☞ **05hr_JC-Au_Misc_pt80**

☞ Details: Legislative Audit Bureau Report 06-10: An Audit: Health Insurance Risk-Sharing Plan (HIRSP), Department of Health and Family Services

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ...
PUBLIC HEARING - COMMITTEE RECORDS

2005-06
(session year)

Joint
(Assembly, Senate or Joint)

Committee on Audit...

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
  (**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
  (**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

* Contents organized for archiving by: Stefanie Rose (LRB) (October 2012)

STATE OF WISCONSIN
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

Janice Mueller
State Auditor

DATE: August 9, 2006

TO: Karen Asbjornson and Pamela Matthews
Committee Clerks to the Joint Legislative Audit Committee

FROM: Diann Allsen
Financial Audit Director

SUBJECT: Report 06-10: An Audit of the Health Insurance Risk-Sharing Plan

At the request of the Department of Health and Family Services (DHFS), we performed an audit of the financial statements of the Health Insurance Risk-Sharing Plan (HIRSP) for fiscal year (FY) 2004-05. HIRSP provides medical insurance for individuals unable to obtain private coverage. Almost 19,000 policyholders are enrolled in the plan. We are able to provide an unqualified opinion on HIRSP's financial statements.

Following several years of double-digit increases, enrollment in HIRSP has begun to moderate and even decreased slightly in FY 2005-06. In contrast, claims costs continue to increase significantly and contributed to a small accounting deficit of $300,000 as of June 30, 2005. Because HIRSP likely will end FY 2005-06 with a positive balance, we do not believe the small deficit represents a significant concern.

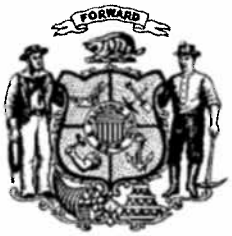
However, we did identify a control concern because DHFS mistakenly did not implement an approved change in the "usual and customary" discount rate applied to medical bills beginning July 1, 2005. If uncorrected, this oversight would have materially affected HIRSP's financial statements for FY 2005-06 and corresponding funding levels. Fortunately, we identified the oversight during our audit and DHFS was able to take steps to correct it. We did not make any formal recommendation, but we will monitor future discount rates to ensure they are properly implemented.

Finally, we discuss significant changes 2005 Wisconsin Act 74 made to HIRSP. Among the most significant is the creation of the HIRSP Authority, which assumed oversight responsibility from DHFS on July 1, 2006. Under Act 74, the Legislative Audit Bureau will continue to conduct annual financial audits of HIRSP.

The report will be released on Thursday, August 10th, at 9:00 a.m. Please let us know if you have any questions.

DA/bm

Enclosures

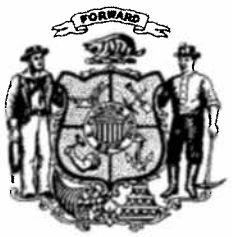


The following document was too large to scan into the committee record. The cover and table of contents, if available, have been scanned for your convenience.

Most large publications have been added to the Theoblad Legislative Library's collections. Search LRBCat (http://lrbcat.legis.wisconsin.gov/) for availability.

For further assistance, contact the reference desk at (608) 266-0341 or lrb.reference@legis.wisconsin.gov.

State of Wisconsin ~ Legislative Reference Bureau
1 East Main Street, Suite 200
Madison, WI 53703



Report 06-10
August 2006

An Audit

Health Insurance Risk-Sharing Plan

Department of Health and Family Services

2005-2006 Joint Legislative Audit Committee Members

Senate Members:

Carol A. Roessler, Co-chairperson
Robert Cowles
Scott Fitzgerald
Mark Miller
Julie Lassa

Assembly Members:

Suzanne Jeskewitz, Co-chairperson
Samantha Kerkman
Dean Kaufert
David Travis
David Cullen

LEGISLATIVE AUDIT BUREAU

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 E. Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to leg.audit.info@legis.state.wi.us. Electronic copies of current reports are available on line at www.legis.state.wi.us/lab.

State Auditor - Janice Mueller

Audit Prepared by

Diann Allsen, Director and Contact Person
Cindy Simon
Barry Kasten
Michelle Skogen
Cameron Bottolfson

CONTENTS

STATE OF WISCONSIN
Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

Janice Mueller
State Auditor

August 10, 2006

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

At the request of the Department of Health and Family Services (DHFS), we have completed a financial audit of the Health Insurance Risk-Sharing Plan (HIRSP) for fiscal year (FY) 2004-05. HIRSP provides medical and prescription drug insurance for almost 19,000 policyholders who are unable to obtain coverage in the private market or who have lost employer-sponsored group health insurance. We have provided an unqualified opinion on HIRSP's financial statements.

Enrollment has begun to moderate following years of double-digit increases. It increased 5.4 percent during FY 2004-05, then decreased slightly during FY 2005-06. However, net claims costs increased 25.5 percent during FY 2004-05, to a total $130.4 million. That size of increase was unexpected and contributed to a $7.1 million decrease in HIRSP's accounting balance, which showed a small deficit of $300,000 as of June 30, 2005. The deficit appears to have been addressed in FY 2005-06.

DHFS and HIRSP's Board of Governors increased the usual and customary discounts applied to medical bills for the period from January 1, 2004 through June 30, 2005. However, we found another change to the discounts mistakenly was not implemented July 1, 2005. If uncorrected, this oversight would have materially affected HIRSP's financial statements for FY 2005-06, and corresponding funding levels. In May 2006, DHFS took steps to address this oversight.

2005 Wisconsin Act 74 made significant changes to HIRSP. Among the most significant is the creation of the HIRSP Authority, which assumed oversight responsibility from DHFS on July 1, 2006. Other significant changes include simplifying HIRSP's complex funding formula, providing increased flexibility for plan design, and establishing income tax credits for insurers that pay assessments for HIRSP. Under Act 74, the Audit Bureau will continue to conduct annual financial audits of HIRSP.

We appreciate the courtesy and cooperation extended to us by DHFS and the plan administrator for HIRSP.

Respectfully submitted,

Janice Mueller
State Auditor

JM/DA/ss

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.

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, as shown in Table 1, the balance decreased $7.1 million during FY 2004-05, resulting in a small deficit of $300,000 as of June 30, 2005.

Table 1

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)

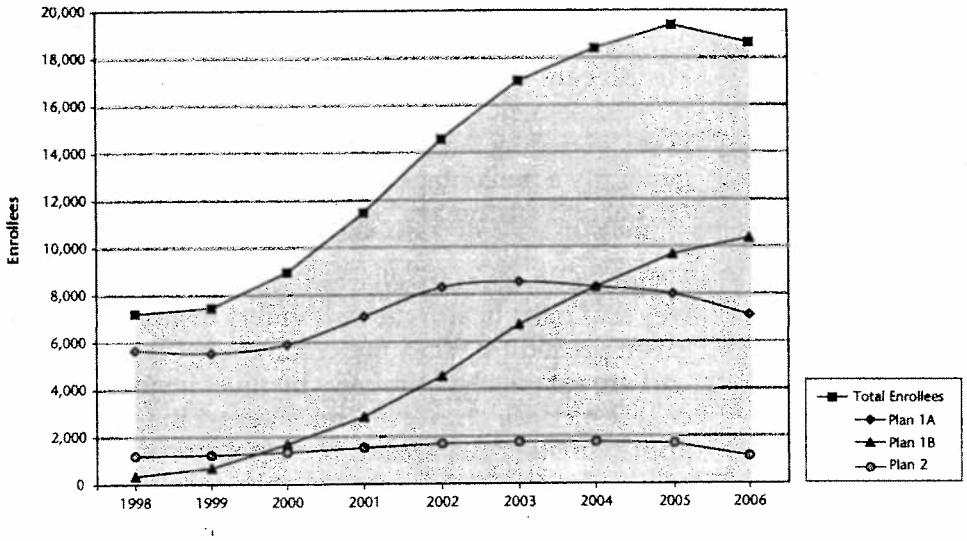
At least a portion of the decrease in the balance was expected in response to the Board's decision to apply $3.9 million in accumulated insurers' and providers' balances toward FY 2004-05 expenses. However, an unexpectedly large increase in claims costs contributed to a larger decrease than expected 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. Enrollment trends are shown in Figure 1.

Figure 1

HIRSP Enrollment by Plan
As of June 30



In contrast to moderating enrollment, claims costs continue to increase significantly, as shown in Table 2. Net of health care providers' contributions, claims costs increased $76.3 million over the past five years.

Table 2

Net Claims Costs[1]
(In Millions)

Fiscal Year	Amount	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.

▪▪▪▪