

An Audit:

Health Insurance Risk-Sharing Plan

Department of Health
and Family Services

August 2006

Report Highlights ■

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

Although policyholder enrollment has begun to moderate, net claims costs increased 25.5 percent in FY 2004-05.

A change in the discount rate applied to medical bills mistakenly was not implemented until the end of FY 2005-06.

2005 Wisconsin Act 74 made several significant changes to HIRSP.

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

Program costs are shared by policyholders, health insurance companies that do business in Wisconsin, and health care providers. During fiscal year (FY) 2004-05, HIRSP also received \$2.2 million in federal funds designated for high-risk health insurance pools.

HIRSP offers eligible applicants three plans:

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

At the request of the Department of Health and Family Services (DHFS), we completed a financial audit of HIRSP. Our audit report contains our unqualified opinion on HIRSP's financial statements and related notes for the fiscal years ending June 30, 2005 and 2004.

Key Facts and Findings

Almost 19,000 policyholders are enrolled in HIRSP.

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

We have issued an unqualified opinion on HIRSP's FY 2004-05 financial statements.

HIRSP's unrestricted net assets decreased by \$7.1 million during FY 2004-05.

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

Financial Status

Beginning with FY 2001-02, DHFS and HIRSP's Board of Governors implemented an accrual-based funding approach to address an accounting deficit.

As a result, HIRSP's accounting balance, as represented by its unrestricted net assets, improved to \$6.8 million as of June 30, 2004. However, the balance decreased \$7.1 million during FY 2004-05, resulting in a small deficit of \$300,000 as of June 30, 2005.

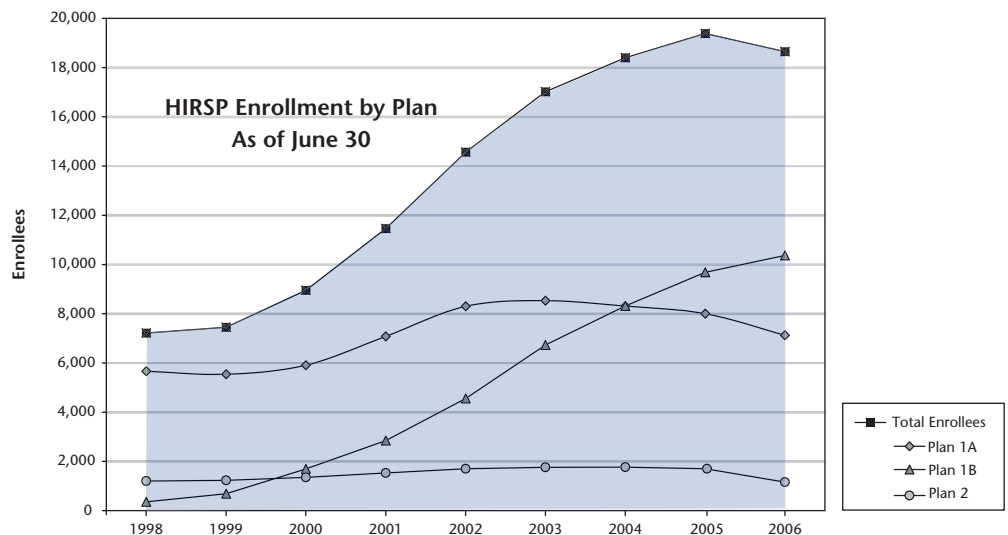
Unrestricted Net Assets (In Millions)	
Date	Amount
June 30, 2001	\$(8.2)
June 30, 2002	(6.0)
June 30, 2003	(0.9)
June 30, 2004	6.8
June 30, 2005	(0.3)

At least a portion of the decrease in the balance was expected in response to the Board's decision to apply \$3.9 million in accumulated insurers' and providers' balances toward FY 2004-05 expenses. However, an unexpectedly large increase in claims costs contributed to a larger decrease than expected and to the small deficit. The deficit appears to have been addressed in FY 2005-06.

Enrollment and Claims Costs

Although HIRSP experienced double-digit enrollment growth for several years, total enrollment increased 5.4 percent during FY 2004-05.

There were 19,385 policyholders as of June 30, 2005. During FY 2005-06, enrollment decreased slightly to reach 18,650 on June 30, 2006.



In contrast to moderating enrollment, claims costs continue to increase significantly. Net of health care providers' contributions, claims costs increased \$76.3 million over the past five years.

Net Claims Costs ¹ (In Millions)		
Fiscal Year	Amount	Percentage Change
2000-01	\$ 54.1	-
2001-02	67.2	24.2%
2002-03	85.8	27.7
2003-04	103.9	21.1
2004-05	130.4	25.5

¹ Net of health care providers' contributions

Claims costs have been affected by increases in prescription drug and medical costs that are similar to those experienced by other payers. HIRSP's contracted actuary cites increased utilization of services by policyholders as another contributing factor.

Changes in Costs and Contributions

Health care providers help to fund HIRSP through reduced reimbursements for billed services. Their share of program funding is calculated by subtracting "allowable charges," which are generally a percentage of Medicaid reimbursement rates, from "usual and customary" charges.

Usual and customary charges are intended to reflect the range of fees that most health care providers in a given area charge for a given

procedure. They are common to the health insurance industry and are established annually by most insurers as discounts to billed charges. HIRSP, however, maintained the same discount—approximately 20 percent, in aggregate, of billed charges—from 1998 through 2004. Because providers' billing rates increased during that period, maintaining the "usual and customary" discount caused HIRSP's claims costs and provider contributions to increase more than was expected.

In response, DHFS and HIRSP's Board of Governors increased the discounts applied to claims from January 1, 2004 through June 30, 2005 to approximately 30 percent of billed charges, which DHFS and the Board believed was more representative of industry averages. As a result, shared program costs for the 18-month period decreased by \$25.5 million.

After additional research and analysis, the discount rates were adjusted to 28.5 percent effective July 1, 2005. However, this change was mistakenly not implemented. As a result, program costs and provider contributions were calculated at an estimated \$3.6 million less than they should have been for the first nine months of FY 2005-06.

If uncorrected, the miscalculation would have materially misstated the financial statements. After we informed DHFS of the oversight, DHFS requested that the plan administrator implement the 28.5 percent discount rate and make the necessary adjustments

to ensure program costs and provider contributions were properly calculated in FY 2005-06.

DHFS also requested that HIRSP's contracted actuary assess the effect of the miscalculation on the FY 2006-07 budget projections. HIRSP's Board of Governors subsequently voted to amend the original budget and to increase provider payment rates for FY 2006-07 by 4.5 percent.

Program Changes

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

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

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

Additional Information

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