

2001 DRAFTING REQUEST

Senate Amendment (SA-SSA1-SB55)

Received: 06/15/2001

Received By: kahlepj

Wanted: Soon

Identical to LRB:

For: Senate Democratic Caucus

By/Representing: Keckhaver

This file may be shown to any legislator: NO

Drafter: kahlepj

May Contact:

Addl. Drafters:

Subject: **Health - miscellaneous
Insurance - health**

Extra Copies:

Submit via email: NO

Requester's email:

Pre Topic:

SDC:.....Keckhaver - CN3528,

Topic:

Temporary moratorium on using accrual method for determining HIRSP funding

Instructions:

See Attached

Drafting History:

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/?	kahlepj 06/17/2001	jdye 06/17/2001		_____			
/1			kfollet 06/17/2001	_____	lrb_docadmin 06/17/2001		

FE Sent For:

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1?	kahlepj	1/6/17 JLD	kjl 6/17	kjl/SCF 6/17			

FE Scent For:

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Agency: HIRSP Board

caucus number 3528

duplicate flag:

duplicate with:

Other reference numbers:	LFB Sum #:
bill number/amendment number:	
LRB draft #	LRB P-draft:

description: Support a temporary moratorium on moving from cash to accrual system of accounting for HIRSP. (Humana)

other notes

Description2: Support a temporary moratorium on moving from a cash to an accrual system of accounting for HIRSP.

drafting instructions:

more instructions:

Agency: **HIRSP Board**

Number of Amendments: 1

PJK

GA-7) Support a moratorium temporary on moving from cash to accrual system of accounting for HIRSP. (Humana)

CN
3528

6A6 #7

MEMORANDUM



DATE: May 23, 2001
TO: Joint Finance Committee Members
FROM: Pat Osborne (WALHI)
RE: HIRSP Funding [Reference LFB Paper #490]

The Wisconsin Association of Life and Health Insurers (WALHI) requests your support on the following two items pertaining to HIRSP funding.

6A6
1. GPR Funding — Support Alternative B4 (Paper #490)

- Alternative B4 would maintain current law regarding \$11.9 million GPR support for the HIRSP program.
- Insurance assessments, even without a reduction in state GPR support, are scheduled to increase significantly due to rapid growth in the HIRSP populations and higher program costs per member. Insurers paid approximately \$9.9 million in assessments last year. In 2001-2002, insurer assessments will more than double to \$19.6 million with the HIRSP budget projected at \$86 million in 2001-2002 compared to last year's \$62 million budget.
- The funding increases that fall on policyholders, insurers and service providers will be exacerbated by any reduction in the current level of GPR support. Based on the funding formula of 60/20/20, a reduction of \$3.8 million GPR over the biennium would translate into \$2.28 million in higher premium charges to policyholders, \$760,000 in increased assessments on insurers and \$760,000 in reduced payments to providers.

6A7
2. Support a free standing motion relating to cash vs. accrual accounting.

- The motion would place a moratorium on moving from a cash-basis to an accrual method of accounting during this biennium, unless JFC granted approval for such a change at a regularly scheduled s.13.10 meeting of the Committee
- Cash-based accounting has been used since the program was first established in 1980/81.
- Changing the accounting methodology does not increase or decrease state GPR costs but has a dramatic effect on insurer assessments in 2001-2002. Changing to an accrual, or full-cost accounting method, if implemented, will add \$16.7 million in one-time costs in HIRSP over and above the \$86 million HIRSP budget for 2001-2002. The insurer funding share of this \$16.7 million accounts for more than \$3 million of the nearly \$10 million increase in HIRSP assessments on insurers in 2001-2002.

at a quarterly meeting of the JFC on fin under s.13.10
also see audit bureau pops

Some have expressed concern that pharmaceutical providers are not contributing to the payment of HIRSP's costs because these providers are substantially excluded from the calculation of the health care providers' funding contribution. However, obtaining contributions from pharmaceutical providers is more difficult than obtaining contributions from other providers because pharmacies serve as an intermediary between drug companies and policyholders. Only a relatively small portion of the costs of drug claims are associated with the costs pharmacists charge to dispense drugs. The significant portion is the wholesale price of drugs charged by drug companies. DHFS and a financial oversight committee of the Board of Governors are evaluating options to obtain contributions from the pharmaceutical providers, including the option to establish lower rates for drugs and to seek rebates from the drug companies. To ensure legislative oversight of the process to secure pharmaceutical provider rebates or discounted drug rates, we recommend the Department of Health and Family Services report to the Joint Legislative Audit Committee by January 31, 2001, on its progress in obtaining pharmaceutical providers' contributions to funding HIRSP.

During our prior audit, we found that DHFS could not determine whether HIRSP had been funded in accordance with statutory provisions from January 1, 1998, through June 30, 1998, because DHFS had not accumulated information from which it could determine whether health care providers had provided their appropriate share through discounted reimbursement rates. Therefore, we qualified our auditor's report on the FY 1997-98 financial statements. DHFS subsequently developed a system to measure and report the provider contribution amounts and was able to reconcile actual funding levels with statutory funding requirements. Therefore, we were able to issue an unqualified, or "clean," opinion on HIRSP's FY 1998-99 financial statements.

However, we believe two areas of HIRSP's funding formula warrant continued legislative attention. First, DHFS funds HIRSP on a cash basis, which only takes into account estimated cash disbursements and does not fully consider all costs. If HIRSP were funded using a full-cost approach that is used for financial reporting—which would include not only cash disbursements, but also actuarial estimates of the costs of claims that have been incurred but not yet paid—several improvements could incur. For example, a full-cost approach could provide a more secure financial position and reduce confusion that arises because of differences between the funding approach and the accounting basis.

In addition, a full-cost approach appears to be supported by the statutory requirement that premium rates be established at a minimum of 150 percent of rates available in the private sector, because private-sector rates typically are based on full-cost approaches. HIRSP's current use of a cash-based, rather than a full-cost, funding method

appears to have contributed to an estimated \$5.9 million in policyholder premiums being accumulated in excess of required funding needs through December 31, 1999.

Regardless of the funding method used, policyholder premiums could not have been set lower than the statutory minimum of 150 percent of the standard rates, so the amount of premium revenue collected would not have changed. However, under the cash-based funding method, policyholders contributed almost 71 percent of plan costs, rather than their required share of 60 percent of costs after the GPR subsidy was deducted during calendar year 1999. In comparison, if funding levels had been established under the full-cost approach, policyholders would have paid only slightly more than their share of costs during FY 1998-99. However, implementation of a full-cost funding approach would likely require increases in funding from the program's contributors. Furthermore, the Board of Governors is considering returning a portion of the excess premiums to policyholders as refunds, which may need to be reconsidered if a full-cost funding basis is implemented.

DHFS also sought statutory changes to clarify and codify its practice of setting provider rates to meet the provider contribution level required by statute. However, the changes enacted as part of 1999 Wisconsin Act 9 did not fully encompass the practice DHFS's proposal was intended to codify and do not provide a meaningful base against which to measure the providers' discounts and, therefore, their contributions. The Legislature could consider two options to clarify the issue: it could amend the statutory language to more closely reflect DHFS's practices, or it could amend the language to direct DHFS to establish by administrative rule an appropriate method for determining health care providers' discounts.



State of Wisconsin
2001 - 2002 LEGISLATURE

LRBb0796/

PJK.....

Jld

SDC:.....Keckhaver – CN3528, Temporary moratorium on using accrual method for determining HIRSP funding

FOR 2001-03 BUDGET — NOT READY FOR INTRODUCTION

CAUCUS SENATE AMENDMENT
TO SENATE SUBSTITUTE AMENDMENT 1,
TO 2001 SENATE BILL 55

Substitute amendment
↑

- 1
- 2
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At the locations indicated, amend the ~~bill~~ as follows:

1. Page 1338, line 20: after that line insert:

^d
“(14~~1~~) ACCOUNTING METHOD USED FOR THE HEATH INSURANCE RISK-SHARING PLAN.”

During the 2001-03[✓] biennium, the department of health and family services shall continue to use a cash-basis accounting method for purposes of establishing, under section 149.143[✓] of the statutes, as affected by this act, the premiums, assessments, and rate adjustments for paying the costs of the health insurance risk-sharing plan, unless the joint committee on finance, at a regularly scheduled meeting of the

CG

1 committee under section 13.10 of the statutes, approves using an accrual accounting
2 method."

3

(END)

for those purposes

SDC:.....Keckhaver – CN3528, Temporary moratorium on using accrual method for determining HIRSP funding

FOR 2001-03 BUDGET — NOT READY FOR INTRODUCTION

**CAUCUS SENATE AMENDMENT
TO SENATE SUBSTITUTE AMENDMENT 1,
TO 2001 SENATE BILL 55**

1 At the locations indicated, amend the substitute amendment as follows:

2 **1.** Page 1338, line 20: after that line insert:

3 “(14d) ACCOUNTING METHOD USED FOR THE HEATH INSURANCE RISK-SHARING PLAN.

4 During the 2001-03 biennium, the department of health and family services shall
5 continue to use a cash-basis accounting method for purposes of establishing, under
6 section 149.143 of the statutes, as affected by this act, the premiums, assessments,
7 and rate adjustments for paying the costs of the health insurance risk-sharing plan,
8 unless the joint committee on finance, at a regularly scheduled meeting of the

1 committee under section 13.10 of the statutes, approves using an accrual accounting
2 method for those purposes.”

3 (END)