternative investments, which would be approximately $25 million or 1.5 percent of the Fund's investment portfolio. As of June 30, 2024, the Fund had not made any alternative investments.

Investments of the Fund are governed by chapters 655 and 620 of Wis. Stats., which limits the type of investments in which funds may be invested. Wisconsin Statutes provide the necessary framework for GASB Statement Number 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement also provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The Fund categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The Fund has the following fair value measurements for the Fund's investments noted in the tables entitled Investments Measured at Fair Value as of June 30, 2024, June 30, 2023, and June 30, 2022, respectively:

Investments Measured at Fair Value as of June 30, 2024 ($ in millions)		Fair Value Measurements Using		
	Total as of June 30, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
U.S. Government and Agency Bonds	$ 720.7	$7.2	$ 713.5	$0.0
Municipal Bonds	16.2	0.0	16.2	0.0
Foreign Governments	29.6	0.0	29.6	0.0
Preferred Securities	1.3	0.0	1.3	0.0
Corporate Bonds	440.1	0.0	440.0	0.1
Total Investments by Fair Value Level	$1,207.9	$7.2	$1,200.6	$0.1
Investments valued at Net Asset Value (NAV):				
Equity Index Funds	$ 240.8			
State Investment Fund	106.1			
Short-Term Investment Fund	11.6			
Total Investments by NAV	$ 358.5			
Total Investments	$1,566.4			

Investments Measured at Fair Value as of June 30, 2023 ($ in millions)		Fair Value Measurements Using		
	Total as of June 30, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
U.S. Government and Agency Bonds	$ 663.0	$3.8	$ 659.2	$0.0
Municipal Bonds	19.9	0.0	19.9	0.0
Foreign Governments	34.9	0.0	34.9	0.0
Preferred Securities	1.7	0.0	1.7	0.0
Corporate Bonds	451.7	0.0	451.7	0.0
Total Investments by Fair Value Level	$1,171.2	$3.8	$1,167.4	$0.0
Investments valued at Net Asset Value (NAV):				
Equity Index Funds	$ 198.5			
State Investment Fund	120.7			
Short-Term Investment Fund	7.7			
Total Investments by NAV	$ 326.9			
Total Investments	$1,498.1			

Investments Measured at Fair Value as of June 30, 2022 ($ in millions)		Fair Value Measurements Using		
	Total as of June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
U.S. Government and Agency Bonds	$ 658.0	$6.5	$ 651.5	$0.0
Municipal Bonds	20.5	0.0	20.5	0.0
Foreign Governments	42.0	0.0	42.0	0.0
Preferred Securities	1.3	0.0	1.3	0.0
Corporate Bonds	449.3	0.0	449.3	0.0
Total Investments by Fair Value Level	$1,171.1	$6.5	$1,164.6	$0.0
Investments valued at Net Asset Value (NAV):				
Equity Index Funds	$ 200.0			
State Investment Fund	106.6			
Short-Term Investment Fund	10.6			
Total Investments by NAV	$ 317.2			
Total Investments	$1,488.3			

Debt securities categorized as Level 2 are valued by third-party pricing services using a matrix-pricing technique that values securities based on their relationship to quoted market prices for securities with similar interest rates, maturities, and credit ratings.

The fair values of investments in commingled equity index funds are based on the investment's Net Asset Value (NAV) per share (or its equivalent), as of fiscal years ending June 30, 2024, June 30, 2023, and June 30, 2022. The pricing of the underlying investments is designed to track the performance of the given indices. There were no unfunded commitments relating to these funds for the periods described.

The equity index funds are invested in portfolios of equity securities with the objective of approximating as closely as practicable the capitalization weighted total rate of return of a given segment of the U.S. or international markets for publicly traded equity securities. The U.S. equity index fund is invested in a portfolio of equity securities with the objective of approximating the 3,000 largest capitalized companies (the Russell 3000_R Index). The investment can be redeemed daily with one day's notice. The international equity fund is invested in a portfolio of equity securities with the objective of approximating the MSCI World ex USA Net Dividend Return Index for the country or countries represented. The investment can be redeemed daily with two days' notice.

The fair value of the investments in the State Investment Fund, a pooled short-term investment fund managed by SWIB, is based on NAV per share (or its equivalent) as of fiscal years ending June 30, 2024, June 30, 2023, and June 30, 2022. The State Investment Fund is a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. The valuation of the underlying investments of the State Investment Fund depends on asset class. Repurchase agreements and non-negotiable certificates of deposit are valued at cost. All remaining short-term investments (U.S. government/agency securities, banker's acceptances, commercial paper, and negotiable certificates of deposit) are carried at fair value. Because quoted market prices for State Investment Fund securities are often not available, at month end, BNY, as SWIB's custodial bank, compiles fair values from third-party pricing services, which use matrix pricing models to estimate a security's fair value. There are no unfunded commitments relating to the State Investment Fund, and shares of this fund can be fully redeemed at any time with no notice or other restrictions.

The fair value of the investment in the Short-Term Investment Fund, a pooled investment fund, is based on NAV per share (or its equivalent), as of the periods described. The Short-Term Investment Fund is a commingled fund with the investment objective of safety of principal and liquidity while earning a competitive money market rate of return. There are no unfunded commitments relating to the Short-Term Investment Fund, and shares of the Short-Term Investment Fund can be fully redeemed at any time with no notice or other restrictions.

The fair values of the Fund's investments at fiscal year-end are as follows:

	June 30, 2024	June 30, 2023	June 30, 2022
Short-Term Investment Pool			
State Investment Fund[1]	$ 106,109,000	$ 120,653,000	$ 106,615,000
Short-Term Investment Fund[1]	11,639,000	7,701,434	10,621,813
Subtotal	117,748,000	128,354,434	117,236,813
Fixed Income:			
U.S. Government and Agency	720,712,728	662,981,904	657,989,056
Municipal Bonds	16,228,039	20,010,221	20,529,408
Foreign Governments	29,559,404	31,940,357	41,999,878
Corporate Bonds	440,101,757	454,521,720	449,272,056
Subtotal	1,206,601,928	1,169,454,202	1,169,790,398
Equities:			
Russel 3000 Index Fund	205,220,124	166,605,090	172,745,386
MSCI World Ex-US Index Fund	35,596,563	31,985,505	27,206,949
Subtotal	240,816,687	198,590,595	199,952,334
Preferred Securities	1,262,142	1,666,194	1,243,584
Total Investments	$1,566,428,757	$1,498,065,425	$1,488,223,129

1 State Investment Fund and Short-Term Investment Fund shares are reported as cash and cash equivalents on the Statement of Net Position.

Custodial Credit Risk for Deposits—Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover deposits that are in possession of an outside party. The Fund does not have a deposit policy specifically for custodial credit risk. As of June 30, 2024, June 30, 2023, and June 30, 2022, the Fund had no bank balances exposed to custodial credit risk.

Custodial Credit Risk for Investments—Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investments that are in possession of an outside party. The Fund's investment policy does not address custodial credit risk. The Fund's investment portfolio as of June 30, 2024, June 30, 2023, and June 30, 2022, identified no custodial credit risk exposure.

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Fund. As of June 30, 2024, the Fund's investment guidelines require that the bond portfolio maintain an average quality rating of A or better by nationally recognized statistical rating organizations at the time of purchase, using the lower of split ratings. The State Investment Fund and Short-Term Investment Fund are unrated. However, their guidelines establish specific maximum exposure limits by security type based on the minimum credit ratings as issued by nationally recognized statistical rating organizations.

The credit exposures aggregated by credit rating for fixed-income securities as of June 30, 2024, June 30, 2023, and June 30, 2022, were as follows:

	June 30, 2024		June 30, 2023		June 30, 2022	
	Fair Value	Percent	Fair Value	Percent	Fair Value	Percent
Credit Rating:						
AAA	$ 13,890,122	1.0%	$ 23,239,833	1.8%	$ 29,919,715	2.3%
AA	741,507,725	56.0	680,497,026	52.4	672,935,089	52.3
A	136,262,630	10.3	134,576,335	10.4	123,692,989	9.6
BBB	266,686,972	20.1	285,910,512	22.0	290,234,965	22.6
BB	36,489,077	2.8	30,673,345	2.4	49,878,653	3.9
B	11,764,753	0.9	14,556,799	1.1	3,128,488	0.2
C or Lower	0	0.0	0	0.0	0	0.0
Not Rated	650	0.0	350	0.0	500	0.0
Subtotal	1,206,601,929	91.1	1,169,454,202	90.1	1,169,790,398	90.9
State Investment Fund (unrated)[1]	106,109,000	8.0	120,653,000	9.3	106,615,000	8.3
Short-Term Investment Fund (unrated)[1]	11,639,000	0.9	7,701,434	0.6	10,621,813	0.8
Total	$1,324,349,929	100.0%	$1,297,808,636	100.0%	$1,287,027,211	100.0%

[1]State Investment Fund and Short-Term Investment Fund shares are reported as cash and cash equivalents on the Statement of Net Position.

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. As of June 30, 2024, the Fund's investment guidelines do not allow for investments in any one single issuer that are in excess of 5.0 percent (investment grade) and 3.0 percent (non-investment grade) of the Fund's bond portfolio based on fair value at the time of purchase. Securities of the United States government and its agencies are excluded from that limitation. As of June 30, 2024, June 30, 2023, and June 30, 2022, the Fund did not have more than 5.0 percent of its total investments in a single issuer, excluding the United States government and its agencies. Concentration of credit risk requirements are also not applicable to pooled investments, such as the State Investment Fund and Short-Term Investment Fund.

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund uses the duration method to identify and manage its interest rate risk. As of June 30, 2024, the Fund's investment guidelines related to interest rate risk require that the effective duration of the bond portfolio remains within 15.0 percent of the assigned benchmark's duration. The State Investment Fund uses the weighted average maturity method to analyze interest rate risk. Its investment guidelines mandate that the weighted average maturity for the entire portfolio does not exceed one year.

The following were the durations for each type of fixed-income security held, as well as for the State Investment Fund and Short-Term Investment Fund:

	June 30, 2024		June 30, 2023		June 30, 2022	
	Fair Value	Duration (in years)	Fair Value	Duration (in years)	Fair Value	Duration (in years)
Type of Security:						
Gov't/Agency	$ 720,712,728	6.26	$ 662,981,904	5.80	$ 657,989,056	6.01
Corporate	440,101,757	6.20	454,521,720	6.83	449,272,056	7.23
Municipal	16,228,039	8.85	20,010,221	9.33	20,529,408	9.97
Foreign Gov't	29,559,404	5.60	31,940,357	5.61	41,999,878	4.87
Subtotal	1,206,601,928	6.26	1,169,454,202	6.25	1,169,790,398	6.51
State Investment Fund[1]	106,109,000	0.04	120,653,000	0.08	106,615,000	0.06
Short-Term Investment Fund[1]	11,639,000	0.13	7,701,434	0.06	10,621,813	0.06
Total	$1,324,349,928	5.71	$1,297,808,636	5.64	$1,287,027,211	5.92

[1] State Investment Fund and Short-Term Investment Fund shares are reported as cash and cash equivalents on the Statement of Net Position.

Foreign Currency Risk—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Fund's investment guidelines do not specifically address foreign currency risk. As of June 30, 2024, June 30, 2023, and June 30, 2022, the Fund did not own any foreign denominated currency.

4. TOTAL LOSS LIABILITIES

A. Estimated Loss Liabilities

Loss liabilities include individual case estimates for reported losses and estimates for incurred but not reported (IBNR) losses based upon the projected ultimate losses recommended by a consulting actuary as approved by the Board of Governors. The liability for IBNR losses as of June 30, 2024, is determined by deducting individual case estimates of the liability for reported losses and net losses paid from inception of the Fund, and adding a risk margin to the projected ultimate loss liabilities as follows:

	June 30, 2024	June 30, 2023	June 30, 2022
Projected Ultimate Loss Liability	$1,328,751,207	$1,243,276,907	$1,238,454,894
Less:			
Net Losses Paid from Inception	(984,543,086)	(961,535,686)	(944,398,107)
Liability for Reported Losses	(246,196,953)	(295,785,119)	(171,174,277)
Risk Margin	86,052,030	70,435,305	73,514,197
Liability for IBNR Losses	$ 184,063,198	$ 56,391,407	$ 196,396,707

The Fund's consulting actuary developed a best estimate of the loss liabilities, and the Board of Governors approved the addition of an explicit 25.0 percent risk margin to the best estimate for June 30, 2024, June 30, 2023, and June 30, 2022. The explicit risk margin is applied to ensure that the loss liability estimates remain adequate in the event a court decision or law change adversely affected the amount of future claim payments.

Loss liabilities also include a provision for the estimated future payment of costs to settle claims. The actuary estimates the ultimate loss adjustment expense (LAE) using data available through September 30 of the fiscal year. The actuary estimates LAE at 20.0 percent of the estimated unpaid loss liabilities as of June 30, 2024, 20.0 percent of the estimated unpaid loss liabilities as of June 30, 2023, and 18.0 percent of the estimated unpaid loss liabilities as of June 30, 2022. Because the actuary's estimate occurs before the end of the fiscal year and is based on an estimate of the cumulative payments, the percentage used by the actuary in determining the LAE will differ slightly from the percentages calculated using actual LAE payments in the financial statements.

The LAE paid from inception of the Fund are deducted from the projected ultimate LAE provision to arrive at the liability for LAE as follows:

	June 30, 2024	June 30, 2023	June 30, 2022
Projected Ultimate LAE Liability	$195,461,963	$174,521,357	$167,816,026
Less:			
Net LAE Paid from Inception	(123,140,688)	(119,037,263)	(115,215,382)
Risk Margin	18,080,319	13,871,023	13,150,161
Liability for LAE	$ 90,401,594	$ 69,355,117	$ 65,750,805

B. Re-estimated Loss Liabilities

Because of the uncertainties inherent in projecting medical malpractice claims with unlimited liability coverage, estimates of the Fund's loss liability and liability for LAE are continually reviewed and adjusted as the Fund gains additional experience. Such adjustments are reflected in current operations. Because of the changes in these estimates for prior years, the total benefit expenses reported for the year are not necessarily indicative of the loss experience for that year. From the actuarial review of the Funds' reserves as of September 30, 2023, the actuary noted reporting has improved due to the OIPA system allowing for reserves to be allocated between Losses and LAE. With the Funds' realignment of its reserving policy in 2020, it began assigning more case reserves to all open claims and moved towards holding more accurate case reserves as information becomes available on individual claims moving forward by assigning $1,050,000 for all open claims not involving a minor, and $5,500,000 for all open claims that involve a minor. This was based on in-depth analysis of the average claim cost completed and includes both loss and expense. Given the nature of medical malpractice low frequency and high severity, the Fund will experience significant volatility in results in any given year and can only expect to match revenues against claim estimates over an extended period. The Board of Governors requires an independent audit of the Funds' contracted actuary once every three years.

C. Discounted Loss Liabilities

Section Ins. 17.27 (3), Wis. Adm. Code, requires the liability for reported losses, liability for IBNR losses, and liability for LAE to be maintained on a present-value basis, with the difference from full value being reported as a contra account to the loss liabilities. The loss liabilities are discounted only to the extent that they are matched by cash and invested assets. The actuarially determined discount factors were 0.928 for FY 2021-22, 0.928 for FY 2022-23, and 0.899 for FY 2023-24 based on investment yield assumptions of 2.0 percent for FY 2021-22, FY 2022-23, and 3.0 percent FY 2023-24, which were approved by the Board of Governors.

D. Future Medical Expense Liability

Section 655.015, Wis. Stats., requires accounts to be established if a settlement or judgment provides for future medical expense (FME) payments in excess of $100,000. In addition to amounts provided by the Fund, this account may also include deposits provided by the primary insurer for any portion of future medical expenses for which they are liable. The accounts are managed by the Fund and earn a proportionate share of the Fund's interest. Any account balance remaining when a claimant dies reverts back to the Fund. The accounts are restricted for future medical expenses on the Statement of Net Position.

E. Contributions Being Held Liability

A primary insurer may voluntarily present a non-refundable payment to the Fund generally equal to the amount of primary coverage in effect for the related claim. This payment from the primary insurer is negotiable with the Fund in exchange for a release of payment for any future defense costs that may be incurred on the claim. This amount is held as a liability on the Fund's financial statements until the time a payment is made on the claim. There were no contributions being held as of June 30, 2024, June 30, 2023, and June 30, 2022.

F. Loss Liabilities Balances and Activities (in thousands)

	FY 2023-24	FY 2022-23	FY 2021-22
Total Loss Liabilities, Beginning of the Year	$462,992	$463,854	$428,807
Incurred Losses and Related Expenses for the Current Year and Changes in the Estimated Liabilities for Prior Year Losses and Related Expenses	95,526	22,138	44,888
Less: Current Year Payments for Losses, LAE, and FME Incurred in the Current and Prior Years	(28,126)	(23,000)	(9,841)
Total Loss Liabilities, End of the Year	530,392	462,992	463,854
Less: Current Portion	(62,220)	(58,306)	(56,039)
Noncurrent Portion	$468,172	$404,686	$407,815

5. MEDICAL MEDIATION PANEL FEES

Section Ins. 17.27 (3), Wis. Adm. Code, requires the fees collected for administration of the Medical Mediation Panel to be included in the Fund's financial reports, but they should not be regarded as assets or liabilities of the Fund or otherwise taken into consideration in determining assessment levels to pay claims. The Wisconsin Supreme Court requested panel fees of $180,500 in FY 2023-24, $188,600 in FY 2022-23, and $169,800 in FY 2021-22.

6. CLAIM ANNUITIES

The settlement of a claim may result in the purchase of an annuity. Under a specific annuity arrangement, the Fund may have ultimate responsibility for annuity payments if the annuity company and the reassignment company default on annuity payments. During the three year period, two annuities held with the Fund were closed out. For one annuity, the annuitant passed away and the last monthly payment was made on December 1, 2021. The remaining annuity was transferred to Genworth Financial in August 2022. The total estimated replacement value of the Fund's annuities of which the Fund remains the owner was $32.8 million as of June 30, 2024.

7. AUDIT ADJUSTMENTS

The unaudited financial statements presented in the annual reports of the Commissioner of Insurance to the Governor and the Legislature have been adjusted to reflect suggested audit adjustments.

8. RESTATEMENTS OF BEGINNING NET POSITION AND OTHER CHANGES

The following reconciliation summarizes restatement of the Fund's Net Position as of June 30, 2021, to the beginning Net Position as of July 1, 2021. The Fund determined that a future medical expense from FY 2020-21 required adjustment. The effect of correcting this error is shown in the table below.

	June 30, 2021 As Previously Reported	Change in Financial Reporting Entity	Change in Accounting Principle	Prior Year Error Correction	June 30, 2021 Restated
Fund Activities Restricted Cash and Cash Equivalents	$61,895,507	$ 0	$ 0	$5,492,374	$67,387,881
Liabilities for Future Medical Expense	(61,895,507)	$ 0	$ 0	(6,365,099)	(68,260,606)
Total Fund Activities	$ 0	$ 0	$ 0	$ (872,725)	$ (872,725)

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Auditor's Report

STATE OF WISCONSIN
Legislative Audit Bureau

Joe Chrisman
State Auditor

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

Senator Eric Wimberger and
Representative Robert Wittke, Co-chairpersons
Joint Legislative Audit Committee

Members of the Board of Governors, and
Mr. Nathan Houdek, Commissioner of Insurance
Injured Patients and Families Compensation Fund

We have audited the financial statements and the related notes of the Injured Patients and Families Compensation Fund, administered by the State of Wisconsin Office of the Commissioner of Insurance (OCI), as of and for the years ended June 30, 2024, June 30, 2023, and June 30, 2022, and have issued our report thereon dated April 30, 2025. We conducted our audit 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,* which is issued by the Comptroller General of the United States.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Injured Patients and Families Compensation Fund financial statements will not be prevented or that a material misstatement will not be detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Finding and Response Schedule, as Finding 2025-001, to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Injured Patients and Families Compensation Fund are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statements. 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*.

OCI's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on OCI's written response to the finding identified in the audit and described in the accompanying Finding and Response Schedule. The corrective action plan follows the response. OCI's response and corrective action plan were not subjected to other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response or corrective action plan.

Purpose of This Report

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

LEGISLATIVE AUDIT BUREAU

Legislative Audit Bureau

April 30, 2025

Finding and Response Schedule

Finding 2025-001: Service Organization Internal Controls

Background:

The Injured Patients and Families Compensation Fund (Fund), which is administered by the Office of the Commissioner of Insurance (OCI), insures participating physicians and other healthcare providers in Wisconsin against medical malpractice claims that exceed the primary malpractice insurance thresholds established in statutes. Wisconsin Statutes require most healthcare providers that operate or have permanent practices in Wisconsin to maintain primary medical malpractice coverage of $1.0 million for each incident and $3.0 million per policy year. Wisconsin Statutes also require participation in the Fund, which provides unlimited secondary medical malpractice coverage for economic damages that exceed the primary medical malpractice coverage.

OCI had used a computer system, which was implemented in March 2010, to track medical malpractice claims and to maintain the accounts of participating healthcare providers. 2021 Wisconsin Act 58, the 2021-23 Biennial Budget Act, provided OCI with $9.0 million for the replacement of this computer system with the cloud-based Oracle Insurance Policy Administration (OIPA) system, which OCI implemented in January 2023 by contracting with a service organization to host and maintain the system.

Criteria:

OCI is responsible for the proper design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of Fund financial information that is free from material misstatement. This includes instances in which management contracts with a service organization, which is an organization that provides to another entity those services that are relevant to the entity's internal controls over financial reporting.

When contracting with a service organization, OCI should gain assurances that the internal controls at the service organization are operating effectively. Weaknesses in the service organization's internal controls could affect the Fund. Such assurances could be gained through a service organization audit, which includes a report on the service organization's internal controls by an independent auditor. One type of audit that may be completed includes an opinion on the fairness of management's description of the internal controls in place at the service organization, whether the auditor believes the service organization's internal controls are suitably designed to achieve the internal control objective, and whether these internal controls are effective in achieving the internal control objective. When relying on a service organization audit report, OCI should review the complementary user entity controls referenced in the report and ensure these controls, or others, are in place for the Fund. Complementary user entity controls are controls identified by the service organization as important controls that the Fund should have in place in order to rely on the service organization report. Such controls may include access reviews. If OCI does not obtain a service organization audit report, it should ensure it has assessed the work being completed by the service organization and has implemented procedures to ensure both the accuracy of processing completed by the service organization and the information provided by the service organization.

In addition, the Department of Administration's (DOA's) Cloud Brokerage Process Standard, which applies to cloud-based systems, indicates that cloud-based systems used by state agencies shall be subject to a review of vendor security and privacy controls on at least an annual basis. DOA maintains a repository of all cloud-based systems, and this standard states that DOA and the agency shall be jointly responsible for ensuring the repository is up-to-date and accurate. As the owner of the OIPA system, OCI is expected to ensure its data is appropriately managed, including by performing appropriate reviews of the service organization.

Condition:

OCI did not proactively obtain a service organization audit report from its service organization for the OIPA system, nor did it perform other procedures sufficient to assess and reduce risk. In response to our inquiries, OCI contacted the service organization to obtain the reports. OCI provided us with:

- the December 2023 service organization audit report that covered the period from April 1, 2023, through September 30, 2023;
- the May 2024 service organization audit report that covered the period from October 1, 2023, through March 31, 2024; and
- the November 2024 service organization audit report that covered the period from April 1, 2024, through September 30, 2024.

OCI did not provide documentation to evidence that it had reviewed the service organization audit reports it obtained, or that it had assessed the effectiveness of the internal controls on the OIPA system maintained by the service organization.

OCI also did not review the complementary user entity controls and did not ensure these controls or others were in place for the Fund. For example, one such complementary user entity control is the assurance that access to the OIPA system is provisioned, reviewed, and deprovisioned in accordance with OCI's policies and procedures. We found that OCI did not perform an access review of the OIPA system during FY 2023-24.

Context:

We reviewed and discussed with OCI its procedures for tracking medical malpractice claims and maintaining the accounts of healthcare providers participating in the Fund. We also reviewed and discussed OCI's reliance on the OIPA system maintained by the service organization. We reviewed DOA's Cloud Brokerage Process Standard, and we made inquiries of DOA and OCI about the internal controls related to the OIPA system. We asked OCI about its review of the service organization reports, including its assessment of complementary user entity controls, such as an access review.

Effect:

Without a proper assessment of the service organization audit report related to the OIPA system, the Fund is at increased risk that weaknesses in the service organization's internal controls could remain unknown and affect the Fund, including information regarding medical malpractice claims and the healthcare providers participating in the Fund. For example, improper access to the OIPA system may result in inappropriate access to medical malpractice claim information and inappropriate transactions.

Cause:

OCI did not have sufficient procedures in place to ensure it obtained the service organization audit report from its service organization for the OIPA system and to ensure it used that audit report as a tool to assess the effectiveness of the service organization's internal controls. In addition, OCI did not have sufficient procedures in place to ensure it reviewed and assessed the complementary user entity controls referenced in the service organization audit report. Further, due to the technical nature of the service organization audit report for the cloud-based OIPA system, we found that OCI may require assistance from DOA to complete a review of that audit report and implement complementary user entity controls.

☑ Recommendation

We recommend the Wisconsin Office of the Commissioner of Insurance develop and implement sufficient procedures to ensure it:

- *obtains the service organization audit report for the computer system used to administer the Injured Patients and Families Compensation Fund;*

- *completes a review of the service organization audit report, assesses the effectiveness of the service organization's internal controls on the computer system maintained by the service organization, and documents its review; and*

- *completes a review of the complementary user entity controls at the Office of the Commissioner of Insurance and the Department of Administration that are required to be in place in order to rely on the service organization audit report, documents its review, and implements complementary user entity controls, if needed.*

Type of Finding: Significant Deficiency

Response from the Wisconsin Office of the Commissioner of Insurance: The Wisconsin Office of the Commissioner of Insurance agrees with the finding and recommendations.

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Corrective Action Plan

Corrective Action Plan

Finding 2025-001: Service Organization Internal Controls

Planned Corrective Action: The Office of the Commissioner of Insurance (OCI) accepts the Legislative Audit Bureau's recommendation to develop and implement sufficient procedures to ensure it:

- obtains the service organization audit report for the computer system used to administer the Injured Patients and Families Compensation Fund;
- completes a review of the service organization audit report, assesses the effectiveness of the service organization's internal controls on the computer system maintained by the service organization, and documents its review; and
- completes a review of the complementary user entity controls at the Office of the Commissioner of Insurance and the Department of Administration (DOA) that are required to be in place in order to rely on the service organization audit report, documents its review, and implements complementary user entity controls, if needed.

The following corrective actions are planned:

- OCI will work with the DET OCI IT Director and DOA/DET to develop and implement procedures for a repeatable audit process to ensure the service organization audit report for the computer system used to administer the Injured Patients and Families Compensation Fund is obtained and reviewed on a yearly basis. The repeatable audit process will include the method to obtain the service organization's audit report; identify the roles and responsibilities of those reviewing the service organization's audit report; and document that the parties responsible reviewed the service organization's audit report.
  - OCI, working with the DET OCI IT Director and DOA/DET, will ensure the review of the service organization audit report will include a review of the Complementary User Entity Controls portion of the report.
- DOA/DET will also provide a review of the reports received for the following prior periods:
  - the December 2023 service organization audit report that covered the period from April 1, 2023, through September 30, 2023;
  - the May 2024 service organization audit report that covered the period from October 1, 2023, through March 31, 2024; and
  - the November 2024 service organization audit report that covered the period from April 1, 2024, through September 30, 2024.

Anticipated Completion Date: *10/31/2025*

Person responsible for corrective action:
Amy Sather, Insurance Program Manager
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Response

Injured Patients & Families Compensation Fund

Tony Evers, Governor of Wisconsin
Nathan Houdek, Commissioner of Insurance

April 30, 2025

Joe Chrisman, State Auditor
Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear Mr. Chrisman:

The Injured Patients and Families Compensation Fund (the Fund) appreciates the opportunity to respond to the recommendations provided in the Injured Patients and Families Compensation Fund Audit Report for FY2021-22 through FY2023-24.

The Fund accepts the report's recommendations and has begun the work to implement the recommendations as follows:

- OCI is implementing a process to review the calculation of the Fund's minimum net position to ensure appropriateness and establish procedures for the frequency of the calculation and reporting to the Board of Governors.
- The actuarial audit of the Fund's 2022 and 2023 actuarial reports has been completed. A request to expand the scope of the actuarial audit to all three years will be proposed to the Board of Governors.
- OCI will establish procedures to ensure the internal controls of the service organization hosting and maintaining the Oracle Insurance Policy Administration system are effective.
- OCI continues to improve the process and procedures for preparing and reviewing the Fund's financial statements.

In closing, the Office of the Commissioner and the Injured Patients and Families Compensation Fund wish to express their appreciation to the Legislative Audit Bureau Staff for their constructive, cooperative, and comprehensive approach to the audit process.

Thank you again for the opportunity to respond to the recommendations resulting from this audit. Please feel free to contact me should you have additional questions or concerns.

Sincerely,

Nathan Houdek
Commissioner of Insurance

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