Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2003 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **03-2476/5**	Introduction Number **AB-840**

Subject

Modifications to HIRSP

Fiscal Effect

State:

☐ No State Fiscal Effect
☐ Indeterminate
- ☒ Increase Existing Appropriations
- ☐ Decrease Existing Appropriations
- ☐ Create New Appropriations
- ☐ Increase Existing Revenues
- ☐ Decrease Existing Revenues
- ☐ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☐ No
- ☐ Decrease Costs

Local:

☐ No Local Government Costs
☐ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☐ Decrease Revenue ☐ Permissive ☐ Mandatory

5. Types of Local Government Units Affected
☐ Towns ☐ Village ☐ Cities
☐ Counties ☐ Others
☐ School Districts ☐ WTCS Districts

Fund Sources Affected

☐ GPR ☐ FED ☐ PRO ☐ PRS ☒ SEG ☐ SEGS 20.435 (4)(u), 20.435 (4)(v)

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DHFS 2/19/2004

LRB Number **03-2476/5**	Introduction Number **AB-840**	Estimate Type **Original**
Subject		
Modifications to HIRSP		

Assumptions Used in Arriving at Fiscal Estimate

The Health Insurance Risk-Sharing Plan (HIRSP) provides major medical health insurance coverage to Wisconsin residents who, due to their medical conditions, are unable to find adequate health insurance coverage in the private market. To qualify for HIRSP an individual must lose their employer sponsored health insurance or receive a notice of rejection of coverage from one or more insurers, a notice of cancellation from one or more insurers, or a notice of limitation of coverage from one or more insurers that substantially reduces coverage compared to the coverage available to a person considered a standard risk for the type of coverage. HIRSP program costs are financed 60% from policyholder premiums, 20% from assessments on insurance companies doing business in Wisconsin, and 20% from provider reimbursement discounts. Also, insurers/providers subsidize premiums and deductibles for policyholders with annual household incomes under $25,000 and $20,000 respectively. Currently the coverage guidelines are set in statute and the Department is responsible for administering the program in consultation with the HIRSP Board of Governors.

This legislation changes the HIRSP administrative structure, eligibility criteria, and funding. Administrative changes include transferring some of HIRSP's administrative authority to the HIRSP Board of Governors, giving the Board the authority to set coverage guidelines by administrative rule, adding a representative from the Pharmaceutical Research and Manufactures of America to the Board, and requiring the Department to verify lack of employer insurance and collect economic and demographic data and issue quarterly reports. The eligibility criteria would require more than one rejection or cancellation of insurance coverage. HIRSP funding is altered to require drug manufactures and labelers to pay an assessment based on total claims in the previous calendar year equal to the rebate amount that a manufacturer or labeler pays for a drug under medical assistance. If a drug manufacturer or labeler does not pay the assessment, the HIRSP program would not cover the manufacturer or labeler's drug. The revenues received from manufacturers and labelers would be used to reduce the insurers and providers contribution. The funding is also changed to require individuals with incomes over $100,000 to pay 80% of the plan premium rates, and to require any federal funding received from the Trade Adjustment Assistance Act of 2002 to be used to offset the costs of HIRSP as opposed to adding new categories of eligible persons.

Since the bill requires that all drug rebate revenue be used to offset insurer and provider costs, policyholders would lose the benefit of their share of the current rebates. In FY03 the HIRSP program received $677,177 in rebate revenue, of which 60%, or $406,306 was used to offset policyholder premiums. Under this proposal, the policyholders would lose this revenue to offset their premiums.

The fiscal impact of requiring manufacturers and labelers to pay rebates equal to the MA rebate amount is contingent upon how many drug manufacturers and labelers decide to participate. If a drug manufacturer or labeler decides not to pay the assessments then the HIRSP program would not cover the drug. This would reduce HIRSP program costs but may increase out of pocket costs for policyholders if there is not another equivalent drug covered by HIRSP. In FY03 there was approximately $36.5 million in pharmaceutical expenditures in HIRSP. Assuming that all manufacturers and labelers participate and an MA rebate rate of 21%, the providers and insurers contribution would be reduced by approximately $7.7 million, or $3.8 million each. Also, there could be administrative costs associated with notifying and tracking all drug manufacturers and labelers who participate in the program.

It is not possible to determine the fiscal impact of increasing eligibility criteria and giving the Board the authority to set coverage guidelines by administrative rule. The fiscal impact of these changes would depend on the policies implemented by the Board and how those policies would affect participation and benefit expenditures. It is unknown how much of a fiscal impact there would be to the Department for administrative costs since the Department still retains a number of administrative functions in addition to the Board. A preliminary analysis conducted by the federal Centers for Medicaid and Medicare Services estimated the

fiscal impact of the federal Trade Adjustment Assistance Act of 2002 to be approximately $2.8 million annually. Also, since the HIRSP program only collects income data for individuals that apply for premium and deductible subsidies, it is unknown how many enrollees have an income over $100,000 and therefore would have to pay 80% of the premium costs. It is also unknown how many of these individuals would discontinue their participation in HIRSP due to the premium increase.

Requiring the Department to verify income and lack of employer insurance, collect economic and demographic data, and issue quarterly reports will increase HIRSP administrative costs. A precise fiscal estimate for these administrative duties will depend on how verification of income and lack of employer insurance is implemented. However, based on verification costs under Medicaid it is estimated that these requirements would increase HIRSP administrative costs by approximately $250,000-$500,000 per year.

Long-Range Fiscal Implications